Annual Report 2020

Knox Community
Financial Services Limited

Community Bank
Fern Tree Gully and Rowville

ABN 96 009 590 593

Contents

Chairman's report

For year ending 30 June 2020

At the time of writing this report we are in the middle of Stage 4 Lock down. This has been a financial year of two halves with some significant challenges for us all to work through.

The COVID-19 pandemic has affected us all to various degrees. I usually leave my thanks to the end of the report; however this year I need to express my appreciation to our staff, they have been amazing. Individually they have each worked as a team to help each another and maintain our high levels of customer service, all the while working within the ever-changing restrictions and procedures required to keep us all safe.

On behalf of all my fellow Directors I acknowledge and express a very sincere thanks to all staff for a job well done.

In line with the above I must also thank our customers. They too have needed to adjust during the COVID-19 restrictions.

While it has been necessary to suspend Saturday morning trading at the Fern Tree Gully branch the Board remains committed to returning to full service as restrictions ease. Throughout the year and especially during COVID-19, we have been very well supported by Bendigo and Adelaide Bank Limited, via the regional and support staff.

The overall result for the year shows us in line with last year. While our footings levels are stable, with the reduction in interest rates there is a small fall in revenue. To balance this, we have managed the expenses allowing us to show an overall increase in operating profit.

Our donations and sponsorships are down primarily due to the delays with our Community Grants.

$49,715 has been approved and would normally have been presented in May/June at our Community Grants awards night, however due to COVID-19 this event was postponed. These grants have been issued in 2020/21 financial year.

We were able to provide grants totalling $30,000 across our local CFA branches, Ferntree Gully CFA, The Basin CFA, Upper Ferntree Gully CFA and Rowville CFA as our direct response to the Bush fire appeals from the beginning of this year.

We are fortunate to be in a strong financial position enabling us to provide the community response and support where required.

With the levels of uncertainty going into the 2020/21 financial year, we are following professional advice to increase our reserves and as a result your Directors have recommended 12 cents per share dividend to be paid for the 2019/20 financial year.

In line with the company's strategic plan, we continue to review our structure, services and methods necessary to improve our market share.

COVID-19 has accelerated some of these changes, while technology advancements have seen a major shift in flexible working arrangements for non-branch based roles. Our Administration, Support, Mobile and Senior management roles are able to achieve equal results while working from home or while out and about in the community. Going forward we expect to see further flexibility in the supply of our banking services to our customers.

To this end and with full support from Bendigo and Adelaide Bank Limited we have decided to close the Caribbean Business banking site. The overall levels of banking attained did not merit the continuation of this facility. Our Mobile staff was using the site as a base to service the Caribbean Business Estate which can be equally serviced by our Community Bank Fern Tree Gully and Rowville.

We have elected to take full advantage of all the Bendigo Bank support structures for the coming year. Branch teams will report via the Bendigo Regional Manager for banking compliance, targets, and Key Performance Indicators. Mobile staff will report via the Bendigo Mobile Manager, thereby providing our staff members access to wider opportunities and higher levels of support. Marketing will be able to leverage from the new centralised Melbourne Metro Marketing coordinated by Bendigo.

These changes will allow us to focus on our core of community-based banking. The pathway out of COVID-19 will require ongoing support to all our community members, shareholders, groups, and customers. We shall continue to evaluate and trial new ways to grow the business.

To your Board of Directors, my thanks for working through the challenges of remote web-based meetings, increased emails, and the ongoing task at hand.

My thanks to Bendigo and Adelaide Bank Limited for the overall support from all levels and especially from Marisa Dickins – State Manager-Metro, and Chris Cahir – Regional Manager Melbourne Outer Eastern Region, their ongoing support and experience has benefited our group greatly.

My thanks to all shareholders and customers. You are the foundation that the Community Bank model is built around. We look forward to serving your company.

I began this report thanking our staff, I shall end it in the same way. To Tina Leslie our Senior Manager, my thanks for all your efforts. To all staff, including those that have left the company over the year, we thank you all for your part in providing the ongoing service to our customers.

This year has been a challenge for all involved with our company, COVID-19 has changed the way we will all connect and operate in the future. We will need to stay flexible and ready to adapt to whatever the new normal becomes.

Etienne Clauw
Chair

Senior Manager's report

For year ending 30 June 2020

The success of our operation is due to the service that is 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 the other banks.

It is also very pleasing to see that Tina Doran has now become the Branch Manager at Community Bank Fern Tree Gully, I would like to wish her well and we are very excited to see how she can contribute to the success of the business.

I would also like to take this opportunity to thank the staff that are no longer with us as they too contributed to the success of our branches.

Once again in these very trying times we 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 12 months will be another exciting year as 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 passion to make a difference within our sphere of influence.

Tina Leslie
Senior Business Manager

Finance report

For year ending 30 June 2020

As shareholders you would be fully aware that the financial year 2019/20 has been an extremely difficult one for a lot of our communities. There were the devastating bushfires over a large part of our state, even though they didn't directly affect our community, many would have had first hand knowledge of those who were in these areas that needed assistance.

Your Community Bank was able to give $30,000 to our local CFA brigades to assist them with equipment. This would not have been possible if we had not been in the financial position to help if we didn't have prudent financial management over many years.

We then experienced, and still are, the COVID-19 outbreak. With COVID-19, it has changed dramatically the way we have had to go about our business. Our branches have been limited in the service times they are open due to not being able to rotate between our sites. Our staff have not been able to provide the service we have prided ourselves on, as a result of COVID-19, being flexible and have our Managers visit customers at their workplace or home at a time that suits them.

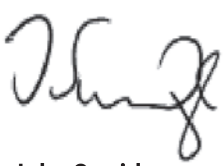
This shows in our results with our income being down from service commissions, e.g. direct banking, due to the growth in business being curtailed. We have been able to maintain our profit level with strict control of our expenses, however as you will be aware costs continually go up, therefore growth in core banking business is vital to our future. The low interest environment that has been with us for some time also has a negative impact on our earnings, as I pointed out last year this scenario will be with us for some time, in order to combat this we as a Board have been looking at what will banking look like in the future.

Not only have we this to think about we also have the fact that the way we do business in the future has changed with the advent of COVID-19. We have to be agile and find ways to be at the forefront of potential customers minds when they need to access banking services, no longer will they just rely on our physical locations, they will be even more reliant on technology, we are lucky our partners Bendigo and Adelaide Bank Limited are conversant with this change and are ensuring their electronic platforms are not only easy to access but are relevant to our community.

A great source of our business has been our ability to engage with our community partners, sporting clubs, community groups, culture and arts groups, local service clubs and charitable organisations.

We as a Board are looking at ways we may be able to enhance our collabrative partnerships with these organisations to help them build resilience to ensure we have sustainable communities, this is a way of ensuring our original charter is sustained by continuing our support to our community.

I am again confident that the Board will continue to manage our business to ensure that we will be able to ensure our financial viability into the future.



John Surridge
Finance Director

Directors' report

For the financial year ended 30 June 2020

The Directors present their report of the company for the financial year ended 30 June 2020.

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:

Directors	Details
Etienne Clauw	Chairman - Etienne holds a Bachelor of Engineering (Elec).
John Surridge	Secretary Finance - John holds a Diploma of Management, Diploma of Retail Management and Graduate Certificate in Management.
Phillip Reibelt	Human Resources - Phillip has worked in Workforce Management for several years
Anthony Holland	Deputy Chair - Anthony holds a Certificate IV in property and is a current director of Officer Real Estate Pty Ltd
Desmond Higginbotham	Deputy Chair - Desmond holds a Bachelor of Commerce, Dip Ed and Grad DIP Sec ST. Desmond is also a current Director of Lyndee Properties
Eve John	Eve holds a Bachelor of Adult Learning and Development, Diploma and Certificate in Training and Assessment and Business Development. Eve is a marketing strategist and copywriter for Australia's most successful and influential brands, products and entrepreneurs. Eve has developed a knowledge of buyer behaviour and consumer psychology.
Hurtle Lupton	Hurtle is a former chairman of Knox Community Financial Services. Hurtle was a member of Parliament, Deputy speaker of the Victorian Legislative Assembly and Mayor of Knox City Council on three occassions. He is also a former director of Glengollan Retirement and Aged Care Village. Hurtle holds a Certificate of Business Studies, EDP.
Richard Best	Resigned 18 September 2019 Appointed 1 April 2020 Governanace - Former Solicitor
Coral Page	Resigned 11 December 2019 Coral is principal of Knox Taxation & Business Advisory. Coral is a Fellow of Institute of Public Accountant, Registered Tax Agent and holds a Graduate Diploma in Accounting, UNE. She has expertise in Tax accounting and SME Advisory.

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	
	A	B
Etienne Clauw	11	11
John Surridge	11	10
Phillip Reibelt	11	9
Anthony Holland	11	7
Desmond Higginbotham	11	9
Eve John	11	11
Richard Best	6	5
Hurtle Lupton	11	7
Coral Page	4	2

A - The number of meetings eligible to attend.
B - The number of meetings attended.
N/A - not a member of that committee.

Company Secretary

John Surridge has been the Company Secretary of Knox Community Financial Services Limited since 2016. John's qualifications and experience include Diploma of Management, Diploma 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 $228,354 (2019 profit: $306,873), which is a 25.6% decrease as compared with the previous year.

New Accounting Standards Implemented

The Company has implemented a new accounting standard that is applicable for the current reporting period.

AASB 16: Leases has been applied retrospectively using the modified cumulative approach, with the cumulative effect of initially applying the standard recognised as an adjustment to the opening balance of retained earnings at 1 July 2019. Therefore, the comparative information has not been restated and continues to be reported under AASB 117: Leases.

COVID-19 Impact on Operations

The spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary interventions to stabilise economic conditions.

The Company has determined that these events have not required any specific adjustments within the financial report. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as any impact on the financial position and results of the Company for future periods.

Dividends

A fully franked final dividend of 15 cents per share was declared and paid during the year for the year ended 30 June 2020. No dividend has been declared or paid for the year ended 30 June 2021 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 agreed to indemnify each Officer (Director, Secretary or employee) out of assets of the company to the relevant extent against any liability incurred by that person arising out of the discharge of their duties, except where the liability arises out of conduct involving dishonesty, negligence, breach of duty or the lack of good faith. The company also has Officers Insurance for the benefit of Officers of the company against any liability occurred by the Officer, which includes the Officer's liability for legal costs, in or arising out of the conduct of the business of the company or in or arising out of the discharge of the Officer's duties.

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

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 5 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 17 September 2020.

John Surridge
Director

Auditor's independence declaration

41A Breen Street
Bendigo, Victoria
PO Box 448, Bendigo, VIC, 3552

Ph: (03) 4435 3550
admin@rsdaudit.com.au
www.rsdaudit.com.au

Auditors Independence Declaration under section 307C of the *Corporations Act 2001* to the Directors of Knox Community Financial Services Limited

In accordance with Section 307C of the *Corporations Act 2001,* I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 there have been no contraventions of:

(i) The auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

RSD Audit

Kathie Teasdale
Partner
41A Breen Street
Bendigo VIC 3550

Dated: 17 September 2020

Financial statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 30 June 2020

	Notes	2020 $	2019 $
Revenue	2	2,270,758	2,355,388
Expenses			
Employee benefits expense	3	(1,265,455)	(1,339,174)
Depreciation and amortisation	3	(159,997)	(53,340)
Bad and doubtful debts expense	3	(1,296)	(867)
Administration and general costs		(4,521)	(1,725)
Occupancy expenses		(75,311)	(173,187)
IT expenses		(49,903)	(50,250)
ATM expenses		(15,251)	(29,604)
Advertising & Marketing		(71,039)	(72,913)
Professional Fees		(26,302)	(29,741)
Other expenses from ordinary activities		(97,592)	(116,471)
		(1,766,667)	**(1,867,272)**
Operating profit before charitable donations and sponsorship		**504,091**	**488,116**
Charitable donations and sponsorship		(66,122)	(91,250)
Profit before income tax		**437,969**	**396,866**
Income tax expense	4	(103,253)	(109,138)
Profit for the year after income tax		**334,716**	**287,728**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Fair value movement of listed investments		(146,714)	27,148
Income tax on fair value movements		40,352	(8,003)
Other comprehensive income, net of tax		(106,362)	19,145
Total comprehensive income for the year		**228,354**	**306,873**
Profit attributable to members of the company		228,354	306,873
Total comprehensive income attributable to members of the company		**228,354**	**306,873**
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company (cents per share):			
- basic earnings per share	18	29.25	36.85

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 30 June 2020

	Notes	2020 $	2019 $
Assets			
Current assets			
Cash and cash equivalents	5	987,855	1,028,970
Trade and other receivables	6	167,577	189,717
Financial assets	7	754,219	634,934
Total current assets		**1,909,651**	**1,853,621**
Non-current assets			
Property, plant and equipment	8	1,443,094	1,476,142
Right of use assets	8	259,069	-
Intangible assets	9	65,227	18,959
Total non-current assets		**1,767,390**	**1,495,101**
Total assets		**3,677,041**	**3,348,722**
Liabilities			
Current liabilities			
Trade and other payables	11	92,608	123,173
Current tax liability	4	4,559	10,014
Leases	12	71,959	-
Provisions	13	164,685	193,701
Total current liabilities		**333,811**	**326,888**
Non-current liabilities			
Trade and other payables	11	34,340	-
Provisions	13	22,654	13,149
Leases	12	194,434	-
Deferred tax liability	4	73,611	101,735
Total non-current liabilities		**325,039**	**114,884**
Total liabilities		**658,850**	**441,772**
Net assets		**3,018,191**	**2,906,950**
Equity			
Issued capital	14	780,750	780,750
Retained earnings	15	1,895,187	1,677,584
Reserves	17	342,254	448,616
Total equity		**3,018,191**	**2,906,950**

The accompanying notes form part of these financial statements

Statement of Changes in Equity
for the year ended 30 June 2020

	Note	Issued capital $	Retained earnings $	Reserves $	Total equity $
Balance at 1 July 2019		780,750	1,677,584	448,616	2,906,950
Comprehensive income for the year					
Profit for the year		-	334,716	-	334,716
Other comprehensive income for the year		-	-	(106,362)	(106,362)
		-	**334,716**	**(106,362)**	**228,354**
Transactions with owners in their capacity as owners					
Dividends paid or provided	16	-	(117,113)	-	(117,113)
Balance at 30 June 2020		**780,750**	**1,895,187**	**342,254**	**3,018,191**
Balance at 1 July 2018		780,750	1,506,969	429,471	2,717,190
Comprehensive income for the year					
Profit for the year		-	287,728	-	287,728
Other comprehensive income for the year		-	-	19,145	19,145
		-	**287,728**	**19,145**	**306,873**
Transactions with owners in their capacity as owners					
Dividends paid or provided	16	-	(117,113)	-	(117,113)
Balance at 30 June 2019		**780,750**	**1,677,584**	**448,616**	**2,906,950**

The accompanying notes form part of these financial statements

Statement of Cash Flows
for the year ended 30 June 2020

	Notes	2020 $	2019 $
Cash flows from operating activities			
Receipts from customers		2,472,594	2,531,043
Payments to suppliers and employees		(1,960,114)	(2,091,957)
Dividends received		41,130	45,446
Interest received		1,886	3,475
Income tax paid		(96,480)	(99,338)
Net cash flows provided by operating activities	**19b**	**459,016**	**388,669**
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(74,601)
Purchase of intangible assets		(23,799)	-
Purchase of investments		(265,999)	(19,492)
Net cash flows used in investing activities		**(289,798)**	**(94,093)**
Cash flows from financing activities			
Repayment of Leases		(93,220)	-
Dividends paid		(117,113)	(117,113)
Net cash flows used in financing activities		**(210,333)**	**(117,113)**
Net increase/(decrease) in cash held		**(41,115)**	**177,463**
Cash and cash equivalents at beginning of financial year		1,028,970	851,507
Cash and cash equivalents at end of financial year	**19a**	**987,855**	**1,028,970**

The accompanying notes form part of these financial statements

Notes to the financial statements

For year ended 30 June 2020

These financial statements and notes represent those of Knox Community Financial Services Limited (the Company) as an individual entity.

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

The financial statements were authorised for issue by the Directors on 17 September 2020.

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. The amounts presented in the financial statements have been rounded to the nearest dollar.

<u>Economic dependency</u>

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 & Rowville.

The branches operates 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) Comparative figures

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

(e) 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. The value of land and buildings may be materially misstated and potential classification and disclosure risks may occur.

<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.

<u>Income tax</u>

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.

<u>Impairment</u>

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.

Note 1. Summary of significant accounting policies (continued)

(f) New and revised standards that are effective for these financial statements

With the exception of the below, these financial statements have been prepared in accordance with the same accounting policies adopted in the entity's last annual financial statements for the year ended 30 June 2019. Note that the changes in accounting policies specified below **ONLY** apply to the current period. The accounting policies included in the company's last annual financial statements for the year ended 30 June 2019 are the relevant policies for the purposes of comparatives.

AASB 16 Leases became mandatorily effective on 1 January 2019. Accordingly, these standards apply for the first time to this set of annual financial statements. The nature and effect of changes arising from these standards are summarised in the section below.

AASB 16 Leases

AASB 16 Leases replaces AASB 117 Leases and three associated Interpretations. The new standard has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated, as permitted under the specific transition provisions in the standard.

For contracts in place at the date of initial application, as permitted under the specific transition provisions in the standard, the Company has elected to apply the definition of a lease from AASB 117 and relevant associated interpretations, and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117 and associated interpretations. This means that any contracts that were deemed to not contain a lease under AASB 117 have not been reassessed under AASB 16.

The Company has also elected to not include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of AASB 16, being 1 July 2019. Furthermore, at this date, the Company has elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition as allowed under the transition provisions.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of AASB 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value-assets (less than $10,000) the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under AASB 117 immediately before the date of initial application.

On transition to AASB 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under AASB 16 was 2.69%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating lease commitments at 30 June 2019 to the lease liabilities recognised at 1 July 2019.

	$
Total operating lease commitments disclosed at 30 June 2019	486,116
Operating lease liabilities before discounting	**486,116**
Lease liability discounted using incremental borrowing rate at date of initial application (1 July 19)	266,393

Lease liability as at 1 July 2019	
Represented by:	
Current lease liabilities	71,959
Non-current lease liabilities	194,434
	266,393

Note 1. Summary of significant accounting policies (continued)

(f) New and revised standards that are effective for these financial statements (continued)

AASB 16 Leases (continued)

Adjustments recognised in the balance sheet on 1 July 2019

The recognised right-of-use assets relate to the following types of assets:

	30 June 2020 $	30 June 2019 $
Properties	259,069	266,393
Total right-of-use assets	**259,069**	**266,393**

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

Balance sheet item	Effect	Amount $
Property, plant and equipment	Increase	266,393
Lease liabilities	Increase	266,393

(h) Change in accounting policies

Accounting policy applicable from 1 July 2019

The Company as a lessee

For any new contracts entered into on or after 1 July 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
- the Company has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net any incentives received).

The Company depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or to the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

Note 1. Summary of significant accounting policies (continued)

(h) Change in accounting policies (continued)

Accounting policy applicable from 1 July 2019 (continued)

Measurement and recognition of leases as a lessee (continued)

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, the right-of-use assets have been included in property, plant and equipment (except those meeting the definition of investment property) and lease liabilities have been included in borrowings.

Accounting policy applicable before 1 July 2019

The Company as a lessee

- Finance leases

Management applies judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Company obtains ownership of the asset at the end of the lease term.

For leases of land and buildings, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease, taking into consideration the fact that land normally has an indefinite economic life.

See the accounting policy note in the year-end financial statements for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

- Operating leases

All other leases are treated as operating leases. Where the Company is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Impact of standards issued but not yet applied by the entity

AASB 17 Insurance Contracts

AASB 17 was issued in July 2017 as replacement for AASB 4 Insurance Contracts. It requires a current measurement model where estimates are re-measured each reporting period. The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under AASB 9.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features. As the company does not issue any insurance contracts or investment contracts with discretionary participation features, the directors have determined this standard will not affect the company when adopted.

The company does not intend to adopt the standard before its effective date.

AASB 1059 Service Concession Arrangements: Grantors

The standard applies to both not-for-profit and for-profit public sector entities that are grantors in a service concession arrangement. These are arrangements that involve an operator providing public services related to a service concession asset on behalf of a public sector entity for a specified period of time and managing at least some of those services.

As the company is not a grantor in a service concession arrangement, the directors have determined this standard will not affect the company when adopted.

The company does not intend to adopt the standard before its effective date.

Note 2. Revenue

	2020 $	2019 $
Revenue		
- service commissions	2,148,137	2,289,096
	2,148,137	**2,289,096**
Other revenue		
- interest received	1,886	3,475
- dividends received	41,130	45,445
- other revenue	79,605	17,372
	122,621	**66,292**
Total revenue	**2,270,758**	**2,355,388**

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.

Interest, dividend and other income

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

Dividend and 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).

Rendering of services

As detailed in the franchise agreement, companies earn three types of revenue - margin, commission and fee income. Bendigo and Adelaide Bank Limited decide the method of calculation of revenue the company earns on different types of products and services and this is dependent on the type of business the company generates also taking into account other factors including economic conditions, including interest rates.

Core Banking Products

Bendigo and Adelaide Bank Limited identify specific products and services as 'core banking products', however it also reserves the right to change the products and services identified as 'core banking products', providing 30 days notice is given.

Margin

Margin is earned on all core banking products. A Funds Transfer Pricing (FTP) model is used for the method of calculation of the cost of funds, deposit return and margin. Margin is determined by taking the interest paid by customers on loans less interest paid to customers on deposits, plus any deposit returns, i.e. interest return applied by Bendigo and Adelaide Bank Limited for a deposit, minus any costs of funds i.e. interest applied by Bendigo and Adelaide Bank Limited to fund a loan.

Commission

Commission is a fee earned on products and services sold. Depending on the product or services, it may be paid on the initial sale or on an ongoing basis.

Fee Income

Fee income is a share of 'bank fees and charges' charged to customers by Bendigo and Adelaide Bank Limited, including fees for loan applications and account transactions.

Note 2. Revenue (continued)

Fee Income (continued)

Discretionary Financial Contributions

Bendigo and Adelaide Bank Limited has made discretionary financial payments to the company, outside of the franchise agreement and in addition to margin, commission and fee income. This income received by the company is classified as "Market Development Fund" (MDF) income. The purpose of these payments is to assist the company with local market development activities, however, it is for the board to decide how to use the MDF. Due to their discretionary nature, Bendigo and Adelaide Bank Limited may change or stop these payments at any time.

Form and Amount of Financial Return

The franchise agreement stipulates that Bendigo and Adelaide Bank Limited may change the form, method of calculation or amount of financial return the company receives. The reasons behind making a change may include, but not limited to, changes in Bendigo and Adelaide Bank Limited's revenue streams/processes; economic factors or industry changes.

Bendigo and Adelaide Bank Limited may make any of the following changes to form, method of calculation or amount of financial returns:

- A change to the products and services identified as 'core banking products and services'
- A change as to whether it pays the company margin, commission or fee income on any product or service.
- A change to the method of calculation of costs of funds, deposit return and margin and a change to the amount of any margin, commission and fee income.

These abovementioned changes, may impact the revenue received by the company on a particular product or service, or a range of products and services.

However, if Bendigo and Adelaide Bank Limited make any of the above changes, per the franchise agreement, it must comply with the following constraints in doing so.

a) If margin or commission is paid on a core banking product or service, Bendigo and Adelaide Bank Limited cannot change it to fee income;

b) In changing a margin to a commission or a commission to a margin on a core banking product or service, OR changing the method of calculation of a cost of funds, deposit return or margin or amount of margin or commission on a core product or service, Bendigo and Adelaide Bank Limited must not reduce the company's share of Bendigo and Adelaide Bank Limited's margin on core banking product and services when aggregated to less than 50% of Bendigo and Adelaide Bank Limited's margin on core banking products attributed to the company's retail branch operation; and

c) Bendigo and Adelaide Bank Limited must publish the change at least 30 days before making the change.

Note 3. Expenses

	2020 $	2019 $
Profit before income tax includes the following specific expenses:		
Employee benefits expense		
- wages and salaries	1,074,364	1,105,859
- superannuation costs	112,613	117,839
- other costs	78,478	115,476
	1,265,455	**1,339,174**

Note 3. Expenses (continued)

	2020 $	2019 $
Profit before income tax includes the following specific expenses: (continued)		
Depreciation and amortisation		
Depreciation		
- buildings	10,238	16,775
- leasehold improvements	6,035	9,251
- plant and equipment	16,775	3,571
- right of use assets	100,544	-
	133,592	**29,597**
Amortisation		
- franchise fees	26,405	23,743
Total depreciation and amortisation	**159,997**	**53,340**
Bad and doubtful debts expenses	1,296	867
Auditors' remuneration		
Remuneration of the Auditor, RSD Audit, for:		
- Audit or review of the financial report	5,600	5,700
	5,600	**5,700**

Operating expenses

Operating expenses are recognised in profit or loss on an accruals 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.

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

Class of asset	Rate	Method
Buildings	2.50%	Straight line
Building improvements	2.50%	Straight line
Plant and equipment	3.8% - 66.7%	Diminishing value
Franchise Fees	20.00%	Straight line
Right of Use Assets	10%	Straight line

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

Gains/losses upon disposal of non-current assets

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.

Note 4. Income tax

	2020 $	2019 $
a. The components of tax expense comprise:		
Current tax expense	91,027	107,800
Deferred tax expense	(28,125)	8,804
Deferred tax recognised in other comprehensive income	40,351	(7,466)
	103,253	**109,138**
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% (2019: 27.5%)	120,441	109,138
Add tax effect of:		
- Non-assessable income	(17,188)	-
Income tax attributable to the entity	**103,253**	**109,138**
The applicable weighted average effective tax rate is:	23.58%	27.50%
c. Current tax liability		
Current tax relates to the following:		
Current tax liabilities / (assets)		
Opening balance	10,014	1,015
Income tax paid	(85,508)	(86,272)
Current tax	91,027	107,800
Franking credit offset	(10,974)	(12,529)
	4,559	**10,014**
d. Deferred tax liability		
Deferred tax relates to the following:		
Deferred tax assets comprise:		
Employee provisions	51,518	56,884
Investments at fair value	35,936	-
Assets and Lease Liabilities from AASB 16	2,014	-
	89,468	56,884
Deferred tax liabilities comprise:		
Property, plant & equipment	163,079	154,208
Investments at fair value	-	4,411
	163,079	158,619
Net deferred tax liability	(73,611)	(101,735)
Total carried forward tax losses not recognised as deferred tax assets:	-	-

Note 4. Income tax (continued)

	2020 $	2019 $
e. Deferred income tax included in income tax expense comprises:		
Decrease / (increase) in deferred tax assets	(32,584)	(4,477)
(Decrease) / increase in deferred tax liabilities	4,460	13,281
Deferred tax expenses recognised directly in equity	(40,352)	(7,466)
	(68,476)	**1,338**

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 for the current period. Current tax liabilities/assets are measured at the amounts expected to be paid to/recovered from 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.

A deferred tax liability shall be recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; and
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - at the time of the transaction, affects nether accounting profit nor taxable profit (tax loss).

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.

Current tax assets and liabilities are offset where a legally enforceable right of off-set exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (i) a legally enforceable right of set-off exists; and (ii) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity.

Note 5. Cash and cash equivalents

	2020 $	2019 $
Cash at bank and on hand	987,855	1,028,970
	987,855	**1,028,970**

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

Note 6. Trade and other receivables

	2020 $	2019 $
Current		
Trade receivables	167,077	189,217
Other receivables	500	500
	167,577	**189,717**

Trade and other receivables are initially measured at the transaction price. Trade and other receivables are due for settlement usually no more than 30 days from the date of recognition.

The Company's main debtor relates to the Bendigo and Adelaide Bank Limited monthly profit share distribution, which is deposited 14 days post month end, there is no items that require the application of the lifetime expected credit loss model.

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 Company always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current and forecast directions of conditions at the reporting date.

There has been change in the estimation techniques or significant assumptions made during the current reporting period.

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 $
2020		
Trade receivables	167,077	167,077
Other receivables	500	500
Total	**167,577**	**167,577**
2019		
Trade receivables	189,217	189,217
Other receivables	500	500
Total	**189,717**	**189,717**

Note 7. Financial assets

	2020 $	2019 $
Amortised cost		
Term depsoits	19,491	-
Fair value through other comprehensive income		
Listed investments	734,728	634,934
	754,219	**634,934**

Note 7. Financial assets (continued)

(a) Classification of financial assets

The company classifies its financial assets in the following categories:

- amortised cost
- fair value through other comprehensive income (FVTOCI)

Classifications are determined by both:

- The entities business model for managing the financial asset
- The contractual cash flow characteristics of the financial assets.

(b) Measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

· they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows

· the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. Cash and cash equivalents, trade and other receivables fall into this category of financial instruments as well as government bonds that were previously classified as held-to-maturity under AASB 139.

Financial assets at fair value through other comprehensive income (FVTOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVTOCI. Under this category, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss. Dividend income is taken to profit or loss unless the dividend clearly represents return of capital.

(c) Impairment of financial assets

AASB 9's impairment requirements use more forward looking information to recognise expected credit losses - the 'expected credit losses (ECL) model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVTOCI, trade receivables, contract assets recognised and measured under AASB 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

The company considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

Stage 3 would cover financial assets that have objective evidence of impairment at the reporting date.

12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Note 7. Financial assets (continued)

(d) Derecognition

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.

Note 8. Property, plant and equipment

	2020 $			2019 $		
	At valuation	Accumulated depreciation	Written down value	At valuation	Accumulated depreciation	Written down value
Land & buildings - fair value	1,100,000	(40,190)	1,059,810	1,100,000	(23,415)	1,076,585
Building improvements- at cost	409,520	(51,649)	357,871	409,520	(41,411)	368,109
Plant and equipment - at cost	235,008	(209,595)	25,413	235,008	(203,560)	31,448
Total property, plant and equipment	**1,744,528**	**(301,434)**	**1,443,094**	**1,744,528**	**(268,386)**	**1,476,142**

Land and buildings

Freehold land and buildings are carried 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 accumulated depreciation for buildings.

In the periods when the freehold land and buildings are not subject to an independent valuation, the Directors conduct Director's valuations to ensure the land and buildings' carrying amount is not materially different to the fair value.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation surplus in equity. Decreases that offset previous increases of the same asset are recognised against revaluation surplus directly in equity; all other decreases are recognised in profit or loss.

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.

Freehold land and buildings are measured 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.

Plant and equipment

Plant and equipment are measured on the cost basis and are therefore 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.

Note 8 Property, plant and equipment (continued)

Plant and equipment (continued)

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.

Leased assets

As described in Note 1(h), the Company has applied AASB 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under AASB 17.

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.

(a) Capital expenditure commitments

The entity does not have any capital expenditure commitments at 30 June 2020 (2019: None)

(b) Movements in carrying amounts of PP&E

2020	Land & Buildings $	Building improvements $	Plant & Equipment $	Total $
Opening carrying value	1,076,585	368,109	31,448	1,476,142
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers	-	-	-	-
Revaluations	-	-	-	-
Depreciation	(16,775)	(10,238)	(6,035)	(33,048)
Closing carrying value	**1,059,810**	**357,871**	**25,413**	**1,443,094**

2019	Land & Buildings $	Building improvements $	Plant & Equipment $	Total $
Opening carrying value	1,100,000	409,520	235,008	1,744,528
Additions	-	-	-	-
Disposals	-	-	-	-
Transfers	-	-	-	-
Revaluations	-	-	-	-
Depreciation	(23,415)	(41,411)	(203,560)	(268,386)
Closing carrying value	**1,076,585**	**368,109**	**31,448**	**1,476,142**

Note 8 Property, plant and equipment (continued)

(c) Historical cost

If land and buildings were stated at historical cost, amounts would be as follows:

	2020 $	2019 $
Cost	1,030,669	1,030,669
Accumulated Depreciation	(40,190)	(23,415)
Net book value	**990,479**	**1,007,254**

(d) Right of use assets

The Company's lease portfolio includes buildings, plant and equipment.

Options to extend or terminate

The option to extend or terminate are contained in the property lease of the Company. All extension or termination options are only exercisable by the Company. The extension options or termination options which were probable to be exercised have been included in the calculation of the Right of use asset.

(i) AASB 16 related amounts recognised in the statement of financial position

	Leased Building $	Total Right of use asset $
Leased Asset	405,018	405,018
Accumulated depreciation	(100,544)	(100,544)
Accelerated Write Down of Caribbean Lease	(45,405)	(45,405)
	259,069	**259,069**

Movements in carrying amounts:

	Leased Building $	Total Right of use asset $
Recognised on initial application of AASB 16		
- previously classified as operating leases	405,018	405,018
- transferred from property, plant & equipment	-	-
Additions	-	-
Depreciation expense	(100,544)	(100,544)
Accelerated Write Down of Caribbean Lease	(45,405)	(45,405)
Net carrying amount	**259,069**	**259,069**

(ii) AASB 16 related amounts recognised in the statement of profit or loss

	2020 $
Depreciation charge related to right-of-use assets	**100,544**
Interest expense on lease liabilities	**8,534**

Note 8 Property, plant and equipment (continued)

(d) Right of use assets (continued)

(ii) AASB 16 related amounts recognised in the statement of profit or loss (continued)

	2020 $
Total cash outflows for leases	**109,078**

Note 9. Intangible assets

	2020 $			2019 $		
	At cost	Accumulated amortisation	Written down value	At cost	Accumulated amortisation	Written down value
Franchise fees	122,672	(57,445)	65,227	118,713	(99,754)	18,959
Total intangible assets	**122,672**	**(57,445)**	**65,227**	**118,713**	**(99,754)**	**18,959**

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.

<u>Movements in carrying amounts</u>

2020	Opening written down value $	Additions $	Amortisation $	Closing written down value $
Franchise fees	18,959	72,673	(26,405)	65,227
Total intangible assets	**18,959**	**72,673**	**(26,405)**	**65,227**

2019	Opening written down value $	Additions $	Amortisation $	Closing written down value $
Franchise fees	42,702	-	(23,743)	18,959
Total intangible assets	**42,702**	**-**	**(23,743)**	**18,959**

Note 10. 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. Where available, quoted prices in an active market are used to determine fair value. 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.

A liability is derecognised when it is extinguished (i.e. when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability, is treated as an extinguishment of the existing liability and recognition of a new financial liability.

Note 11. Trade and other payables

	2020 $	2019 $
Current		
Unsecured liabilities:		
Other creditors and accruals	78,074	123,173
Franchise fee payable	14,534	-
Total current trade and other payables	**92,608**	**123,173**
Non-current		
Franchise fee payable	34,340	-
Total trade and other payables	**126,948**	**123,173**

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.

Trade and other payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

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

Note 12. Leases

	2020 $	2019 $
Current		
Property Leases	71,959	-
	71,959	**-**
Non-current		
Property Leases	194,434	-
	194,434	**-**
Total leases	**266,393**	**-**

The Company has 2 leases for the bank branch of Rowville Shop G07 Wellington Road and Caribbean Business Park 44 Lakeview Drive Scoresby. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the balance sheet as a right-of-use asset and a lease liability.

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying asset outright at the end of the lease, or to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and factory premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property, plant & equipment and incur maintenance fees on such items in accordance with the lease contracts.

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 30 June 2020 were as follows:

Note 12. Leases (continued)

	Minimum lease payments due				
	Within 1 year $	1-2 Years $	3-5 years $	After 5 years $	Total $
30 June 2020					
Lease payments	78,176	75,713	125,883	-	279,772
Finance charges	(6,217)	(4,368)	(2,794)	-	(13,379)
Net present values	**71,959**	**71,345**	**123,089**	**-**	**266,393**
30 June 2019					
Lease payments	-	-	-	-	-
Finance charges	-	-	-	-	-
Net present values	**-**	**-**	**-**	**-**	**-**

<u>Lease payments not recognised as a liability</u>

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

At 30 June 2020, the Company was not committed to short-term leases.

Additional information on the right-of-use assets by class of assets is as follows:

	Carrying amount (Note 9) $	Depreciation Expense $	Impairment $
Property Leases	259,069	100,544	-
	259,069	**100,544**	**-**

Note 13. Provisions

	2020 $	2019 $
Current		
Employee benefits	164,685	193,701
Non-current		
Employee benefits	22,654	13,149
Total provisions	**187,339**	**206,850**

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

<u>Short-term employee benefits</u>

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.

Note 13. Provisions (continued)

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.

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.

Note 14. Share capital

	2020 $	2019 $
780,750 Ordinary shares fully paid	780,750	780,750
	780,750	**780,750**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(a) 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.

(b) 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

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

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

Note 14. Share capital (continued)

(b) Capital management (continued)

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid 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 15. Retained earnings

	2020 $	2019 $
Balance at the beginning of the reporting period	1,677,584	1,506,969
Profit for the year after income tax	334,716	287,728
Dividends paid	(117,113)	(117,113)
Balance at the end of the reporting period	**1,895,187**	**1,677,584**

Note 16. Dividends paid or provided for on ordinary shares

	2020 $	2019 $
Dividends paid or provided for during the year		
Final fully franked ordinary dividend of 15 cents per share (2019: 15 cents) franked at the tax rate of 27.5% (2019: 27.5%).	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 17. Reserves

	2020 $	2019 $
Asset revaluation reserve		
Balance at the beginning of the reporting period	448,616	437,535
Fair valuemovements during the period	-	-
Balance at the end of the reporting period	**448,616**	**437,535**
Available for sale reserve		
Balance at the beginning of the reporting period		
Fair value movements during the period	-	(8,066)
Transfer on adoption of AASB 9	-	(8,064)
Financial asset at FVTOCI Reserve		
Balance at the beginning of the reporting period		
Fair value movements during the period	(106,362)	-
Transfer on adoption of AASB 9	-	27,211
Balance at the end of the reporting period	**(106,362)**	**11,081**
Total Reserves	**342,254**	**448,616**

The reserves represent undistributable gains recognised on the revaluation of non-current assets.

Note 18. Earnings per share

	2020 $	2019 $
Basic earnings per share (cents)	29.25	36.85
Earnings used in calculating basic earnings per share	228,354	287,728
Weighted average number of ordinary shares used in calculating basic earnings per share	780,750	780,750

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 servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issues during the year.

Note 19. Statement of cash flows

	2020 $	2019 $
(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)	987,855	1,028,970
As per the Statement of Cash Flow	**987,855**	**1,028,970**
(b) Reconciliation of cash flow from operations with profit after income tax		
Profit for the year after income tax	334,716	287,728
Non-cash flows in profit		
- Depreciation and amortisation	159,997	53,340
- Fair Value Tax Equity Movements	40,352	(8,002)
Changes in assets and liabilities		
- (Increase) / decrease in trade and other receivables	22,140	11,413
- (Increase) / decrease in deferred tax asset	(28,124)	8,804
- Increase / (decrease) in trade and other payables	(45,099)	(1,002)
- Increase / (decrease) in current tax liability	(5,455)	8,999
- Increase / (decrease) in provisions	(19,511)	27,389
Net cash flows from operating activities	**459,016**	**388,669**

Note 20. Key management personnel and related party disclosures

(a) Key management personnel

Key management personnel includes any person 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.

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

	2020 $	2019 $
Short-term employee benefits	40,937	38,438
Total key management personnel compensation	**40,937**	**38,438**

Note 20. Key management personnel and related party disclosures (continued)

(a) Key management personnel (continued)

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. No Director fees have been paid as the positions are held on a voluntary basis.

During the year, there was no purchased goods and services under normal terms and conditions, from related parties.

The Knox Community Financial Services Limited have not accepted the Bendigo and Adelaide Bank Limited's Community Bank Directors Privileges package. Payments made to directors for their services are details below.

	2020	2019
Etienne Clauw	10,000	10,000
John Surridge	5,000	5,000
Phillip Reibelt	5,000	5,000
Anthony Holland	3,750	3,750
Desmond Higginbotham	3,750	3,750
Eve John	5,000	2,188
Richard Best	2,812	3,750
Hurtle Lupton	3,750	2,500
Coral Page	1,875	2,500
	40,937	**38,438**

(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:

	2020	2019
Etienne Clauw	-	-
John Surridge	500	1,000
Phillip Reibelt	-	-
Anthony Holland	500	500
Desmond Higginbotham	1,000	1,000
Eve John	-	-
Richard Best	-	-
Hurtle Lupton	6,000	6,000
Coral Page	-	-
	8,000	**8,500**

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.

Note 20. Key management personnel and related party disclosures (continued)

(e) Other key management transactions

There has been no other transactions key management or related parties other than those described above.

Note 21. 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 22. Contingent liabilities and contingent assets

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

Note 23. Operating segments

The company operates in the financial services sector where it provides banking services to its clients. The company operates in two areas being Ferntree Gully and Rowville, Victoria. The company has a franchise agreement in place with Bendigo and Adelaide Bank Limited who account for 100% of the revenue (2019: 100%).

Note 24. Commitments

	2020 $	2019 $
(a) Operating lease commitments		
Payable:		
- no later than 12 months		68,930
- between 12 months and five years		289,788
- greater than five years		127,398
Minimum lease payments		**486,116**

The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance and with 4% increases each year.

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

Note 25. Discontinuing Operations

During the board meeting of 12 August 2020 the Directors of the company moved to close the Business Centre located at Caribbean Park. The decision for closing the Business Centre and terminating the lease for the property in which it operates, was proposed by the Board in May as a result of the site's high overhead costs and operating losses of $11,000 per month.

The company commenced the transfering of physical assets out of the Caribbean property effective 14 August with closure of the location to be finalised 31 August. Early termination of the property lease will come at the cost of approx $55,000 to the company, any added expenditure relating to the removal and relocation of equipment is expected to be minor.

In complying with AASB16 Leases the company has written down the leased asset and liability relating to Caribbean Park and have recorded only the remaining two months of the agreement.

Note 26. Company details

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

Note 27. Financial instrument risk

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 9 Financial Instruments as detailed in the accounting policies are as follows:

	Note	2020 $	2019 $
Financial assets			
Financial assets at amortised cost:			
- Cash and cash equivalents	5	987,855	1,028,970
- Trade and other receivables	6	167,577	189,717
- Financial Assets	7	19,491	-
		1,174,923	**1,218,687**
Investments designated as fair value through other comprehensive income:			
- Listed investments	7	734,728	634,934
Total financial assets		**1,909,651**	**1,853,621**
Financial liabilities			
Financial liabilities at amortised cost:			
- Trade and other payables	11	92,608	123,173
- Lease Liabilities	12	266,393	-
Total financial liabilities		**359,001**	**123,173**

(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.

Note 27. Financial instrument risk (continued)

(a) Credit risk (continued)

Credit risk exposures (continued)

Trade and other receivables that are neither past due nor impaired are considered to be of high credit quality. Aggregates of such amounts are detailed at Note 6.

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.

Financial liability and financial asset maturity analysis:

30 June 2020	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
- Cash and cash equivalents	.12%	987,855	987,855	-	-
- Trade and other receivables		167,577	167,577	-	-
- Financial Assets	3.6%	19,491	19,491	-	-
- Listed investments		734,728	734,728	-	-
Total anticipated inflows		**1,909,651**	**1,909,651**	**-**	**-**
Financial liabilities					
- Trade and other payables		92,608	92,608	-	-
- Lease Liabilities	2.69%	266,393	71,959	194,434	-
Total expected outflows		**359,001**	**164,567**	**194,434**	**-**
Net inflow / (outflow) on financial instruments		**1,550,650**	**1,745,084**	**(194,434)**	**-**

Note 27. Financial instrument risk (continued)

(b) Liquidity risk (continued)

30 June 2019	Weighted average interest rate %	Total $	Within 1 year $	1 to 5 years $	Over 5 years $
Financial assets					
- Cash and cash equivalents	.36%	1,028,970	1,028,970	-	-
- Trade and other receivables		189,717	189,717	-	-
- Listed investments		634,934	634,934	-	-
Total anticipated inflows		**1,853,621**	**1,853,621**	**-**	**-**
Financial liabilities					
- Trade and other payables		123,173	123,173	-	-
Total expected outflows		**123,173**	**123,173**	**-**	**-**
Net inflow / (outflow) on financial instruments		**1,730,448**	**1,730,448**	**-**	**-**

(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.

The primary risks the company is exposed to is interest rate risk and other price risk. The company has no exposure to fluctuations in foreign currency.

Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities 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.

Other price risk

The company is exposed to other price risk on its listed investment carried at fair value, whereby a change in share prices will affect the fair value of the financial instruments.

Sensitivity analysis

The following table illustrates sensitivities to the company's exposures to changes in interest rates and 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.

Note 27. Financial instrument risk (continued)

(c) Market risk (continued)

Sensitivity analysis (continued)

	2020		2019	
	Profit $	Equity $	Profit $	Equity $
+/- 1% in interest rates (interest expense)	9,879	9,879	10,290	10,290
	9,879	**9,879**	**10,290**	**10,290**
	Profit $	Equity $	Profit $	Equity $
+/- 10% in equity prices	926	926	4,462	4,462
	926	**926**	**4,462**	**4,462**

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

Note 28. Fair value measurements

The company may measure some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair value of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The company measures and recognises the following assets at fair value on a recurring basis after initial recognition:

- freehold land and buildings
- listed investments

The company does not subsequently measure any liabilities at fair value on a non-recurring basis.

(a) Fair value hierarchy

AASB 13: Fair value measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

- Level 1 - Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 - Measurements based on unobservable inputs for the asset or liability.

Note 28. Fair value measurements (continued)

(a) Fair value hierarchy (continued)

Fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The following tables provide the fair values of the company's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

	30 June 2020			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value measurements				
Non-financial assets				
Land & Buildings	-	1,059,810	-	1,059,810
Total non-financial assets recognised at fair value	**-**	**1,059,810**	**-**	**1,059,810**
Financial assets				
Listed investments	734,727	-	-	734,727
Total financial assets recognised at fair value	**734,727**	**-**	**-**	**734,727**
	30 June 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Recurring fair value measurements				
Non-financial assets				
Land & Buildings	-	1,076,585	-	1,076,585
Total non-financial assets recognised at fair value	**-**	**1,076,585**	**-**	**1,076,585**
Financial assets				
Listed investments	615,442	-	-	615,442
Total financial assets recognised at fair value	**615,442**	**-**	**-**	**615,442**

There were no transfers between Levels for assets measured at fair value on a recurring basis during the reporting period (2019: no transfers).

(b) Valuation techniques

The company selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the company are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Note 28. Fair value measurements (continued)

(b) Valuation techniques (continued)

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the company gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Valuation techniques and inputs used to measure Level 2 fair values

Description	Fair value at 30 June 2020 $	Description of valuation techniques	Inputs used
Land & Buildings	1,059,810	The fair values of the land and buildings are estimated using an income approach which capitalises the estimated rental income stream, net of projected operating costs, using a discount rate derived from market yields implied by recent transactions in similar properties	Rental yeilds between $200 and $500 per week. Capitalisation rate of 5%.

The fair value of freehold land and buildings is determined at least every three years based on valuations by an independent valuer. At the end of each intervening period, the Directors review the independent valuation and, when appropriate, update the fair value measurement to reflect current market conditions using a range of valuation techniques, including recent observable market data and discounted cash flow methodologies.

There were no changes during the period in the valuation techniques used by the company to determine Level 2 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 11 to 43 are in accordance with the Corporations Act 2001 and:
   (i) comply with Australian Accounting Standards which, as stated in accounting policy Note 1 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 2020 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.

John Surridge
Director

Signed at Ferntree Gully on 17th September 2020.

Independent audit report

41A Breen Street
Bendigo, Victoria
PO Box 448, Bendigo, VIC, 3552

Ph: (03) 4435 3550
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 (the Company), which comprises the statement of financial position as at 30 June 2020, 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 other explanatory information, and the directors' declaration.

In our opinion the accompanying 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 2020 and of its performance for the year then ended; and

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

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 Company 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.

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 Company 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.

rsd Audit

Auditor's Responsibility for the Audit of the Financial Report

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.

We identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

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 2020, 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. In 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 rsd Audit

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: 17 September 2020

Community Bank · Fern Tree Gully
67 Station Street, Fern Tree Gully VIC 3156
Phone: 03 9756 0332 Fax: 03 9756 0301
Web: bendigobank.com.au/ferntree-gully

Community Bank · Rowville
Shop G7, 1090 Wellington Road, Rowville VIC 3178
Phone: 03 9755 8611 Fax: 03 9755 8622
Web: bendigobank.com.au/rowville

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

Bendigo Bank