THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
(Registration number: 1991/003485/08)

ANNUAL FINANCIAL STATEMENTS
30 June 2007

THE SMALL ENTERPRISE FOUNDATION

MANAGEMENT REVIEW

30 JUNE 2007

"Without the loans from SEF my business would have collapsed; it is because of SEF my business is still going and I am able to sustain my family"
Arsnath Selepe (SEF Client)

Summary of Performance

The Small Enterprise Foundation, SEF, is a non-profit, non-government organisation dedicated to ending poverty. The organisation was registered in July 1991 and disbursed its first loans in January 1992. The following is a summary of performance:

Indicator	June 2007	June 2006	June 2005
Number of loans outstanding	41 295	34 553	27 538
% Women Clients	99%	99%	99%
Value of Loans Outstanding	R 49.9 million[1]	R 36.4 million	R 26.4 million
Current Average Loan Size Disbursed	R 1 592	R 1 547	R 1 424
Number of Loans disbursed since inception	364 827	284 626	217 660
Amount disbursed since inception	R467 million	R330 million	R236 million
Bad Debt rate	0.7%	0.96%	0.4%
Portfolio at risk > 30 days	0.3%	0.4%	0.2%
Current Re-scheduled loans (due to illness)	R 339 411	R 196 484	R 111 860
Death write-offs	R 246 912	R 184 122	R 125 046
Total Savings held by clients	R 6.4 million	R 4.4 million	R 3.2 million
Total staff at year end	250	177	157
Total operations staff at year end	211	146	131
Clients per loan officer	261	281	247
Operational self-sufficiency[2]	98%	102%	92%
Financial self-sufficiency[3]	97%	99%	92%

[1] At the close of the financial year the Rand/US$ exchange rate stood at R7.147 = US$1.00

[2] Operational self sufficiency = Financial Revenue (Total) /(Finance Expense + Loan Loss Provision + Operating Expense)

[3] Financial self sufficiency = Financial Revenue (Total) /(Finance Expense + Loan Loss Provision + Operating Expense + an adjustment which assumes all borrowings are at the prime lending rate)

Introduction

The Small Enterprise Foundation is a growing development organization.

Values

We believe in :

Respect for all

Having positive impact on the lives of our stakeholders

Striving for operational efficiency and self-sufficiency

Mission

To work aggressively towards the elimination of poverty by reaching the poor and *very poor* with a range of financial services to enable them to realise their potential.

Vision

A world free of poverty

THE NOBEL PRIZE

October 2006 was one of the proudest moments for organisations world-wide whose aim it is to enable the very poor to make use of microcredit to overcome poverty. In that month Professor Muhammad Yunus and the institution he founded, the Grameen Bank, were jointly awarded the Nobel Peace Prize. This, the highest of accolades that any person or organisation can attain, was given in recognition "for their efforts to create economic and social development from below".

The Small Enterprise Foundation (SEF) has always been very much inspired by Professor Yunus, has learnt a tremendous amount from him and his institution and much of what SEF does is adapted from Grameen Bank approaches. We most sincerely congratulate Professor Yunus and the Grameen Bank on their award.

This Nobel Prize recognition also makes our organisation all the more proud of our receiving the Grameen Foundation Pioneer Award in 2003.

BACKGROUND TO THE SMALL ENTERPRISE FOUNDATION

SEF was established with a mission to fight poverty in a sustainable manner. This is done by enabling the poor to increase their income through microcredit for self-employment and by assisting them in the accumulation of savings. SEF began operations in 1992 and since then the organisation has cumulatively disbursed 364 827 loans to the value of R 467 million.

SEF's recovery performance has been exceptional, with just 0.7% bad debts for this financial year[4]. By the end of the financial year SEF had attained an operational self-sufficiency of 98%, while financial self-sufficiency[5] stood at 97%.

SEF is located in two of South Africa's provinces, namely, Limpopo Province, the most northerly province and Mpumalanga Province to the east of Johannesburg. Limpopo Province is characterised by severe poverty with 60% of households living below the poverty line and 40% below half this level[6].

As the organisation's mission statement suggests, SEF works to reach the poor. In 1996, the organisation started a special programme to target the *very poor* – those in the poorest 30% of households in the province. Thus the organisation has two programmes, the first is known as MCP, the Micro Credit Programme, and the specially targeted programme is known as TCP, the Tšhomišano Credit Programme[7]. With 25 858 clients, TCP makes up 63% of active clients, with MCP serving 15 437 clients.

Both of SEF's operations, MCP and TCP, utilise a methodology that has been adapted from that of the Grameen Bank of Bangladesh.

TCP starts working in a community by first conducting Participatory Wealth Ranking (PWR). Thereafter, field staff visit the poorest households to motivate the women of those households to start or resume an income generating activity. The motivation provided by the field staff, combined with access to a small loan is often all the *very poor* need to start or resume some income generating activity.

While the majority of MCP's clients are certainly poor, in fact some 20% are *very poor*, a requirement of this programme is that the individual must have been operating a business for at least six months. In this case microcredit is used to change a business from severe fragility to being secure and able to attain growth which can dramatically improve household income.

Both MCP and TCP require a potential client to form a group with four others whom she knows very well and trusts. Each of the five must also be interested in obtaining a loan for their own individual business. The five group members are then required to guarantee each others' payments. No other collateral is required. SEF's loans are only for enterprise and a series of checks are in place to ensure that loans are not diverted for other purposes.

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[4] SEF writes off a loan when any part of any instalment is more than 84 days in arrears.
[5] See definitions of these terms at the foot of page 1.
[6] The "household subsistence level" is used as the poverty line. In 2001, this stood at R920 (US$121) per family of five per month.
[7] "Tshomišano" is the Northern Sotho word meaning "working together"

SAVINGS

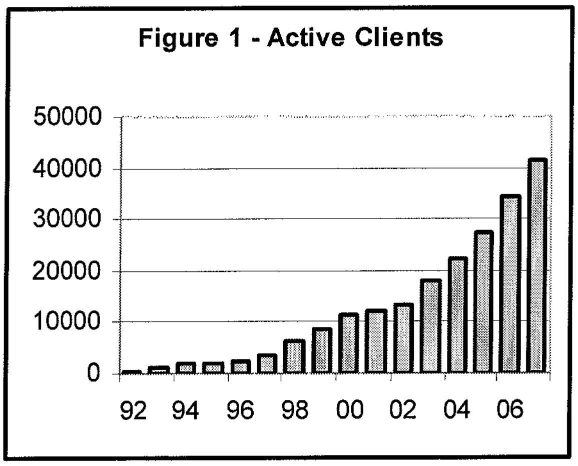
In terms of South African law SEF may not take deposits so, instead of providing a direct savings service, the organisation strongly encourages its clients to save with a formal banking institution. SEF facilitates this by providing training on how to open and operate a formal savings account and then motivating clients to save at each of their fortnightly meetings.

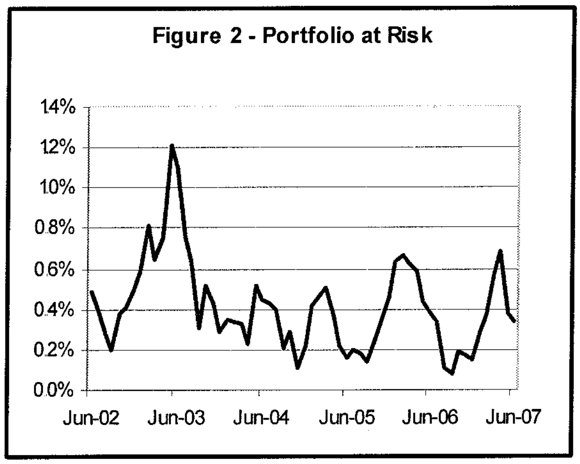
Due to its extensive outreach in rural areas, the majority of SEF's clients deposit their savings at the Post Bank while the remainder utilize Nedbank. As at the end of the financial year the cumulative sum of savings as held by clients in their Post Bank or People's Bank accounts amounted to R 6.4 million.

OPERATIONAL PERFORMANCE REVIEW

Growth

This year saw SEF continue its focus on expansion and it is particular pleasing to report the attainment of an important milestone of more than 40 000 active clients. By the end of the financial year the organisation was actively serving 41 295 clients. The graph below illustrates the growth since inception. On a compounded basis SEF has cumulatively grown by more than 25% per annum for each of the past five years. This is an achievement that we are certainly proud of.





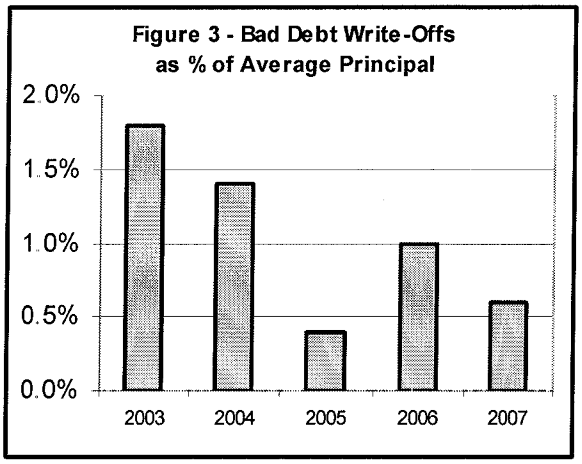
During the past financial year six new branches were opened. Two of these are expanding operations in the far north of Limpopo Province, two take operations to the west of the major centres of Polokwane and Mokopane, essentially covering much of western Limpopo, and two take operations into Mpumalanga Province. The latter two branches are situated north-east of Gauteng.

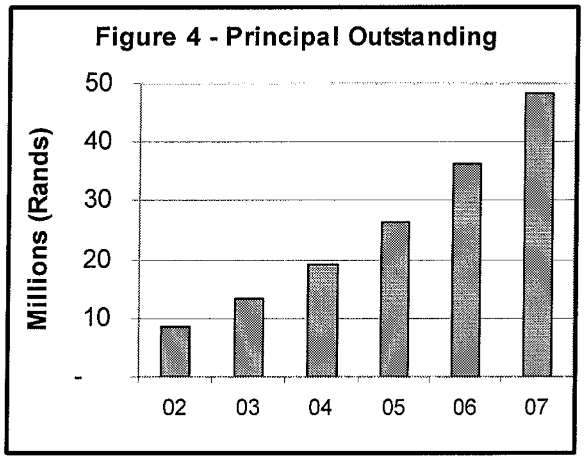
SEF's operations now cover all of Limpopo province while three branches are either all or partly in Mpumalanga Province. In total SEF has 23 branches.

Portfolio at Risk

I am also pleased to report that once again SEF maintained exceptional quality in terms of arrears and the portfolio at risk. The portfolio at risk over 30 days (Figure 2) shows that despite seasonal highs in the first quarter of each financial year SEF has maintained this measure at very acceptable levels.

SEF's excellent repayment performance is once again testimony to the strong loan repayment performance of the very poor as well as the ability of the poor to use microcredit wisely. There can be no doubt, the poor are certainly credit-worthy.





Bad debt Performance

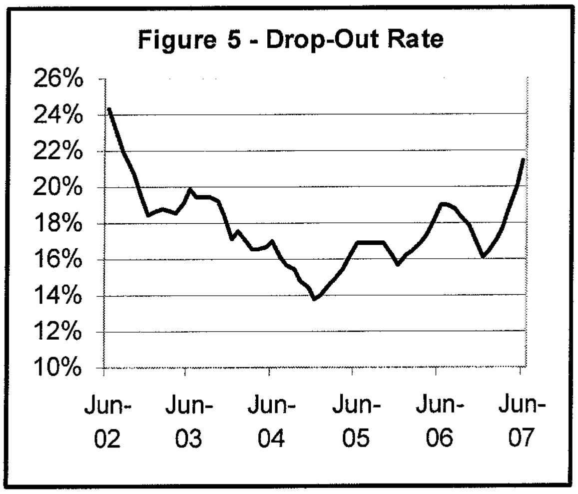
SEF has a very strict bad debt write-off policy with loans being declared as not recoverable as soon as any part of any instalment is more than 84 days in arrears. Despite this tough approach Figure 3 illustrates how well the organisation has done in terms of bad debt performance.

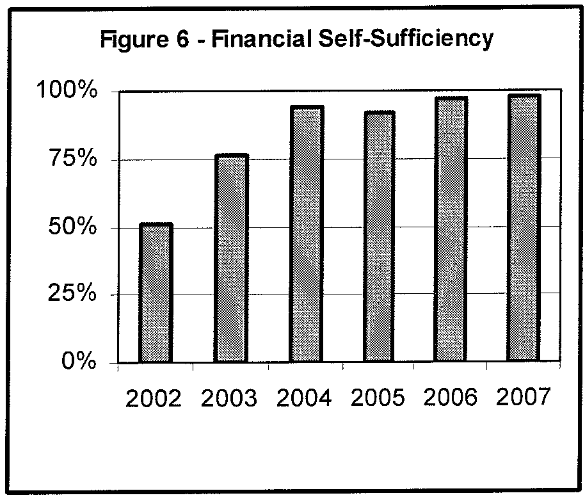
Principal Outstanding

Over this financial year principal outstanding grew by 32% to R49.9 million. The strong growth in principal may be seen in Figure 4.

Operational Challenge

Every year must come with its challenges and as will be see from Figure 5 below the organisation has seen a steady increase in its drop-out rate over the past three years. The drop-out rate refers to the number of clients who complete a loan cycle but do not return for a further loan. SEF regards 18% as its acceptable standard so action is being taken to address the current level of 21%.





FINANCIAL SELF-SUFFICIENCY

The organisation's financial performance in terms of operational self-sufficiency, the ratio of all operating income (loan plus investment income) to all operating expenses, including finance costs and loan loss provisions, stood at 98% for the year. As can be seen from Figure 6 above SEF has maintained its financial self-sufficiency above 90% since 2004. In fact, the organisation attained 100% financial self-sufficiency for the financial year 2004/05 to September 2004 but since then has continued a strategy of constant growth. Naturally growth implies additional investment, additional costs, before the income from the growth is seen. The organisation's chosen strategy is to balance growth and financial self-sufficiency.

Value Added Tax

In South Africa Valued Added Tax (VAT) is not charged on interest on loans but is charged on any fees, including financial transaction fees. In the past SEF only charged interest on its loans (no fees) and, therefore, did not have to charge VAT to its clients.

The main provisions of the new National Credit Act (NCA) came into force on 1 June 2007. This act limits the level of interest that may be charged but allows institutions to also charge initiation fees and monthly service fees. By using these provisions SEF is able to earn the same income on its loans as was previously the case but now has to split its income into interest plus these fees. As the fees attract VAT the organisation will now have to charge and pay over VAT. In effect this will mean an increase in costs to the very poor.

SEF has taken many steps to try to avoid this unfortunate situation. Prior to the promulgation of the NCA, SEF took the lead role in drawing up a submission on behalf of pro-poor microfinance organisations in South Africa for the public hearings on the NCA. The VAT implications of the Act for the poor were part of this submission.

Once the Act was published SEF again took the lead role in making a submission on behalf of the pro-poor microfinance organisations in South Africa on the draft regulations to the Act, again pointing out the unfortunate implications of the interest and fee regulations for the poor. These submissions were not successful.

The National Credit Regulator has been very supportive of the submissions by the pro-poor sector but has stated that this issue lies not with the NCA but with tax regulation. SEF will now attempt to work with the National Treasury to address this situation. This may be a long-term process.

The implication of the above is that SEF will now have to charge its clients 14% VAT on all initiation and service fees. Currently the organisation is investigating whether it will be able to absorb this cost so as to avoid having to pass it on to clients.

THE NATIONAL CREDIT ACT

As mentioned in the previous section all provisions of the National Credit Act (NCA) came into force on 1 June 2007. In our annual report for the 2006 financial year we noted that in general the Act was written in order not to hinder the provision of the kind of credit as provided by SEF. The past year has also seen the National Credit Regulator working closely with the pro-poor credit sector to ensure that no provision, except for the VAT issues noted above, has unintended negative consequences on developmental credit providers. The result has been that SEF has coped well with the changes required by the introduction of the Act.

HUMAN RESOURCES AND TRAINING

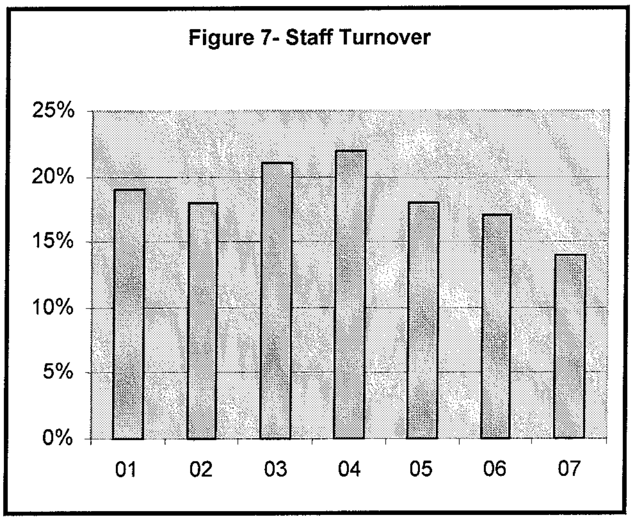
As at the end of June 2007 SEF employed a total of 250 staff, including 177 Development Facilitators[8] and 29 Branch Managers.

Finding appropriately skilled and experienced professional staff is a large problem in many sectors in South Africa. SEF must watch its cost structure very closely and therefore cannot afford to pay high salaries, the organisation finds real challenges in competing both with South Africa's fast growing private sector and with government which is also hungry for high competence employees. While this remains a constant challenge SEF is fortunate to have the services of highly committed young professionals.

Figure 7 below demonstrates that the organisation has faced high staff turnover over the past years. While corrective performance management has been responsible for roughly half of this turnover other factors have included government drives to recruit teachers (SEF had employed many unemployed teachers as Development Facilitators) and tough working conditions. The latter refers to staff working in isolated villages without many modern amenities and without the supportive environment of working daily with colleagues. During the past financial year the Human Resources Department focussed on this issue and achieved some success with staff turnover declining to 14%.

SEF trains all of its own staff, especially Development Facilitators and Branch Managers. The organisation also makes use of key external training interventions to build the capacity of all staff especially managers.

[8] "Development Facilitator" is the SEF term for a field officer.



RESEARCH AND DEVELOPMENT

Integration was the key theme in the Research and Development (R&D) Department this year. The R&D Department carefully aligned its objectives, active pilots and new priorities to SEF's stated long-term growth plans. This alignment shifted resources away from new financial product development toward resolving the organisational pressures of sustained expansion and further identifying client needs.

In order to enhance both management and methodology, the R&D Department defined its objectives as:

- Organizational development; especially management systems
- Client research; to ensure growth strengthens – not weakens – its mission & vision
- Integration of active pilots into operations

These objectives produced measurable results of demonstrable value, including:

- Budget and financial projection models
- An expenditure-based poverty level measurement tool; using the Progress out of Poverty Index (PPI), a statistically-validated method developed for the Grameen Foundation
- Social Rating by M-CRIL (forthcoming); when published, SEF will be one of the first MFIs worldwide to subject their social performance to rigorous external evaluation
- Formalisation of SEF's pre-paid repayment system; to improve loan officer efficiency and reduce the risk of crime at client meetings.

ADMINISTRATION DEPARTMENT

Administration had a successful year, productivity remained very high at above 4 000 clients per Loan Administrator. There were two particular challenges during the year. First was to decentralize the administration department and the second was the introduction of the National Credit Act (NCA).

Although we prepared the infrastructure to open an off site office, this was postponed, since our administrative systems had to be adapted for the introduction of NCA. Decentralisation is planned for the early part of the forthcoming financial year.

SEF now recognises a definite need for a new fully integrated MIS as current systems are not ideal to manage all the complexities of NCA as well as SEF's ongoing expansion. A new MIS is planned for 2008.

QUALITY ASSURANCE

By end of June 2007, the Quality Assurance department had completed a total of 30 routine audits and a total of 15 special assignments as requested by Senior Managers.

A rating system will be introduced into our operations. This system will seek to evaluate and compare the compliance levels of branch activities against internal policies and procedures, and in the long run help managers in dealing with quality issues.

SEF LIFE INSURANCE

In September 2006 SEF launched a micro-insurance product. This was aimed at providing clients with some income protection when faced with the death of a close family member.

While client market research had shown a strong demand by SEF's clients for such a life insurance product, the actual take-up was very poor. The product was introduced to about 10 000 SEF clients with only about 120 buying it.

The main reasons for the poor take-up were that cover only included children under 21 years of age, whereas clients needed to cover older dependents; and the cover did not provide the options of adding other adult dependents or parents of clients.

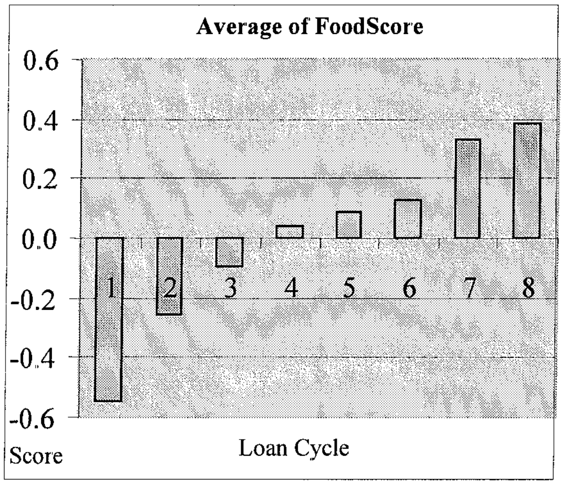
Research was conducted to determine which, if any, product should rather be offered to SEF's clients. However, the possible products and the administration thereof was judged to be more complex than what SEF was prepared to undertake given the major expansion plans of its core microcredit work. In February 2007 the decision was made to discontinue this product.

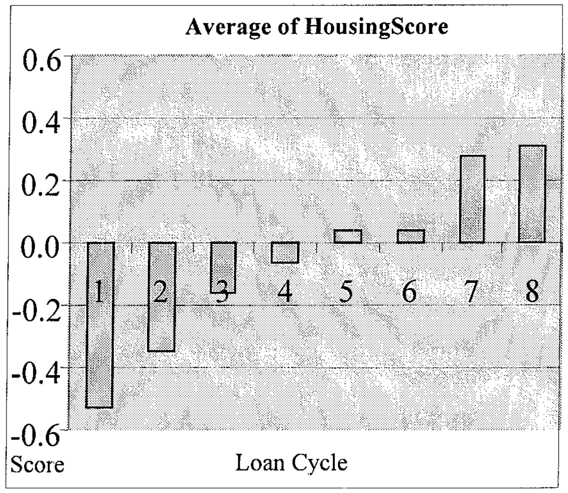
IMPACT

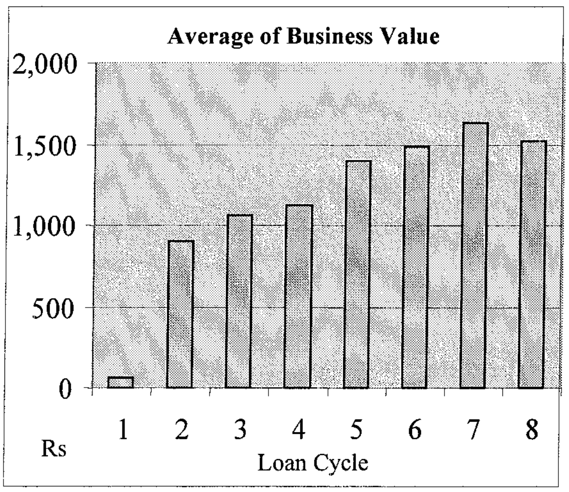
SEF does not just see microfinance as a simple process of people taking and repaying loans or using convenient, low cost savings instruments. For SEF microfinance is about whether people utilise such opportunities to improve the lives of their families. Thus SEF is not only concerned about its own operational efficiency and sustainability but whether its work has a positive impact on the lives of those with whom it works.

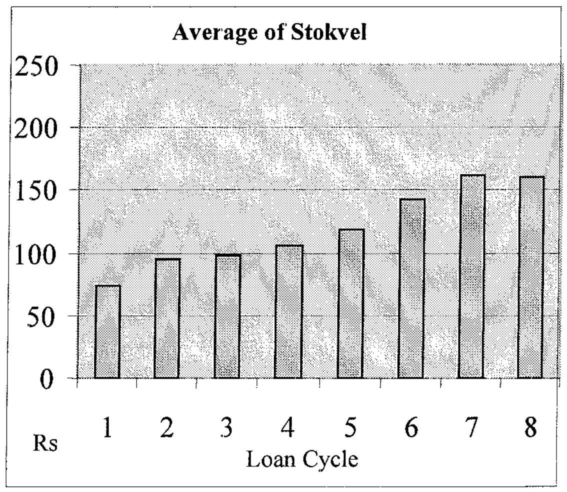
SEF uses an impact monitoring system to check, measure and understand the impact of the programme on an ongoing basis. Using a participatory methodology, each client is interviewed on a number of key impact indicators before each loan cycle. This understanding not only informs SEF whether it is attaining its goal of positive impact but also provides information on how to improve performance to ensure better impact, and consequently improve operational and financial performance.

The following graphs illustrate outputs from the impact monitoring system for the quarter ending 30 June 2007. The first two graphs were compiled from interviews with clients about their own perceptions of the quality and quantity of food consumption in their households and the quality of their housing. Their responses are allocated scores on a scale of -2 to +2 and the graphs display the aggregate responses at the start of successive loan cycles. The remaining graphs display the actual measured value of business assets and client savings, again measured prior to successive loan cycles.









HIV/AIDS AND MICROFINANCE PILOT PROJECT

IMAGE Study

The partnership between SEF and RADAR known as the Intervention with Microfinance for AIDS and Gender Equity or IMAGE, took important steps forward during the past year. IMAGE combines SEF's microfinance work with a gender and HIV/AIDS curriculum. The aim of the initiative is to address 'structural factors' which fuel the HIV epidemic - particularly poverty and gender inequalities - with the aim of reducing vulnerability to the dual epidemics. This is the first study of its type and the evaluation of the work demonstrated substantial improvements in poverty, the status of women, and **a 55% reduction in levels of gender-based violence** – all of which play a major role in reducing vulnerability to HIV infection.

The study received major international recognition with the publication of the work in the world's most prominent medical journal, The Lancet[9]. This publication was followed by a number of press-releases and media events, including features in all major South African newspapers, as well as radio and television interviews and international media coverage in the Associated Presse, Agence France, Voice of America, National Public Radio (US) and a major article in the New York Review of Books. Furthermore the study was included in speeches by Chancellor Hilary Benn, Secretary of State for International Development, DFID, and Stephen Lewis, UN Special Ambassador on HIV/AIDS, in his World AIDS Day address.

Work is also in progress on a 'Process Evaluation' and an 'Economic Evaluation'. The former will assess the potential for replicability and transfer of this model to other contexts while the later explores the costs, cost-effectiveness and cost-benefits of the IMAGE work.

In addition, the project has received support from AngloPlatinum for significant scale-up in Limpopo Province – in an area where a major expansion of platinum mining is taking place. Between 2005 and 2007, the combined microfinance and training intervention has reached over 3000 households in 75 villages.

Negotiations are currently underway to again substantially expand this work – targeting 15 000 of SEF's poorest clients in high risk areas over the coming 3 years. Given the ambitious scope of these plans the decision has also been taken to shift the administration and management of the project to an independent organization within the Wits Health Consortium. Under this arrangement the intention is for SEF and RADAR to continue to serve in an executive advisory capacity.

FUNDING

I wish to use this opportunity to recognise our donors and to sincerely thank them on behalf of the organisation and our clients who have used this opportunity to transform the lives of their families. The organisation wishes to humbly note that its work and significant achievements would not have been possible if it were not for the support of these donors. These funders share SEF's belief that microfinance can assist the poorest to improve their livelihood, and contribute, through their financial support, to the alleviation of poverty through microfinance.

[9] The findings were featured in the World AIDS Day issue of the Lancet on 2 December 2006. This coincided with the 21 Days of Activism for No Violence Against Women.

Our appreciation is also due to private individuals, Dr Margaretha Vintges and Dr Gert Marincowitz, for their generous personal loans to SEF. These funds are being used as loans to *very poor women.* The support of these private individuals, who would otherwise have been able to earn more by simply depositing their funds into a conventional bank, not only provides very low cost funding for SEF but their act of faith and belief in us inspires us.

SEF funds its loan book through loan facilities from the following organisations. While these loans are mainly provided on a commercial basis it must be recognised that, like SEF, all of these organisations also strive to attain a double bottom-line of social and investment return.

- Khula Enterprise Finance Limited
- Oikocredit
- TEBA Bank, through a guarantee provided by Thembani International Guarantee Fund
- Tembeka Social Investment Ltd
- The Hivos-Triodos Fund
- Umsobomvu Youth Fund

During the past financial year the following donors provided operational grants:

- Ford Foundation
- Hivos
- HSDU

While the following provided capital grants:

- SIDA
- Thusano Trust

The organisation wishes to thank these agencies for their excellent ongoing service and support. Without them the lives of 42 000 formerly very poor South Africans would not have been as hopeful as they are today.

EXPANSION PLANS

The financial year saw SEF once again assess its strategic plans. Based on many factors including the fact that the organisation has grown by a cumulative 25% per annum for the past five years, the maintenance of excellent portfolio quality, strong social and financial performance and the ability to attract financial support, the decision was made to focus the organisation to roll-out the current methodology and products at a growth rate of at least 20% per annum until SEF is serving 350 000 active clients. This figure is based on a conservative estimate of the penetration that SEF currently experiences in the rural and peri-urban areas of its current operations. This expansion will take SEF into every rural and peri-urban corner of South Africa. The organisation is now fully focussed on this goal.

The following table illustrates the expected growth for the next five years:

KEY STATISTICS	June 2008	June 2009	June 2010	June 2011	June 2012
# Active Clients	50,022	56,600	68,300	83,300	101,000
Principal Outstanding	R 55 million	R 72 million	R 92 million	R117 million	R149 million
Financial Self Sufficiency	94%	94%	99%	102%	106%

DIRECTORS

I would like to thank all board members, Matome Malatji (Chair), Sanjay Doshi, Marie Kirsten, Mutle Mogase and Sizeka Rensburg for their continued guidance and support during the past year. This year saw two new additions to the board. They are Modise Motloba and Olivia van Rooyen. I express my appreciation to you for accepting the invitation to join the board of SEF.

SEF's board conduct their work with the organisation on an entirely voluntary basis and yet are totally committed to ensuring that the organisation remains true to its mission and to achieving success in terms of that mission. I truly appreciate the time that they take from their own lives and from their families to assist us in our struggle to end poverty.

THE CONTRIBUTION OF SEF's STAFF

In December of each year the organisation recognises the outstanding performances of staff . This year's best performers were:

Best Branch Manager:	Ernest Nkhwasu	
Best Branch Manager- 1st runner up:	Douglas Baloyi	
Best Development Facilitators:	Goodleth Malungani Germinah Ledwaba Joseph Nkuna Thandi Baloyi	Mihloti Marivate Edward Khosa Phyllis Mudogwa Grace Mudogwa
Best Development Facilitators- 1st runner ups	Nditseni Tshanwakani Steven Mudau Edna Tshikova Euphilia Mbhalati Rachel Maimela	 Hlamanani Nkayani Khomotso Kekana Alfrida Ramoroka Madala Bvuma
Best Support Staff	Catherine Mashele Oriel Mukwevho	
Best Support Staff- 1st runner up	Rachel Khosa	

On behalf of the Board of Directors and the organisation as a whole, I would like to congratulate all of these staff members for their excellent achievements and contributions to our work.

I wish to underline my gratitude to all of SEF's staff for their hard work, their determination to see the organisation succeed and their continued efforts to ensure that the organisation achieves its mission.

John de Wit
Managing Director
18 October 2007

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DIRECTORS' RESPONSIBILITY STATEMENT AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors of the company are responsible for the maintenance of adequate accounting records and the preparation and integrity of the annual financial statements and related information. The annual financial statements have been compiled in terms of South African Statements of Generally Accepted Accounting Practice.

The directors are also responsible for the systems of internal control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The financial statements are prepared on a going concern basis. Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for the foreseeable future.

The annual financial statements, set out on pages 5 to 28, were approved by the board of directors on 18 October 2007 and are signed on its behalf by:

Director

Director

Deloitte

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)

We have audited the annual financial statements of The Small Enterprise Foundation (An association incorporated under section 21 of the Companies Act), which comprise the directors' report, the balance sheet as at 30 June 2007, the income statement, the statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 5 to 28.

Directors' Responsibility for the Financial Statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall financial statement presentation.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (AN ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT) (continued)

Qualification

The nature of the Post Bank accounts, used to collect loan repayments and the Post Banks's inability to provide meaningful written confirmation of the year end balances, renders it impractical for us to rely on the statements provided for the Post Bank accounts. This amounts to an unconfirmed amount held with the Post Bank of R704 429 (2006:R1 135 603) which forms part of cash and short term funds on the balance sheet.

Opinion

Except for the effects of any adjustments which may have been necessary had it been possible for us to obtain written confirmation for the Post Bank accounts, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 2007, and the results of its operations and cash flow information for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

Deloitte & Touche

Deloitte & Touche

Per Rajendran Naidu
Partner
4 December 2007

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
REPORT OF THE DIRECTORS
30 June 2007

The directors have pleasure in presenting their report on the company for the year ended 30 June 2007.

Business review

The principal business of the organisation is to motivate the poor to take up income generating activities and to extend credit to micro entrepreneurs to enable them to realise their potential and thereby generate income and employment. The company is registered with the National Credit Regulator.

The Small Enterprise Foundation has, since inception, granted 364 827 (2006: 284 626) loans to the value of R467 million (2006: R330 million).

The Small Enterprise Foundation is incorporated in the Republic of South Africa as a non–profit company with the aim of providing micro finance to the poor and very poor. No holding company or parent company has any interest in the organisation and all its operations are conducted in the Limpopo and Mpumulanga provinces of South Africa. The head office is situated in Tzaneen in the Limpopo province.

Operating results

Results for the year ended 30 June 2007 are set out on pages 7 to 28 of the financial statements. The directors are pleased to report a 32% increase in loans and advances as well as a 27% increase in loan interest income. At the same time expenses, excluding finance costs and impairment of advances, increased by 36% due to five new branches being established.

Loan loss reserves

In cases where borrowers experience death amongst their members, the company will decrease the company's repayment and write-off the amount owed by the member. Such write-offs are classified as provisions for claims not yet incurred. During the year under review an amount of R246 912 (2006: R184 122) was expensed through the income statement.

A debt is declared irrecoverable once it is 84 days in arrears. An amount of R371 707 (2006: R364 326) was written off during the year under review.

We believe that this excellent performance will be maintained due to the nature of the lending procedures employed, the diligence of the field staff and the commitment of clients.

The only instance where the organisation allows the renegotiation of delinquent loans is where clients are able to provide medical evidence of long-term illness. Such amounts are not written off, and the respective clients are urged to continue with loan repayments when their condition improves. The accumulative amount renegotiated in this way since inception and still outstanding at year-end was R339 411 (2006: R196 484)

A loan loss reserve is created for all loans in arrears more than 1 day up to 84 days. The reserve is calculated based on historical information of outstanding loans for the previous 12 months and is calculated for the following categories:

Loan loss reserves (continued)

1 - 30 days in arrears	– 18% of the outstanding group loan amount is provided for
31 - 60 days in arrears	– 39% of the outstanding group loan amount is provided for
61 - 84 days in arrears	– 52% of the outstanding group loan amount is provided for
85 days and older	– The group loan is written off as a bad debt

Directors and secretary

The directors of the company for the year under review, and at the date of this report were as follows:

Ms Marie Albertina Kirsten (Non-executive)
Mr Mutle Constantine Mogase (Non-executive)
Mr John Robert de Wit (Managing Director)
Mr Matome Patrick Malatji (Chairperson)
Mr Sanjay Doshi (Non-executive)
Ms Sizeka Monica Rensburg (Non-executive)
Ms Olivia Henwood (Non-executive)
Mr Modise Motloba (Non- executive)

Secretary and Public Officer - Nexia Levitt Kirson and John Robert de Wit

Auditors - Deloitte & Touche

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Post balance sheet events

No events have occurred between the financial year-end and the date of this report that are expected to have a material adverse effect on either the operations of the company or its financial position.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
BALANCE SHEET
at 30 June 2007

	Notes	2007 R	2006 R
ASSETS			
Non-current assets			
Property and equipment	2	1 976 981	1 852 525
Current assets			
Loans and advances	3	49 918 401	37 935 140
Other receivables	4	740 946	586 270
Cash and short term funds		4 799 466	6 883 149
Total current assets		55 458 813	45 404 559
TOTAL ASSETS		57 435 794	47 257 084
FUNDS AND LIABILITIES			
Funds			
General capital reserve	5	6 246 429	1 575 548
Development reserve	6	7 085 882	7 050 706
Educational reserve	7	20 188	20 188
Operational grant reserve	8	-	-
Retained earnings		10 603 083	9 807 684
Total funds		23 955 582	18 454 126
Non-current liabilities			
Long term loans	9	20 347 544	18 672 993
Current liabilities			
Short term loans	10	10 197 325	8 024 282
Trade and other payables		930 105	447 015
Accruals	11	2 005 238	1 658 668
Total current liabilities		13 132 668	10 129 965
TOTAL FUNDS AND LIABILITIES		57 435 794	47 257 084

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
INCOME STATEMENT
for the year ended 30 June 2007

	Notes	2007 R	2006 R
Revenue	12	28 842 764	20 756 963
Finance costs	13	(3 102 256)	(1 840 853)
Impairments of advances	14	(512 945)	(488 965)
Provision for impairment of advances	3	(316 075)	(181 807)
Margin on lending activities		24 911 488	18 245 336
Operating expenses		(15 793 632)	(10 796 541)
Operating income		9 117 856	7 448 795
Sundry income		53 620	100 544
Loss on disposal of property and equipment		(5 132)	(26 023)
Income before head office expenses		9 166 344	7 523 316
Head office expenses	21	(10 078 275)	(8 230 614)
Loss before grants	15	(911 931)	(707 298)
Operational grants utilised to cover expenses	16	1 707 330	3 185 464
Net income for the year		795 399	2 478 166

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
STATEMENT OF CHANGES IN EQUITY
for the year ended 30 June 2007

	General capital reserve R	Development reserve R	Educational reserve R	Retained earnings R	Total R
Balance as at 1 July 2005	587 953	6 765 589	20 188	7 075 130	14 448 860
Adjustment to opening retained earnings	-	-	-	254 388*	254 388
Grants received	876 466	396 246	-	-	1 272 712
Transfer in / (out)	111 129	(111 129)			
Net income for the year	-	-	-	2 478 166	2 478 166
Balance as at 1 July 2006	1 575 548	7 050 706	20 188	9 807 684	18 454 126
Grants received	4 670 881	35 176			4 706 057
Net income for the year				795 399	795 399
Balance as at 30 June 2007	**6 246 429**	**7 085 882**	**20 188**	**10 603 083**	**23 955 582**

* The adjustment to opening retained earnings relates to the reversal of Post Bank charges recognised in the prior year and refunded in the current year.

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
CASH FLOW STATEMENT
for the year ended 30 June 2007

	Notes	2007 R	2006 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash utilised by operations	A	(35 508 604)	(9 058 642)
Other interest received		26 742 545	203 480
Interest paid		(3 102 256)	(1 840 853)
Net cash used in operating activities		(11 868 315)	(10 696 015)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment		(481 700)	(948 535)
Proceeds on disposal of property and equipment		5 351	18 400
Net cash used in investing activities		(476 349)	(930 135)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in long term loans		1 674 551	9 445 642
Increase in short terms loans		2 173 043	1 144 549
General grants received		4 670 881	987 595
Developments grants received		35 176	285 117
Operational grants used to cover costs		1 707 330	3 185 464
Net cash generated by financing activities		10 260 981	15 048 367
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2 083 683)	3 422 217
Cash and cash equivalents at beginning of the financial year		6 883 149	3 460 932
CASH AND CASH EQUIVALENTS AT END OF FINANCIAL YEAR	B	4 799 466	6 883 149

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE CASH FLOW STATEMENT
for the year ended 30 June 2007

	2007 R	2006 R
A. CASH UTILISED BY OPERATIONS		
Loss before grants	(911 931)	(707 298)
Adjusted for:		
- Other interest received	(26 742 545)	(203 480)
- Finance costs	3 102 256	1 840 853
- Depreciation	346 761	359 714
- Loss on disposal of property and equipment	5 132	26 023
- Provision for impairment on loans and advances	316 084	181 807
Operating loss / (profit) before working capital changes	(23 884 243)	1 497 619
- Adjusted for changes in working capital:		
- (Increase) in other receivables	(154 676)	(322 153)
- Increase/ (decrease) in trade and other payables	483 090	(41 591)
- Increase in other accruals	346 570	223 818
- Increase in loans and advances	(12 299 345)	(10 416 335)
Cash utilised by operations	(35 508 604)	(9 058 642)

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and cash

	2007 R	2006 R
Balances with banks	4 799 465	6 883 149

1. Accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The annual financial statements are prepared on the accrual basis, except for certain financial instruments which are fair valued. The following principal accounting policies have been incorporated, and are consistent with prior years in all material respects:

1.1 Interest earned on advances

Interest earned on advances is recognised using the effective interest rate method over the term of the loans. No interest rate risk exists as interest is not linked to market changes but stay constant even when Repo rate changes are made.

1.2 Other interest received

Other interest received is accrued on a daily basis using the effective interest rate method.

1.3 Initiation and service fees

Initiation fees are recognised as income on the date that loans and advances are disbursed.
Service fees are recognised as income on a monthly basis as they are received.

1.4 Grants received

Operational grants received

These are grants which are specifically designated to be utilised for operational expenses, where the expenses to which they relate have actually been incurred and charged to income in the same period, and where all the contractual conditions for payment of the grant amount have been met.

Grants for loan capital

Grants designated for loan capital are taken directly to the general capital reserve and the development reserve.

1.5 Property and equipment

Property and equipment are stated at historical cost and are depreciated using the straight-line method over the estimated useful lives of the assets. The following rates of depreciation have been used:

Furniture and fittings	5 years
Office equipment	5 years
Computer equipment	3 years
Motor vehicles	4 years
Buildings	40 years

Land is not depreciated.

The carrying amounts of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value.

1. Accounting policies (continued)

1.6 Financial assets and financial liabilities

Financial assets and financial liabilities are recognised on balance sheet when the company becomes a party to the contractual provisions of the instrument.

All financial instruments are initially measured at cost, which is the fair value of the consideration given or received in exchange for these instruments, less any impairment.

At 30 June 2007, the company's principal financial assets included cash and short term funds, advances and accrued interest, and trade and other receivables. Advances and accrued interest are measured at amortised cost. Cash, short term funds and trade and other receivables are stated at their nominal values which approximate fair values. All financial assets are reduced by appropriate allowances for estimated irrecoverable amounts where applicable.

At 30 June 2007, the company's principal financial liabilities included trade and other payables, short and long term loans. Short and long term loans are measured at amortised cost. Trade and other payables are stated at their nominal value which approximates fair value.

1.7 Retirement benefits

Contributions to retirement benefit funds are charged to the income statement when they are incurred.

1.8 Provisions

Provisions for staff related expenses such as outstanding leave days not taken at year end and 13th cheques are made at total cost to the organisation as at 30 June 2007.

A provision for incentive bonus based on the performance of the organisation as well as on individual basis was created as at 30 June 2007.

Provision for audit fees and workmen's compensation are based on estimates as at 30 June 2007.

2. Property and equipment

	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
2007						
Cost						
At beginning of year	1 072 320	382 556	622 535	693 463	65 543	2 836 417
Additions	-	148 464	196 433	130 135	6 668	481 700
Disposals and scrapings	-	(400)	-	(14 403)	(58 600)	(73 403)
At end of year	1 072 320	530 620	818 968	809 195	13 611	3 244 714
Accumulated depreciation						
At beginning of year	41 856	226 065	227 574	438 789	49 608	983 892
Depreciation	23 558	53 379	114 333	151 109	4 382	346 761
Disposals and scrapings	-	(400)		(13 812)	(48 708)	(62 920)
At end of year	65 414	279 044	341 907	576 086	5 282	1 267 733
Carrying value	1 006 906	251 576	477 061	233 109	8 329	1 976 981

2. Property and equipment

	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
2006						
Cost						
At beginning of year	794 527	282 264	279 201	466 347	270 881	2 093 220
Additions	277 793	100 292	343 334	227 116	-	948 535
Disposals and scrapings	-	-	-	-	(205 338)	(205 338)
At end of year	1 072 320	382 556	622 535	693 463	65 543	2 836 417
Accumulated depreciation						
At beginning of year	19 354	179 249	133 049	295 494	157 946	785 092
Depreciation	22 502	46 816	94 525	143 295	52 576	359 714
Disposals and scrapings	-	-	-	-	(160 914)	(160 914)
At end of year	41 856	226 065	227 574	438 789	49 608	983 892
Carrying value	1 030 464	156 491	394 961	254 674	15 935	1 852 525

	2007 R	2006 R
3. Loans and advances		
Gross advances	49 108 054	36 812 055
Accrued interest on advances	1 583 176	1 579 838
Provision for bad debts	(435 461)	(280 647)
IBNR provision	(337 368)	(176 106)
	49 918 401	37 935 140
Movement in impairment provision:		
Balance at beginning of year	456 754	274 947
Current year movement in provision	316 075	181 807
Balance at end of year	772 829	456 754

Advances that have been funded out of loans received from the following institutions; Hivos Triodos Bank, Khula Enterprise Finance, Umsombumvu Youth Fund, Tembeka Social Investment Co, Teba Bank and Oikocredit, have been ceded to them as security. See note 9.

The entity is operational in Tzaneen, and the surrounding areas in the Limpopo Province and Mpumulanga Province, South Africa. Individual loans do not exceed R10 000.

Nominal annual interest rates, based on a declining balance, range from 70,1% p.a to 82,1% p.a. From 1 June 2007 a change was necessitated by the implementation of the National Credit Act when interest charged changed to a rate of 27.6% and an initiation and service fee were introduced. Rates do not fluctuate with changes to Repo rate changes and no provision is calculated for rate changes.

Amounts written off during the year were expensed directly to the income statement.

	2007 R	2006 R

3. Loans and advances (continued)

A total amount of R435 461 (2006: R280 647) of advances was in arrears at the financial year end. An analysis of the arrears for the current year is presented below.

	2007 R	2006 R
Rescheduled loans	339 411	109 087
1 – 30 days	23 777	61 118
31 – 60 days	40 671	68 196
61 – 85 days	31 602	24 271
Greater than 85 days	-	17 975
	435 461	280 647

4. Other receivables

Included in accounts receivable is an amount for staff debtors of R56 428 (2006: R164 709). This constitutes small loans generally available to all first time vehicle users, salary advances given to staff, as well as study loans. These loans carry a market related interest rate. There were no arrears in respect of staff loans (2006: R nil) at the financial year end. Loans are normally repaid over a period of two years.

	2007 R	2006 R
Other receivables and staff debtors	740 946	586 270

5. General capital reserve

The general capital reserve consists of grants received from donors other than USAID (see note 6). Such grants are, for most part, non-recurring grants from a variety of organisations wanting to express their interest in, and support of, the work performed by The Small Enterprise Foundation. During the year grants were received from the Swedish International Development Agency (SIDA) and the Thusano Trust Family Foundation. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to clients.

	2007 R	2006 R
Balance at beginning of year	1 575 548	587 953
Movement in general capital reserve	4 670 881	876 466
Transfer from development reserve	-	111 129
Balance at end of year	6 246 429	1 575 548

	2007 R	2006 R

6. Development reserve

The development reserve comprises mainly of grants received from USAID in terms of a five year agreement that expired in September 1995. Such funds were designated by USAID as financial structure support. All grants have been designated by the donors concerned as loan capital to be utilised for future disbursements of loans to members. The Ford Foundation grant was designated to be used for new product development.

	2007 R	2006 R
Balance at beginning of year	7 050 706	6 765 589
Movement in development reserve (Ford Foundation)	35 176	396 246
Transfer to general capital reserve	-	(111 129)
Balance at end of year	7 085 882	7 050 706

7. Educational reserve

The educational reserve consists of small individual grants. The donors have requested the funds be used to disburse educational loans to existing members of the organisation under an educational loan programme introduced in 1998. As from July 2007 these loans were discontinued.

	2007 R	2006 R
Balance at end of year	20 188	20 188

8. Operational grant reserve

These grants are intended for institutional strengthening to enable The Small Enterprise Foundation to obtain financial self-sufficiency.

	2007 R	2006 R
Grants at the beginning of year	-	-
Utilised to cover costs	(1 707 330)	(3 016 688)
- Hivos Triodos Bank	924 350	771 613
- Umsombumvu Youth Fund	-	2 000 000
- Ford Foundation	666 939	-
- HSDU	151 217	245 075
Grants transferred to development reserve	(35 176)	-
Balance at end of year	-	-

	2007 R	2006 R

9. Long term loans

Hivos Triodos Bank

Hivos Triodos Bank of the Netherlands has approved several loan facilities totalling R11 million.

A facility of R4 million is redeemable in South African Rand, in two installments, R2 million was paid on 1 January 2007 and R 2 million to be paid on 1 January 2008. No grace is specified in the contract. Interest is paid at the prime rate, with a minimum of 12% and a maximum of 18% per annum, and is payable six monthly in arrears. Loan capital of R2 million is outstanding at year end.

Another facility of R7 million is redeemable in South African Rand in one instalment on 1 July 2009. No grace period is specified in the contract. Interest is paid at the prime rate with a minimum of 12% and a maximum of 18% per annum, and is payable six monthly in arrears. Loan capital of R7 million is outstanding at year end

The agreement for another facility of R4 million was signed in the current year and the first R2 million was received in June 2007. The loan is redeemable in South African Rand in one installment of R2 million on 1 July 2010 and a final installment of R2 million on 1 July 2011. Interest payable on this loan facility is paid at prime with a minimum of 12% and a maximum of 18% per annum and is payable 6 monthly in arrears. Loan capital of R2 million is outstanding at year end.

The purpose of the Hivos Triodos loans is to increase the working capital for the purposes of on lending to micro entrepreneurs. The loans are secured by a first cession of the advances book to micro entrepreneurs financed by this loan facility.

	2007 R	2006 R
Balance at beginning of year	6 000 000	3 998 380
Movement	5 011 397	4 001 620
Short term portion transferred to current liabilities	(2 011 397)	(2 000 000)
Balance at end of the year	9 000 000	6 000 000

	2007 R	2006 R

9. Long term loans (continued)

Khula Enterprise Finance Limited

In 2003, the company entered into a business loan agreement with Khula Enterprise Finance Limited. The maximum loan facility under this agreement is R10 million. Interest on loan drawdowns is calculated at prime minus 3% and drawdowns are repayable over 36 months from the date of the specific drawdown. Loan capital of R116 932 is still outstanding at year end, due with a final repayment date of May 2008.

In the 2004 year, the company entered into two additional business loan agreements with Khula Enterprise Finance Limited. The maximum loan facilities under these agreements are R2.1 million and R9.6 million. Interest on loan drawdowns is calculated at prime minus 3%.

Drawdowns in respect of the R2.1 million facility are repayable over 60 months from the date of the specific drawdown. Loan capital of R1 276 244 is still outstanding at year end.

The repayment period in respect of the R9.6 million facility is set at a maximum of 60 months from initial drawdown. Loan capital of R7 808 790 is still outstanding at year end.

These loans are secured by a cession of the Khula end user loans.

	2007 R	2006 R
Balance at beginning of year	7 205 999	3 333 337
Movement	1 996 033	5 927 397
Short term portion transferred to current liabilities	(3 141 922)	(2 054 735)
Balance at end of year	6 060 110	7 205 999

	2007 R	2006 R

9. Long term loans (continued)

Tembeka Social Investment Company Limited

In November 2003, the company entered into a loan agreement with Tembeka Social Investment Company Limited. The current loan facility under this agreement is R1 000 000. Interest is calculated at 13% and is payable quarterly in arrears.

An additional loan of R2 million was entered into in April 2007. The first drawdown of R1 000 000 was received and the second drawdown for R1 million will be taken after 30 June 2007. The loan is repayable in 8 instalments of R250 000 starting in month 18 and thereinafter every 6 months with a final payment in April 2010. Interest is payable at a flat rate of 13% per annum and is payable quarterly in arrears.

	2007 R	2006 R
Balance at beginning of year	1 000 000	505 000
Movement	784 723	1 010 833
Short term portion transferred to current liabilities	(284 726)	(515 833)
Balance at end of year	1 499 997	1 000 000

9. Long term loans (continued)

Teba Bank and Tembani International Guarantee Fund

In February 2004, the company entered into a loan agreement with Tembani International Guarantee Fund and Teba Bank. The maximum loan facility under this agreement is R3 000 000. Interest is calculated at prime less 1% and is payable monthly. The loan is repayable on a monthly basis. Maturity date is 25 February 2009. An addendum was signed in February 2006 to increase the facility with R2 million to R5 million. The facility operates on a revolving fund basis and we draw and repay funds as and when applicable.

This loan is secured by a cession of a fixed deposit of R500 000 held at Standard Bank and a letter of credit for R3.5 million by City Bank New York on behalf of Tembani International Guarantee Fund.

The loan is further secured by a cession of end user loans.

	2007 R	2006 R
Balance at beginning of year	1 927 018	1 395 6343
Movement	(1 546 660)	1 517 150
Short term portion transferred to current liabilities	(380 358)	(985 766)
Balance at end of year	-	1 927 018

	2007 R	2006 R

9. Long term loans (continued)

Umsombumvu Youth Fund

In December 2005 the company entered into a loan agreement with Umsombumbu Youth Fund. The maximum loan facility under this agreement is R5.4 million. The interest is calculated at prime less 4% and is payable in 10 equal quarterly payments starting 90 days after the last drawdown. Final payment of the loan facility will be in December 2008.

	2007 R	2006 R
Balance at beginning of year	2 539 977	-
Movement	873 736	4 898 060
Short term portion transferred to current liabilities	(2 442 333)	(2 358 084)
	971 380	2 539 977

Oiko credit

In March 2007 the company entered into a loan agreement with Oikocredit. The maximum loan facility under this loan is R10.1 million. The interest is calculated at repo rate +3.75 with a minimum interest rate of 10.75% and is payable in 3 monthly instalments. The loan capital is payable in 16 equal half yearly payments starting 6 months after the initial drawdown and a final payment in March 2015. R4.1 million was drawn up to the end of June 2007. The loan is repayable in South African rands.

	2007 R	2006 R
Balance at beginning of year	-	-
Movement	4 123 758	-
Short term portion transferred to current liabilities	(1 307 701)	-
	2 816 057	-
Total long term loans	20 347 544	18 672 993

	2007 R	2006 R

10. Short term loans

In the previous year the company entered into a loan agreement with Margaretha Vintges. The loan amount advanced was R100 000. Interest is calculated at prime less 4%. The full amount outstanding is repayable on short-term notice by the lender.

	2007 R	2006 R
Loan from Margaretha Vintages	119 296	109 863

In the current year the company entered into a loan agreement with GJ O Marincowitz. The loan amount advanced was R500 000. Interest is calculated at 5%. The full amount outstanding is repayable on short-term notice by the lender.

	2007 R	2006 R
Loan from GJ O Marincowitz	509 592	-
Current portion of Hivos Triodos Bank loan	2 011 397	2 000 000
Current portion of Khula Enterprise Finance Limited Business loan	3 141 922	2 054 735
Current portion of Tembeka Social Investment Company loan	284 726	515 833
Current portion of Oiko Credit	1 307 701	-
Current portion of Teba Bank loan	380 358	985 766
Current portion of Umsombumvu Youth Fund Loan	2 442 333	2 358 084
	10 197 325	8 024 282

11. Accruals

	2007 R	2006 R
Accrual for accumulated leave	621 514	384 885
Accrual for annual bonus	540 765	385 088
Accrual for incentive bonus	300 000	396 337
Accrual for audit fee	425 000	229 073
Accrual other	117 959	263 285
	2 005 238	1 658 668

12. Revenue

	2007 R	2006 R
Interest received on advances	26 156 610	20 553 483
Interest received on cash balances	585 935	203 480
Initiation fees	2 100 160	-
Service fees	59	-
	28 842 764	20 756 963

THE SMALL ENTERPRISE FOUNDATION
(An association incorporated under Section 21 of the Companies Act)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 30 June 2007

	2007 R	2006 R
13. Finance costs		
Finance costs in respect of loans	3 039 837	1 746 182
Administration cost on borrowings	62 419	94 671
	3 102 256	1 840 853
14. Impairment of advances		
Bad debts written off	371 707	364 326
Bad debts recovered	(105 674)	(59 481)
Death write-offs	246 912	184 120
	512 945	488 965
15. Loss before grants		
The loss before grants is arrived at after taking the following into account.		
Staff costs	17 809 039	12 283 100
Auditor's remuneration		
- Statutory audit – current year	370 000	197 573
- Statutory audit – prior year under provision	30 926	18 114
- Audit expenses	55 000	31 500
	455 926	494 378
Depreciation	346 761	359 714
Operating leases		
- Rentals motor vehicles	663 475	337 951
- Buildings	231 601	175 672
	895 076	513 623

	2007 R	2006 R
15. Loss before grants (continued)		
Death write offs	246 912	184 122
Legal fees	93 329	19 979
Directors' emoluments		
- For managerial duties (paid by the company)	741 512	907 328
- Expenses relating to managerial duties	39 090	37 113
	780 602	944 441

16. Operational grants utilised

	2007 R	2006 R
H.S.D.U	151 217	245 075
Ford Foundation for Insurance	666 939	565 022
Khula Enterprise Finance Limited	-	-
Hivos Triodos	924 350	771 613
Umsombumvu Youth fund	-	2 000 000
Transfer of un-utilised grants to development reserve - Ford Foundation	(35 176)	(396 246)
	1 707 330	3 185 464

No donations or subsidies in kind were received during the year under review (2006: R Nil).

17. Operating leases

The company has various operating leases entered into with Stannic for the rental of motor vehicles. The minimum lease payments are detailed below:

	2007 R	2006 R
Amounts payable within 1 year	623 318	518 248
Amounts payable within 2 – 5 years	945 813	693 356
Amounts payable greater the 5 years	-	-
Total	1 569 131	1 208 604

18. Taxation

No provision has been made for taxation as the organisation has re-applied for exemption from income tax in terms of section 10(1)(cN) of the Income Tax act. This application is still reflected as pending in the records of the South African Revenue Services (SARS). We are aware of the possibility of SARS re-opening previous returns and treat the company as a normal taxable entity.

19. Retirement benefits

All permanent employees of the company are members of the Old Mutual Orion Provident Fund. The provident fund is in the nature of a defined contribution plan, where the retirement benefits are determined with reference to the employer and employees' contributions to the fund. In 2007, the employer contributed R1 971 411 (2006: R1 093 374) towards the provident fund and group life premiums. Current contributions to the provident fund are charged against income as incurred.

20. Risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation, and cause the other party to incur a financial loss. The company mitigates this risk by employing a comprehensive framework of polices, procedures and limits to ensure a process of risk assessment, quantification and monitoring.

Liquidity risk

Liquidity risk, also referred to as funding risk, is the risk than an enterprise will encounter difficulty in raising funds to meet future financial commitments. As the company is still dependant on grants in order to continue as a going concern, the management of this risk is critical to the company's survival. The company does however have loan facilities available should funds be required to meet commitments.

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount. The company mitigates this risk by setting fixed repayment terms for all loans and advances.

Interest rate risk

Interest rate risk is the risk that interest rates will fluctuate in future. The company adopts a policy of ensuring that its borrowings are at market related rates to address its interest rate risk.

	2007 R	2006 R

21. Total head office cost

The total cost for head office activities amounted to R10 078 275.
This includes the following activities or departments:

	2007 R	2006 R
Training department	1 563 370	-
Human Resources department	920 208	-
Quality Assurance department	851 883	-
Loans administration	876 849	-
Research and development including Insurance trial	924 117	-
Senior Management Finance and secretarial	4 941 848	-
	10 078 275	-

Total head office cost did not appear as a separate note in the 2006 Financial Statements as the systems to extract the relevant information was only implemented in the current year.

22. Related party transactions

	2007 R	2006 R
Remuneration of director during the year – services as director	780 602	944 441

23. Contingent liabilities

Value Added Tax

From 1 June 2007 the changes to the National Credit Act forced the company to start charging initiation and service fees. By doing so the organisation became liable to charge VAT on the income derived from fees. As the company is a non–profit organisation and might also be able to obtain public benefit status the process for registering for VAT is still in process. Therefore no provision has yet been made until such time as the company is informed by SARS as to its VAT status.

Securities

The following securities have been ceded by the company:

The Standard Bank fixed deposit account has been ceded as security to Teba Bank for the loan held with Teba Bank to the value of R500 000.00

The Standard Bank money market account has been ceded to Stannic as collateral of the leased vehicles to the value of R422 373.