

annual report 2010

Katoomba & Upper Blue Mountains

Community Enterprise Limited

ABN 55 134 947 201

Katoomba & Upper Blue Mountains **Community Bank**[®] Branch

Contents

Chairman's report	2
Manager's report	3
Directors' report	4-7
Financial statements	8-11
Notes to the financial statements	12-24
Directors' declaration	25
Independent audit report	26-27

Chairman's report

For year ending 30 June 2010

It is with great pleasure that I present to you the first Annual Report of Katoomba and Upper Blue Mountains Community Enterprise Limited.

As we commenced trading on 9 December 2009, this report reflects our trading activity for our first seven months only.

After a slow start our progress has now very closely mirrored the 100% forecast provided in the Prospectus. Happily our bottom line for the end of the Financial Year is in advance of that forecast.

As you will all be aware our **Community Bank**[®] branch has as a priority the support of those organisations that in turn support and enrich our community. You may have seen in the local press that this process has already commenced with financial support being provided to our local Bush Fire Brigade, the Blue Mountains Youth Choir and to the Blue Mountains Youth Accommodation Service. These are early days.

In future years, as we grow, we will be seeking to maximise the funds we are able to distribute by collaboration with Local and State Governments on larger projects that can provide significant public facilities.

I encourage all shareholders to support this endeavour and to use our branch for all your everyday banking and insurance needs.

On behalf of the Directors I congratulate our Branch Manager, Brigitte MacKenzie and her team on their commitment to bringing friendly and efficient service to our clients.

Thank you also to my fellow Board members for their sustained input into operating, as volunteers, what can at times be a fairly complex business venture.

My final thanks must go to you, the shareholders. Without your enthusiastic support our **Community Bank**[®] branch could not have eventuated.

Your Board looks forward to continued progress and business growth for 2010/2011 and in due course to bringing sustained rewards to shareholders and community alike.



Robert Stock
Chairman

Manager's report

For year ending 30 June 2010

June 2010 ended the first six month of trading for the Katoomba & Upper Mountains **Community Bank**[®] Branch.

Our business volumes to 30 June 2010 stood at \$13,541,000 with 487 customers, including 98 out of a possible 274 shareholders having opened accounts so far.

We have been greatly encouraged by the enthusiasm and support of the local community and present indications for the new financial year show that we will continue to experience steady growth.

There are a number of challenges ahead and we have a budget of \$17 million in growth to achieve for the 2010/2011 financial year.

Our focus for business development will be continued marketing and promotion of the branch's unique philosophies and points of difference, with emphasis on the circulation and diverse distribution of sponsorship funds throughout the community, to best get our message across.

The first six months of operation have been a process of establishment and training. Our staff are now a welcoming team of knowledgeable professionals, whose friendliness and service excellence has already been acknowledged in several documented compliments.

I would like to take this opportunity to thank the staff; Liz, Carmel, Kerrie and Patricia; the Board of Directors, and the Bendigo and Adelaide Bank Ltd state team, for all their hard work and support during this initial, very challenging period of trade.

I would also personally like to thank all the customers who have already transferred their everyday banking in support of their community. I invite customers to spread the word to others about the great service and products provided at the branch.



Brigitte Mackenzie
Branch Manager

Directors' report

For the financial year ended 30 June 2010

Your Directors submit their report of the Company for the financial period ended 30 June 2010.

Directors

The names and details of the Company's Directors who held office during or since the end of the financial period are:

Robert Stock

Chairman
Company Director

Mark John Jarvis

Director / Company Secretary
Accountant

Peter Newton Carroll

Director
Retired International Development Banker

Linda Colless

Director
Early Childhood Teacher

Anne Catherine Elliott

Director
Bed & Breakfast Owner & Manager

Timothy Francis Goodwin

Director
General Manager

Christine Dorinda Thompson

Director
Receptionist

Jane Canfield

Director
Graphic Designer

Charles Brooke Broughton (appointed 23 Aug 2010)

Director
Consultant

Arnold Percy

Director
Retailer

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

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

Principal activities

The principal activities of the Company during the course of the financial period were in providing **Community Bank**[®] services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Ltd in Katoomba.

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

Operating results

Operations have performed in line with expectations. The profit/(loss) of the Company for the financial period after provision for income tax was (\$172,124).

Dividends

No dividends were declared or paid during the year.

Directors' report continued

Significant changes in the state of affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Company that occurred during the financial period under review not otherwise disclosed in this report.

Significant events after the balance date

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

Likely developments

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

Directors' benefits

No Director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Company's accounts, or the fixed salary of a full-time employee of the Company, controlled entity or related body corporate.

Indemnification and insurance of Directors and Officers

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 or a related body corporate.

Directors' report continued

Directors' meetings

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

Director	Meetings #
Robert Stock	20 (23)
Peter Newton Carroll	20 (23)
Mark John Jarvis	18 (23)
Linda Colless	16 (23)
Anne Catherine Elliott	16 (23)
Timothy Francis Goodwin	23 (23)
Christine Dorinda Thompson	19 (23)
Charles Brooke Broughton (appointed 23 Aug 2010)	0 (0)
Arnold Percy	19 (23)
Jane Canfield	16 (23)

The first number is the meetings attended while in brackets is the number of meetings eligible to attend.

Company Secretary

Mark Jarvis has been the Company Secretary of Katoomba and Upper Blue Mountains Community Enterprise Limited since 9 December 2008. Mark was the financial controller for an ASX listed Company and the Company Secretary for many of the smaller companies within the group. He is currently the general manager and co-owner of a hotel as well as the Secretary for the Company that owns the hotel.

Corporate Governance

The Company has implemented various corporate governance practices, which include:

- (a) Director approval of operating budgets and monitoring of progress against these budgets;
- (b) Ongoing Director training; and
- (c) Monthly Director meetings to discuss performance and strategic plans.

Directors' report continued

Auditor Independence Declaration

The Directors received the following declaration from the Auditor of the Company:

Richmond Sinnott & Delahunty Chartered Accountants



30 September 2010

The Directors
Katoomba and Upper Blue Mountains Community Enterprise Limited
PO Box 878
Katoomba NSW 2780

Partners:
Kenneth J Richmond
Warren J Sinnott
Philip P Delahunty
Brett A Andrews

Dear Directors

Auditor's Independence Declaration

In relation to our audit of the financial report of Katoomba and Upper Blue Mountains Community Enterprise Limited for the period ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Warren Sinnott
Partner
Richmond Sinnott & Delahunty

Signed in accordance with a resolution of the Board of Directors at Katoomba on 30 September 2010.

Robert Stock
Chairman

Financial statements

Statement of comprehensive income For the year ended 30 June 2010

	Note	2010 \$
Revenue from ordinary activities	2	68,868
Employee benefits expense	3	(149,420)
Charitable donations and sponsorship		(1,500)
Depreciation and amortisation expense	3	(37,457)
Other expenses from ordinary activities		(113,973)
Profit/(loss) before income tax expense		(233,482)
Income tax expense	4	(61,358)
Profit/(loss) after income tax expense		(172,124)
Other comprehensive income		-
Total comprehensive income		(172,124)
Earnings per share (cents per share)		
- basic for profit / (loss) for the period	21	(15.65)
- diluted for profit / (loss) for the period	21	(15.65)

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position As at 30 June 2010

	Note	2010 \$
Current assets		
Cash and cash equivalents	6	544,851
Receivables	7	21,156
Total current assets		566,007
Non-current assets		
Property, plant and equipment	8	221,461
Deferred tax assets	4	61,358
Intangible assets	9	88,000
Total non-current assets		370,819
Total assets		936,826
Current liabilities		
Payables	10	9,771
Provisions	11	8,901
Total current liabilities		18,672
Total liabilities		18,672
Net assets		918,154
Equity		
Share capital	12	1,090,278
Retained earnings / (accumulated losses)	13	(172,124)
Total equity		918,154

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flows For the year ended 30 June 2010

	Note	2010 \$
Cash flows from operating activities		
Cash receipts in the course of operations		23,676
Cash payments in the course of operations		(247,759)
Interest received		25,574
Net cash flows from/(used in) operating activities	14b	(198,509)
Cash flows from investing activities		
Payment for intangible assets		(110,000)
Payments for property, plant and equipment		(236,918)
Net cash flows from/(used in) investing activities		(346,918)
Cash flows from financing activities		
Proceeds from issue of shares		1,100,010
Share issue costs		(9,732)
Net cash flows from/(used in) financing activities		1,090,278
Net increase/(decrease) in cash held		544,851
Cash and cash equivalents at start of period		-
Cash and cash equivalents at end of period	14a	544,851

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of changes in equity For the year ended 30 June 2010

	Note	2010 \$
Share capital		
Balance at start of period		-
Issue of share capital		1,100,010
Share issue costs		(9,732)
Balance at end of period		1,090,278
Retained earnings / (accumulated losses)		
Balance at start of period		-
Profit/(loss) after income tax expense		(172,124)
Dividends paid	20	-
Balance at end of period		(172,124)

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2010

Note 1. Basis of preparation of the financial report

(a) Basis of preparation

Katoomba and Upper Blue Mountains Community Enterprise Limited ('the Company') is domiciled in Australia. The financial statements for the period ending 30 June 2010 are presented in Australian dollars. The Company was incorporated in Australia and the principal operations involve providing **Community Bank**[®] services.

The financial statements have been prepared on an accruals basis and are based on historical costs and do not take into account changing money values or, except where stated, current valuations of non-current assets.

The financial statements require judgements, estimates and assumptions to be made that affect the application of accounting policies. Actual results may differ from these estimates.

The financial statements were authorised for issue by the Directors on 30 September 2010.

(b) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Australian Accounting Standards (including Australian Interpretations) adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The financial report of the Company complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board. Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Significant accounting policies

The following is a summary of the material accounting policies adopted.

Income tax

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

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

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

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

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Income tax (continued)

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

Property, plant and equipment

Property, plant and equipment are brought to account at cost less accumulated depreciation and any impairment in value.

Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Class of asset	Depreciation rate
Leasehold improvements	10%
Plant & equipment	15%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset is impaired. Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Goods and services tax

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis.

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

Employee benefits

The provision for employee benefits to wages, salaries and annual leave represents the amount which the Company has a present obligation to pay resulting from employees' services provided up to the reporting date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

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

Intangibles

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum.

Cash

Cash on hand and in banks are stated at nominal value.

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

Revenue

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

Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Loans and borrowings

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

Provisions

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

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

Share capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Comparative figures

The entity commenced operations during the period, hence there are no comparative figures.

2010
\$

Note 2. Revenue from ordinary activities

Operating activities

- services commissions	40,794
- other revenue	2,500
Total revenue from operating activities	43,294
Non-operating activities:	
- interest received	25,574
Total revenue from non-operating activities	25,574
Total revenue from ordinary activities	68,868

Notes to the financial statements continued

	2010 \$
Note 3. Expenses	
Employee benefits expense	
- wages and salaries	128,799
- superannuation costs	10,989
- workers' compensation costs	695
- other costs	8,937
	149,420
Depreciation of non-current assets:	
- plant and equipment	3,119
- leasehold improvements	12,338
Amortisation of non-current assets:	
- intangibles	22,000
	37,457
Finance costs:	
- Interest paid	-
Bad debts	-
Note 4. Income tax expense	
The prima facie tax on profit/(loss) before income tax is reconciled to the income tax expense as follows:	
Prima facie tax on profit/(loss) before income tax at 30%	(70,045)
Add tax effect of:	
- Non-deductible expenses	8,687
Current income tax expense / (benefit)	(61,358)
Income tax expense / (benefit)	(61,358)
Deferred tax assets	
Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.	61,358

Notes to the financial statements continued

2010
\$

Note 5. Auditors' remuneration

Amounts received or due and receivable by Richmond, Sinnott & Delahunty for:

- Audit or review of the financial report of the Company	2,900
- Accounting work for prospectus	3,000
	5,900

Note 6. Cash and cash equivalents

Cash at bank and on hand **544,851**

Note 7. Receivables

Trade debtors	21,156
	21,156

Note 8. Property, plant and equipment

Leasehold improvements

At cost	211,515
Less accumulated depreciation	(12,338)
	199,177

Plant and equipment

At cost	25,403
Less accumulated depreciation	(3,119)
	22,284

Total written down amount **221,461**

Movements in carrying amounts

Leasehold improvements

Carrying amount at beginning of period	-
Additions	211,515
Disposals	-
Depreciation expense	(12,338)
Carrying amount at end of period	199,177

Notes to the financial statements continued

	2010 \$
--	------------

Note 8. Property, plant and equipment (continued)

Plant and equipment

Carrying amount at beginning of period	-
Additions	25,403
Disposals	-
Depreciation expense	(3,119)
Carrying amount at end of period	22,284

Note 9. Intangible assets

Franchise fee

At cost	10,000
Less accumulated amortisation	(2,000)
	8,000

Preliminary expenses

At cost	100,000
Less accumulated amortisation	(20,000)
	80,000
	88,000

Note 10. Payables

Trade creditors	4,679
Other creditors and accruals	5,092
	9,771

Note 11. Provisions

Employee benefits	8,901
--------------------------	--------------

Notes to the financial statements continued

	2010
	\$
Note 12. Share capital	
1,100,010 Ordinary shares fully paid of \$1 each	1,100,010
Less: Equity raising costs	(9,732)
	1,090,278

Note 13. Retained earnings / (accumulated losses)

Balance at the beginning of the financial period	-
Profit/(loss) after income tax	(172,124)
Dividends	-
Balance at the end of the financial period	(172,124)

Note 14. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	544,851
	544,851

(b) Reconciliation of profit / (loss) after tax to net cash provided from/(used in) operating activities

Profit / (loss) after income tax	(172,124)
Non cash items	
- Depreciation	15,457
- Amortisation	22,000
Changes in assets and liabilities	
- (Increase) decrease in receivables	(21,156)
- (Increase) decrease in deferred tax asset	(61,358)
- Increase (decrease) in payables	9,771
- Increase (decrease) in provisions	8,901
Net cashflows from/(used in) operating activities	(198,509)

Notes to the financial statements continued

Note 15. Director and related party disclosures

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

Robert Stock
Peter Newton Carroll
Mark John Jarvis
Linda Colless
Anne Catherine Elliott
Timothy Francis Goodwin
Christine Dorinda Thompson
Arnold Percy
Jane Canfield

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

Directors' shareholdings	2010
Robert Stock	8,001
Peter Newton Carroll	10,001
Mark John Jarvis	41,702
Linda Colless	1,001
Anne Catherine Elliott	4,001
Timothy Francis Goodwin	10,001
Christine Dorinda Thompson	1,001
Arnold Percy	3,001
Jane Canfield	501

All shares were purchased during the period. Each share held has a paid up value of \$1 and is fully paid.

Note 16. Subsequent events

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

Note 17. Contingent liabilities

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

Notes to the financial statements continued

Note 18. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Katoomba, New South Wales.

Note 19. Corporate information

Katoomba and Upper Blue Mountains Community Enterprises Limited is a Company limited by shares incorporated in Australia.

The registered office is: Suite 11, 166-168 Leura Mall,
Leura NSW 2780

The principal place of business is: 117 Katoomba Street,
Katoomba NSW 2780

Note 20. Dividends paid or provided for on ordinary shares

No dividends were paid or proposed by the Company during the period.

2010
\$

Note 21. Earnings per share

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

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

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

Profit/(loss) after income tax expense	(172,124)
Weighted average number of ordinary shares for basic and diluted earnings per share	1,100,010

Notes to the financial statements continued

Note 22. Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board is assisted in the area of risk management by an internal audit function.

(a) Credit risk

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

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

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

	Carrying amount 2010 \$
Cash assets	544,851
Receivables	21,156
	566,007

The Company's exposure to credit risk is limited to Australia by geographic area.

None of the assets of the Company are past due and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

The Company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Ltd.

(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 following are the estimated contractual maturities of financial liabilities, including estimated interest payments.

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(b) Liquidity risk (continued)

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$
30 June 2010					
Payables	9,771	(9,771)	(9,771)	-	-
	9,771	(9,771)	(9,771)	-	-

(c) Market risk

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

Interest rate risk

Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company reviews the exposure to interest rate risk as part of the regular Board meetings.

Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Carrying amount 2010 \$
Fixed rate instruments	
Financial assets	514,135
Financial liabilities	-
	514,135
Variable rate instruments	
Financial assets	30,716
Financial liabilities	-
	30,716

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(c) Market risk (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. This assumes all other variables remain constant.

(d) Net fair values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. The Company does not have any unrecognised financial instruments at year end.

(e) Capital management

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

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

- (i) the Distribution Limit is the greater of:
 - (a) 20% of the profit or funds of the Franchisee otherwise available for distribution to shareholders in that 12 month period; and
 - (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and
- (ii) the Relevant Rate of Return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the Company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the period ended 30 June 2010 can be seen in the Statement of Comprehensive Income.

There were no changes in the Company's approach to capital management during the period.

Directors' declaration

In accordance with a resolution of the Directors of Katoomba and Upper Blue Mountains Community Enterprise Limited, I state that:

In the opinion of the Directors:

- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at 30 June 2010 and of their performance for the period ended on that date; and
 - (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



Robert Stock
Chairman

Signed at Katoomba on 30 September 2010.

Independent audit report

Richmond Sinnott & Delahunty Chartered Accountants



INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KATOOMBA AND UPPER BLUE MOUNTAINS COMMUNITY ENTERPRISE LIMITED

Partners:
Kenneth J Richmond
Warren J Sinnott
Philip P Delahunty
Brett A Andrews

SCOPE

The financial report comprises the statement of financial position, statement of comprehensive income, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for Katoomba and Upper Blue Mountains Community Enterprise Limited, for the period ended 30 June 2010.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account estimates made by the directors.

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

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

Woodbury Court, 172 McIvor Road Bendigo 3556. PO Box 30 Bendigo 3552. Ph: (03) 5443 1177. Fax: (03) 5444 4344. Email: rsd@rsdadvisors.com.au

ABN 60 616 244 309

Liability limited by a scheme approved under Professional Standards Legislation

Independent audit report continued

INDEPENDENCE

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

AUDIT OPINION

In our opinion, the financial report of Katoomba and Upper Blue Mountains Community Enterprise Limited is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2010 and of its performance for the period ended on that date;
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Richmond Sinnott & Delahunty
RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W. J. Sinnott

W. J. SINNOTT
Partner
Bendigo

Date: 30 September 2010

Katoomba & Upper Blue Mountains **Community Bank**[®] Branch
117 Katoomba Street, Katoomba NSW 2780
Phone: (02) 4782 1144

Franchisee:
Katoomba & Upper Blue Mountains Community Enterprise Limited
117 Katoomba Street, Katoomba NSW 2780
Phone: (02) 4782 1144
ABN: 55 134 947 201

www.bendigobank.com.au/katoomba
Bendigo and Adelaide Bank Limited,
The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879.
(BMPAR10102) (10/10)