
VILLAGE ENTERPRISE FUND, INC.

FINANCIAL STATEMENTS

For the year ended June 30, 2008

with Report of Independent Auditors

VILLAGE ENTERPRISE FUND, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Village Enterprise Fund, Inc.
San Carlos, California

We have audited the statement of financial position of Village Enterprise Fund, Inc. as of June 30, 2008, and the related statement of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of Village Enterprise Fund, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Village Enterprise Fund, Inc.'s records in the United States are not sufficient to permit the application of auditing procedures in relation to approximately \$410,000 in micro-grants paid in East Africa. Grants are awarded to villagers in remote parts of East Africa where most cost effective auditing procedures including confirmation by postal means are unreliable. Normal auditing procedures also include physical inspection. We were not engaged to audit the records in East Africa, nor to visit the local grant recipients. Since we were unable to obtain sufficient independent audit evidence, nor to perform alternative procedures in relation to these micro grants we are unable to express, and we do not express, an opinion on the Statement of Activities, Statement of Cash Flows and Statement of Functional Expenses.

As described in Note 10, Net Assets as previously reported have been adjusted to record certain expenses that should have been accrued in prior periods. Such adjustment has reduced the Net Assets as previously reported by \$12,498.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to have been necessary had we been able to obtain such evidence regarding the grants paid, the financial statements referred to above present fairly, in all material respects, the financial position of Village Enterprise Fund, Inc. as of June 30, 2008, and the changes in its net assets, functional expenses and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

PMB Helin Donovan, LLP

San Francisco, California
December 10, 2008

VILLAGE ENTERPRISE FUND, INC.

STATEMENT OF FINANCIAL POSITION

as of June 30, 2008

ASSETS

Current Assets:

Cash and cash equivalents	\$ 241,033
Contributions receivable	15,000
Total Current Assets	<u>256,033</u>

Long-Term Assets

Property and equipment - net of accumulated depreciation	<u>18,073</u>
Total Long-Term Assets	<u>18,073</u>

Total Assets	\$ <u><u>274,106</u></u>
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LIABILITIES AND NET ASSETS

Current Liabilities:

Current portion of capital leases	\$ 2,828
Accounts payable	20,779
Grants payable	81,850
Total Current Liabilities	<u>105,457</u>

Long term portion of capital leases	<u>2,355</u>
Total Liabilities	<u>107,812</u>

Net Assets:

Unrestricted net assets	141,122
Temporarily restricted net assets	<u>25,172</u>

Total Net Assets	<u>166,294</u>
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Total Liabilities and Net Assets	\$ <u><u>274,106</u></u>
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The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.

STATEMENT OF ACTIVITIES

for the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue:			
Contributions from individuals	\$ 835,531	\$ -	\$ 835,531
Contributions from foundations	103,002	21,198	124,200
Other contributions	47,533	-	47,533
Interest and dividends	2,241	-	2,241
Net assets released from restrictions	26,626	(26,626)	-
	<u>1,014,933</u>	<u>(5,428)</u>	<u>1,009,505</u>
Operating Expenses:			
Grants to small businesses	410,288	-	410,288
Program services	388,476	-	388,476
Supporting services:			
Management and general	76,478	-	76,478
Fundraising	145,434	-	145,434
	<u>1,020,676</u>	<u>-</u>	<u>1,020,676</u>
Changes in Net Assets	(5,743)	(5,428)	(11,171)
NET ASSETS:			
Beginning of year	<u>146,865</u>	<u>30,600</u>	<u>177,465</u>
End of year	<u>\$ 141,122</u>	<u>\$ 25,172</u>	<u>\$ 166,294</u>

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.

STATEMENT OF CASH FLOWS

for the year ended June 30, 2008

CASH FLOWS FROM OPERATIONS:

Changes in net assets	\$ (11,171)
Adjustments to reconcile increase/(decrease) in net assets to net cash provided by operating activities:	
Depreciation	9,005
Increase in operating assets:	
Contributions receivable	(15,000)
Increase in operating liabilities:	
Accounts payable	903
Grants payable	32,750
Net cash provided by operating activities	<u>16,487</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	<u>(3,433)</u>
Net cash used by investing activities	<u>(3,433)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on capital leases	<u>(2,510)</u>
Net cash used by financing activities	<u>(2,510)</u>

Net increase in cash balances 10,544

CASH AND EQUIVALENTS:

Beginning of year	<u>230,489</u>
End of year	\$ <u><u>241,033</u></u>

SUPPLEMENTAL DATA:

Interest paid	\$ <u><u>958</u></u>
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The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.

STATEMENT OF FUNCTIONAL EXPENSES

for the year ended June 30, 2008

	Program Services				Supporting Services			
	<u>Kenya</u>	<u>Tanzania</u>	<u>Uganda</u>	<u>United States</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Grants to small businesses	\$ 151,083	\$ 116,129	\$ 143,076	\$ -	\$ 410,288	\$ -	\$ -	\$ 410,288
Personnel expenses	13,195	11,500	12,045	149,359	186,099	61,645	90,516	338,260
Depreciation	-	-	-	8,129	8,129	434	442	9,005
Field operations expenses	12,591	12,380	14,482	-	39,453	-	-	39,453
Fundraising campaign	-	-	-	-	-	-	1,222	1,222
Insurance	-	-	-	5,137	5,137	1,575	1,574	8,286
Interns	2,183	3,265	3,233	250	8,931	-	202	9,133
Meetings, conferences, and training	2,156	2,156	2,156	2,452	8,920	752	2,060	11,732
Occupancy	-	-	-	10,939	10,939	3,352	3,352	17,643
Office expenses	-	-	-	9,728	9,728	2,981	2,981	15,690
Other expenses	-	-	-	7,503	7,503	2,299	8,831	18,633
Postage and shipping	-	-	-	2,007	2,007	615	615	3,237
Printing and publications	-	-	-	107	107	32	5,418	5,557
Professional fees	-	-	-	2,756	2,756	844	845	4,445
Special projects	6,500	-	10,550	-	17,050	-	-	17,050
Telephone	-	-	-	3,820	3,820	1,138	1,163	6,121
Training	16,777	15,435	13,547	-	45,759	-	-	45,759
Travel	9,415	6,866	11,610	2,475	30,366	268	25,670	56,304
Utilities	-	-	-	1,406	1,406	431	431	2,268
Website	-	-	-	366	366	112	112	590
Total expenses	<u>62,817</u>	<u>51,602</u>	<u>67,623</u>	<u>206,434</u>	<u>388,476</u>	<u>76,478</u>	<u>145,434</u>	<u>610,388</u>
Total Grants and Expenses	<u>\$ 213,900</u>	<u>\$ 167,731</u>	<u>\$ 210,699</u>	<u>\$ 206,434</u>	<u>\$ 798,764</u>	<u>\$ 76,478</u>	<u>\$ 145,434</u>	<u>\$ 1,020,676</u>

The accompanying notes are an integral part of these financial statements

VILLAGE ENTERPRISE FUND, INC.

Notes to Financial Statements

June 30, 2008

1. Organization and Summary of Significant Accounting Policies:

Organization

Village Enterprise Fund, Inc. was incorporated in the State of California as Christian Self-Development Fund on June 3, 1987. On August 17, 1994 the name was changed to Village Enterprise Fund, Inc. (VEF). The VEF head office is located in San Carlos, California, with key international offices in the East African countries of Tanzania, Uganda, and Kenya.

VEF's mission is to break the cycle of poverty in rural East Africa through training, seed capital and mentoring for income-generating small businesses:

- Business training empowers groups of five or more people to select, create and operate a small business.
- Seed capital grants of \$100 or \$150 go to trained groups with approved grant applications. Typical businesses include: Agriculture (maize, cassava, tomatoes, peanuts); Animal husbandry (goats, chickens, pigs); Skilled service and construction (tailoring, carpentry, welding, bicycle repair); and Retail (vegetable kiosks, restaurants and cafes, household goods).
- On-going mentoring provides personalized advice and encouragement for at least one year, and helps new entrepreneurs gain confidence, overcome the typical challenges of a new venture, become self-sufficient and grow their businesses.

A small number of Empowerment grants (\$300) go to the most successful entrepreneurs. These incremental investments facilitate addition of employees, branch office openings, acquisition of capital equipment and inventory expansion.

Basis of Accounting

The financial statements of VEF have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 establishes standards for general purpose external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities, and a statement of cash flows.

VILLAGE ENTERPRISE FUND, INC.

Notes to Financial Statements (continued)

June 30, 2008

1. Organization and Summary of Significant Accounting Policies: (continued)

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with a maturity date of three months or less. The value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

Prepaid Expenses

Prepaid expenses represent items which have been paid for but which are applicable to subsequent years.

Property and Equipment and Depreciation

All acquisitions of property and equipment in excess of \$500 and expenditures for repairs, maintenance renewals and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment is recorded at cost or, if donated, the approximate fair market value on the date of donation. Depreciation of property and equipment is provided over the estimated useful lives of the respective assets on a straight line basis, primarily five years for furniture and equipment.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, through the passage of time or actions of VEF temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Larger donations are solicited by encouraging donors to make a four-year commitment. These commitments are not unconditional, are not written, and therefore are not recognized as receivables in the financial statements.

Permanently restricted net assets are contributions required to be maintained in perpetuity by the donor. VEF may use the earnings from these funds. VEF had no permanently restricted net assets at June 30, 2008.

VILLAGE ENTERPRISE FUND, INC.

Notes to Financial Statements (continued)

June 30, 2008

1. Organization and Summary of Significant Accounting Policies: (continued)

Functional Allocation of Expenses

Expenses that apply to more than one functional category have been allocated between program, management and general, and fundraising, based on the time spent on these functions by specific employees. Other costs are charged directly to the appropriate functional category.

Tax-Exempt Status

VEF is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. In addition, VEF has received a ruling from the Internal Revenue Service that it is not classified as a private foundation under Section 509(a) of the Internal Revenue Code.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include the useful life of depreciable assets, estimates of uncollectible contributions receivable, compensated absences and contributed services. Accordingly, actual results could differ from those estimates.

2. Concentration of Credit Risk:

Financial instruments that potentially subject VEF to credit risk are limited to cash and cash equivalents in excess of the federal insurance amount. During 2008, VEF periodically maintained cash in banks in excess of the limit insured by the federal government. At June 30, 2008, VEF had \$64,424 in excess of such insured limits.

VILLAGE ENTERPRISE FUND, INC.

Notes to Financial Statements (continued)

June 30, 2008

3. Property and Equipment:

Property and equipment is valued as stated in Note 1 and is summarized as follows:

Computer and equipment	\$ 19,413
Vehicles	16,600
Less: Accumulated depreciation	<u>(17,940)</u>
Property and equipment, net	<u>\$18,073</u>

Property and equipment includes capitalized leased equipment of \$8,275 and accumulated amortization of \$3,448. Depreciation expense, including amortization on capital leases, for 2008 amounted to \$9,005.

4. Grants Payable:

VEF awards \$100 or \$150 grants to small startup businesses (the amount varies depending on the capital required to begin the business). The entire grant amount is recorded as an expense at the time the grant is awarded, although the business receives their grant in two stages:

- An initial payment of \$50 or \$100
- A second payment of \$50, upon delivery of a progress report (typically submitted 6 months after receipt of the initial payment).

The balance of the grant (the second \$50 payment) is recorded as a liability until disbursed. If no progress report is submitted within 1 year after the initial payment, the second \$50 payment is restored to the pool of funds available to new applicants. Grants are typically funded four times a year, on a quarterly basis.

VILLAGE ENTERPRISE FUND, INC.

Notes to Financial Statements (continued)

June 30, 2008

5. Capital Lease Obligations:

VEF leases certain office equipment under capital financing lease agreements at an interest rate of approximately 12.0%. Future minimum lease payments of principal and interest under capitalized leases at June 30, 2008 are:

Year ended June 30,	
2009	\$3,298
2010	<u>2,474</u>
Total capital lease payments	5,772
Less amount representing interest	<u>589</u>
Total capital lease obligations	5,183
Less current portion	<u>2,828</u>
Long Term portion of capitalized leases	<u>\$2,355</u>

6. Commitments:

VEF leases office space under an operating lease expiring on December 31, 2014. Future minimum lease payments under the lease at June 30, 2008 are:

Year Ended June 30:	
2009	\$ 21,654
2010	22,302
2011	22,974
2012	23,664
2013	24,372
Thereafter	<u>37,842</u>
	<u>\$152,808</u>

Rental expense for the year was \$17,643.

VILLAGE ENTERPRISE FUND, INC.

Notes to the financial statements (continued)

June 30, 2008

7. Donations In Kind:

VEF has received donated services in the form of time donated by interns and volunteers. Activities for interns and volunteers include work both in the head office and in African field offices. Contributions of services are recognized if the services received (1) create or enhance non-financial assets or, (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2008, interns and volunteers donated approximately 6,500 hours. As required under SFAS No. 116, no amounts have been recognized in the accompanying statement of activities for these services as they do not meet the criteria for recognition.

8. Temporarily Restricted Net Assets:

Contributions that are restricted by a grantor agency or a donor are reported as an increase in unrestricted net assets if the restriction expires, or the conditions are met in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. As of June 30, temporarily restricted net assets consist of:

Uganda	<u>\$25,172</u>
Total	<u>\$25,172</u>

9. Net Assets Released from Restrictions:

Net assets released from restrictions during the year by incurring expenses satisfying the restricted purposes were as follows:

Tanzania	\$11,000
Uganda	<u>\$15,626</u>
Total	<u>\$26,626</u>

VILLAGE ENTERPRISE FUND, INC.

Notes to the financial statements (continued)

June 30, 2008

10. Restatement of Financial Statements:

The net assets as previously reported have been adjusted from amounts previously reported to correct certain errors in the prior financial statements. The effects of the restatement on the statement of financial position as of June 30, 2007 are as follows:

Unrestricted net assets	\$189,963	\$177,465
Unrestricted expenses	944,405	956,903
Change in Net Assets	38,889	26,391

The adjustment is to record accrued vacation and a capitalized lease which were not previously recorded.