

Katoomba & Upper Blue Mountains
Community Enterprise Limited

ABN 55 134 947 201

annual report 2011

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

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Chairman's report

For year ending 30 June 2011

I am pleased to report on the performance of Katoomba and Upper Blue Mountains Community Enterprise Ltd for the financial year ended 30 June 2011.

Our result for the year follows a similar trajectory to our first six months in that our net position at 30 June put us in advance of that forecast in the prospectus.

This is despite growth in business on the books still being marginally less than that predicted for the equivalent period. Our pipeline of business in process looks promising for the coming year.

Our success to date is a credit to our Branch Manager, Brigitte MacKenzie and our staff who have all been with us since day one.

The Company has this year already been able to support a number of community groups and activities with sponsorships being provided to many sporting, educational and community welfare organisations in our local area. This is one of our central reasons for being in business and we look forward to building on these programmes year by year as our ability to do so increases.

From anecdotal evidence the Board has formed a view that our sponsorship programme continues to strongly support our business growth.

In May the Company Secretary, Branch Manager and I travelled to Canberra to attend Bendigo and Adelaide Bank Ltd's NSW **Community Bank**[®] State Conference. Meeting members of other community Companies like our own has provided us with stimulus and ideas to further promote our business in the community.

My sincere thanks to the staff and to our volunteer Directors for the effort and enthusiasm they have put into the last year.

Again I would like to encourage all shareholders to support our **Community Bank**[®] branch by making use of it where possible for all your banking and insurance requirements. And remember that your banking business helps us contribute profits to local organisations and community projects.

The Board is confident that the Company can look forward to continued growth in the 2011/12 financial year.



Robert Stock
Chairman

Manager's report

For year ending 30 June 2011

June 2011 ended the first full financial year of trading for the Katoomba and Upper Mountains **Community Bank**[®] Branch.

Our business volumes to 30 June 2010 stood at \$25,831,000 with 1,072 accounts, including 160 out of a possible 274 shareholders opening accounts so far.

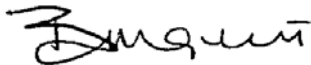
We have had some excellent outcomes in our first full financial year and have been greatly rewarded by being able to contribute a grand total of \$15,000 into the community, by way of much needed sponsorships and donations.

Our business development plans continue to expand and we have had some very successful campaigns this year, with an ongoing commitment to increasing awareness of our brand and of what we can achieve with community support.

We hope that you all enjoy reading our sponsorship contribution notices and 'novelty cheque' on display in the window of the branch, and that you are becoming increasingly aware of the potential we have to do amazing things for our region just by gaining more and more support from our community while they do their every day banking.

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 support during this very challenging year, and thank you all for your efforts while we establish our business and begin to see the growth which will allow us to fulfil our vision of supporting our local community.

I would also personally like to thank all the customers who have already transferred their everyday banking to our **Community Bank**[®] branch and for those of you who have not, please feel free to come and see us and find out how your everyday banking can support your community.



Brigitte Mackenzie
Branch Manager

Bendigo and Adelaide Bank Ltd report

For year ending 30 June 2011

As **Community Bank**[®] shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about organising and strengthening community.

Together, we have reached new heights and achieved many great successes, all of which has been underpinned by our commitment and dedication to the communities we're a part of.

Together we're making extraordinary progress, with more than \$58.25 million returned to support community groups and endeavours since the network was established in 1998.

The returns grow exponentially each year, with \$469 thousand returned within the first five years, \$8.15 million within the first eight and \$22.58 million by the end of the first decade of operation. Based on this, we can predict the community returns should top \$100 million within the next three years, which equates to new community facilities, better health care, increased transport services and generally speaking, more prosperous communities.

Together, we haven't just returned \$58.25 million; there is also the flow on economic impact to consider. Bendigo and Adelaide Bank is in the process of establishing an evidential basis that captures the complete picture and the economic outcomes these initiatives generate. However, the tangible outcomes are obvious. We see it in tenanted shops, increased consumer traffic, retained local capital and new jobs but we know that there are broader elements of community strength beyond the economic indicators, which demonstrate the power of our community models.

It is now evident that branches go through a clear maturity phase, building customer support, generating surpluses and establishing a sustainable income stream. This enables Boards to focus less on generating business and more on the community's aspirations. Bendigo is facilitating this through Director engagement and education, community consultations and other community solutions (Community Enterprise Foundation[™], Community Sector Banking, Community Telco, Generation Green[™] and Community Enterprises) that will provide Boards with further development options.

In Bendigo, your **Community Bank**[®] Board has a committed and successful partner. Our past efforts and continued commitment to be Australia's leading customer-connected bank, that is relevant, connected and valued, is starting to attract attention and reap rewards.

In January, a Roy Morgan survey into customer satisfaction saw Bendigo Bank achieve an industry leading score among Australian retail banks. This was the first time Bendigo Bank has led the overall results since August 2009.

In May, Fitch Ratings upgraded Bendigo and Adelaide Banks Long-Term Issuer Default Rating (IDR) to A- from BBB+. This announcement saw us become the first Australian bank – and one of the very few banks globally – to receive an upgrade since the Global Financial Crisis.

Standard & Poor's revised credit rating soon followed seeing Bendigo and Adelaide Bank shift from BBB+ stable, to BBB+ positive. These announcements reflect the hard and diligent work by all our staff, our sound risk management practices, low-risk funding and balance sheet structure, sound capital ratios and a sustained improvement in profitability.

The strength of our business model – based on our commitment to our customers and the communities that we operate in – is being recognised by all three ratings agencies.

Bendigo and Adelaide Bank Ltd report continued

Over the past year the bank has also added more than 700 additional ATMs through a network sharing agreement with Suncorp Bank, which further enhances our customers' convenience and expands our footprint across the country. In addition to this a further 16 **Community Bank**[®] branches were opened.

The bank has also had a renewed focus on business banking and re-launched our wealth management services through Bendigo Wealth, which oversees the Adelaide Bank, Leveraged Equities, Sandhurst Trustees and financial planning offering.

The **Community Bank**[®] model is unique and successful, it's one of our major points of difference and it enables us to connect with more than 550,000 customers, in excess of 270 communities and make a difference in the lives of countless people.

We are very proud of the model we have developed and we're very thankful for the opportunity to partner with communities to help build their balance sheets.

We thank you all for the part you play in driving this success.



Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2011

Your Directors submit their report of the Company for the financial year ended 30 June 2011.

Directors

The names and details of the Company's Directors who held office during or since the end of the financial year 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
Student Coordinator

Jane Canfield

Director
Graphic Designer

Charles Brooke Broughton (appointed 19 August 2010)

Director
Consultant

Arnold Percy

Director
Retailer

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

Principal activities

The principal activities of the Company during the course of the financial year 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 year.

Review of operations

During the financial year, the Company listed on the low volume market.

Operations have performed in line with expectations. The loss of the Company for the financial year after provision for income tax was \$134,934 (2010: \$172,124).

Dividends

No dividends were declared or paid during the year.

Directors' report continued

Likely developments

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

Significant changes in the state of affairs

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

Significant events after the balance date

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

Remuneration report

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. 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	Board meetings #
Robert Stock	12 (12)
Peter Newton Carroll	9 (12)
Mark John Jarvis	7 (12)
Linda Colless	11 (12)
Anne Catherine Elliott	10 (12)
Timothy Francis Goodwin	10 (12)
Christine Dorinda Thompson	12 (12)
Charles Brooke Broughton (appointed 19 August 2010)	11 (11)
Arnold Percy	9 (12)
Jane Canfield	8 (12)

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:



22 September 2011

The Directors
Katoomba and Upper Blue Mountains Community Enterprise Limited
PO Box 28
Katoomba NSW 2780

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 2011, 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 22 September 2011.



Robert Stock, Chairman

Financial statements

Statement of comprehensive income for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Revenue from continuing operations	2	216,104	68,868
Employee benefits expense	3	(212,173)	(149,420)
Charitable donations and sponsorship		(5,105)	(1,500)
Depreciation and amortisation expense	3	(46,814)	(37,457)
Other expenses		(152,570)	(113,973)
Profit/(loss) before income tax expense		(200,558)	(233,482)
Income tax expense / (benefit)	4	(65,624)	(61,358)
Profit/(loss) after income tax expense		(134,934)	(172,124)
Other comprehensive income		-	-
Total comprehensive income		(134,934)	(172,124)
Earnings per share (cents per share)			
- basic for profit / (loss) for the year	21	(12.27)	(15.65)
- diluted for profit / (loss) for the year	21	(12.27)	(15.65)

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position as at 30 June 2011

	Note	2011 \$	2010 \$
Current assets			
Cash and cash equivalents	6	381,160	544,851
Receivables	7	32,995	21,156
Total current assets		414,155	566,007
Non-current assets			
Property, plant and equipment	8	196,647	221,461
Deferred tax assets	4	126,982	61,358
Intangible assets	9	66,000	88,000
Total non-current assets		389,629	370,819
Total assets		803,784	936,826
Current liabilities			
Payables	10	13,529	9,771
Provisions	11	7,035	8,901
Total current liabilities		20,564	18,672
Total liabilities		20,564	18,672
Net assets		783,220	918,154
Equity			
Share capital	12	1,090,278	1,090,278
Retained earnings / (accumulated losses)	13	(307,058)	(172,124)
Total equity		783,220	918,154

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flows for the year ended 30 June 2011

	Note	2011 \$	2010 \$
Cash flows from operating activities			
Cash receipts in the course of operations		186,623	23,676
Cash payments in the course of operations		(379,387)	(247,759)
Interest received		29,073	25,574
Net cash flows used in operating activities	14b	(163,691)	(198,509)
Cash flows from investing activities			
Payment for intangible assets		-	(110,000)
Payments for property, plant and equipment		-	(236,918)
Net cash flows 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 financing activities		-	1,090,278
Net increase/(decrease) in cash held		(163,691)	544,851
Cash and cash equivalents at start of year		544,851	-
Cash and cash equivalents at end of year	14a	381,160	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 2011

	Note	2011 \$	2010 \$
Share capital			
Balance at start of year		1,100,010	-
Issue of share capital		-	1,100,010
Share issue costs		(9,732)	(9,732)
Balance at end of year		1,090,278	1,090,278
Retained earnings / (accumulated losses)			
Balance at start of year		(172,124)	-
Profit/(loss) after income tax expense		(134,934)	(172,124)
Dividends paid	20	-	-
Balance at end of year		(307,058)	(172,124)

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2011

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 year ending 30 June 2011 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 22 September 2011.

(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. These changes are not expected to have a material impact on the Company's financial statements.

(c) Significant accounting policies

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2010 financial statements.

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.

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.

Notes to the financial statements continued

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

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.

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.

Notes to the financial statements continued

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

Goods and services tax (continued)

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.

Loans and borrowings

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

Notes to the financial statements continued

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

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 prior period and hence the comparative figures are for the period ending 30 June 2010. Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

	2011	2010
	\$	\$

Note 2. Revenue from continuing operations

Operating activities

- services commissions	187,031	40,794
- other revenue	-	2,500
	187,031	43,294

Non-operating activities:

- interest received	29,073	25,574
	29,073	25,574
	216,104	68,868

Notes to the financial statements continued

	2011 \$	2010 \$
Note 3. Expenses		
Employee benefits expense		
- wages and salaries	196,440	128,799
- superannuation costs	17,199	10,989
- workers' compensation costs	400	695
- other costs	(1,866)	8,937
	212,173	149,420
Depreciation of non-current assets:		
- plant and equipment	3,663	3,119
- leasehold improvements	21,151	12,338
Amortisation of non-current assets:		
- intangibles	22,000	22,000
	46,814	37,457
Bad debts	677	-

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%	(60,168)	(70,045)
Add tax effect of:		
- Non-deductible expenses	(5,456)	8,687
Current income tax expense / (benefit)	(65,624)	(61,358)
Income tax expense / (benefit)	(65,624)	(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.	126,982	61,358

Notes to the financial statements continued

	2011 \$	2010 \$
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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	3,900	2,900
- Accounting work for prospectus	-	3,000
- Preparation and lodgement of taxation return	500	-
	4,400	5,900

Note 6. Cash and cash equivalents

Cash at bank and on hand	381,160	544,851
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Note 7. Receivables

Trade debtors	32,995	21,156
	32,995	21,156

Note 8. Property, plant and equipment

Leasehold improvements

At cost	211,515	211,515
Less accumulated depreciation	(33,489)	(12,338)
	178,026	199,177

Plant and equipment

At cost	25,403	25,403
Less accumulated depreciation	(6,782)	(3,119)
	18,621	22,284

Total written down amount	196,647	221,461
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Notes to the financial statements continued

	2011 \$	2010 \$
Note 8. Property, plant and equipment (continued)		
Movements in carrying amounts		
Leasehold improvements		
Carrying amount at beginning of year	199,177	-
Additions	-	211,515
Disposals	-	-
Depreciation expense	(21,151)	(12,338)
Carrying amount at end of year	178,026	199,177
Plant and equipment		
Carrying amount at beginning of year	22,284	-
Additions	-	25,403
Disposals	-	-
Depreciation expense	(3,663)	(3,119)
Carrying amount at end of year	18,621	22,284

Note 9. Intangible assets

Franchise fee		
At cost	10,000	10,000
Less accumulated amortisation	(4,000)	(2,000)
	6,000	8,000
Preliminary expenses		
At cost	100,000	100,000
Less accumulated amortisation	(40,000)	(20,000)
	60,000	80,000
	66,000	88,000

Note 10. Payables

Trade creditors	1,108	4,679
Other creditors and accruals	12,421	5,092
	13,529	9,771

Notes to the financial statements continued

	2011 \$	2010 \$
Note 11. Provisions		
Employee benefits	7,035	8,901
Movement in employee benefits		
Opening balance	8,901	-
Additional provisions recognised	15,111	8,901
Amounts utilised during the year	(16,977)	-
Closing balance	7,035	8,901

Note 12. Share capital

1,100,010 Ordinary shares fully paid of \$1 each	1,100,010	1,100,010
Less: Equity raising costs	(9,732)	(9,732)
	1,090,278	1,090,278

Note 13. Retained earnings/(accumulated losses)

Balance at the beginning of the financial year	(172,124)	-
Profit/(loss) after income tax	(134,934)	(172,124)
Dividends	-	-
Balance at the end of the financial year	(307,058)	(172,124)

Note 14. Statement of cash flows

(a) Cash and cash equivalents

Cash assets	381,160	544,851
	381,160	544,851

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

Profit / (loss) after income tax	(134,934)	(172,124)
Non cash items		
- Depreciation	24,814	15,457
- Amortisation	22,000	22,000

Notes to the financial statements continued

	2011	2010
	\$	\$
Note 14. Statement of cash flows (continued)		
Changes in assets and liabilities		
- (Increase) decrease in receivables	(11,839)	(21,156)
- (Increase) decrease in deferred tax asset	(65,624)	(61,358)
- Increase (decrease) in payables	3,758	9,771
- Increase (decrease) in provisions	(1,866)	8,901
Net cash flows from/(used in) operating activities	(163,691)	(198,509)

Note 15. Director and related party disclosures

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

Robert Stock
 Peter Newton Carroll
 Mark John Jarvis
 Linda Colless
 Anne Catherine Elliott
 Timothy Francis Goodwin
 Christine Dorinda Thompson
 Charles Brooke Broughton (appointed 19 August 2010)
 Arnold Percy
 Jane Canfield

No Director or related entity has entered into a material contract with the Company.

As at balance date the loan has been repaid in full.

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

Directors' shareholdings	2011	2010
Robert Stock	8,001	8,001
Peter Newton Carroll	10,001	10,001
Mark John Jarvis	41,701	41,701
Linda Colless	1,001	1,001
Anne Catherine Elliott	4,001	4,001
Timothy Francis Goodwin	10,001	10,001
Christine Dorinda Thompson	1,001	1,001
Charles Brooke Broughton (appointed 19 August 2010)	1,001	1,001

Notes to the financial statements continued

Note 15. Director and related party disclosures (continued)

Directors' shareholdings (continued)	2011	2010
Arnold Percy	3,001	3,001
Jane Canfield	501	501

There was no movement in shares held during the year. Each share held has a paid up value of \$1 and is fully paid.

Note 16. Subsequent events

Since the balance date, world financial markets have shown volatility that may have an impact on investment earnings in the 2011/12 financial year. The Company continues to maintain a conservative investment strategy to manage the exposure to market volatility.

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

Note 17. Contingent liabilities and assets

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

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 and 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 year.

Notes to the financial statements continued

	2011	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 year.

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 year (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	(134,934)	(172,124)
Weighted average number of ordinary shares for basic and diluted earnings per share	1,100,010	1,100,010

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	
	2011	2010
	\$	\$
Cash assets	381,160	544,851
Receivables	32,995	21,156
	414,155	566,007

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(a) Credit risk (continued)

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

None of the assets of the Company are past due (2010: nil past due) and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

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

	Carrying amount \$	Contractual cash flows \$	1 year or less \$	Over 1 to 5 years \$	More than 5 years \$
30 June 2011					
Payables	13,529	(13,529)	(13,529)	-	-
	13,529	(13,529)	(13,529)	-	-
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.

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(c) Market risk (continued)

Sensitivity analysis

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

	Carrying amount	
	2011	2010
	\$	\$
Fixed rate instruments		
Financial assets	322,285	514,135
Financial liabilities	-	-
	322,285	514,135
Variable rate instruments		
Financial assets	58,875	30,716
Financial liabilities	-	-
	58,875	30,716

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.

Notes to the financial statements continued

Note 22. Financial risk management (continued)

(e) Capital management (continued)

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 year ended 30 June 2011 can be seen in the Statement of Comprehensive Income.

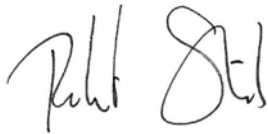
There were no changes in the Company's approach to capital management during the year.

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 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia, International Financial Reporting Standards 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 22 September 2011.

Independent audit report



**Richmond
Sinnott &
Delahunty**

Chartered Accountants

INDEPENDENT AUDIT REPORT

**TO THE MEMBERS OF KATOOMBA AND UPPER BLUE
MOUNTAINS COMMUNITY ENTERPRISE LIMITED**

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 2011.

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.

Partners: Kenneth J Richmond • Warren J Sinnott • Philip P Delahunty • Brett A Andrews
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ABN 60 616 244 309

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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 2011 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: 22 September 2011

Katoomba & Upper Blue Mountains **Community Bank**[®] Branch
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Franchisee: Katoomba & Upper Blue Mountains Community
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(BMPAR11125) (10/11)

