

**DRAFT**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21**  
**of the Companies Act)**  
**(Registration Number 91/03485/08)**

**ANNUAL FINANCIAL STATEMENTS**  
**30 JUNE 1999**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
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**ANNUAL FINANCIAL STATEMENTS**  
**30 JUNE 1999**

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The annual financial statements, set out on pages 2 to 15, were approved by the board of directors on 9 October 1999, and are signed on its behalf by:

\_\_\_\_\_)  
\_\_\_\_\_)  
\_\_\_\_\_) Directors  
\_\_\_\_\_)  
\_\_\_\_\_)

## QUALIFIED REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION

### Introduction

We have audited the annual financial statements of The Small Enterprise Foundation set out on pages 2 to 15 for the year ended 30 June 1999. These annual financial statements are the responsibility of the directors. Our responsibility is to report on these annual financial statements.

### Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes:

- examining, on a test basis, evidence supporting amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

### Qualification

In common with similar organisations, it is not feasible for the company to institute accounting controls over cash collections from grants received prior to the initial entry of the receipts in the accounting records. Accordingly, it was impracticable for us to extend our examination beyond the receipts actually recorded.

### Audit opinion

Except for the effects of any adjustments which might have been necessary had it been possible for us to extend our examination of cash collections from grants, in our opinion, these annual financial statements fairly present, in all material respects, the financial position of the company at 30 June 1999, and the results of its operations and cash flow information for the year then ended in conformity with generally accepted accounting practice, and in the manner required by the Companies Act.

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS**  
**30 JUNE 1999**

**URAFI**

The directors have pleasure in presenting their report on the company for the year ended 30 June 1999.

**BUSINESS REVIEW**

The principal business of the company 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.

SEF has, since inception, granted 36 978 (1998: 24 740) loans to the value of R30 757 600 (1998: R18 165 600). At year end the loans supported 19 772 (1998: 15 052) jobs, being 2,3 jobs per loan.

**OPERATING RESULTS**

Results for the year ended 30 June 1999 are set out on page 4 of the financial statements.

**LOAN LOSS RESERVES**

In cases where borrowers experience death or prolonged illness amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-off's are classified as death write-offs and are included under operating expenses. An amount of R8 530 (1998: R13 141) has been written off in this manner.

A debt is declared bad once it is 84 days in arrears. There were no bad debt write offs during the year under review (1998: R454). In view of this, the general provision was reduced from 1,5% to 1% during the current year. A provision of R5 019 (1998: R224) was raised in the current year.

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

**DIRECTORS AND SECRETARY**

There were no changes in the composition of the board and the directors in office at the financial year end and, at the date of this report, were as follows:

Mr J R de Wit (Managing Director)  
Ms D R Motsepe  
Mr M N Ramalepe

Ms M A Kirsten  
Mr M P Malatji (chairman)  
Mr M C Mogase

Secretary - J R de Wit

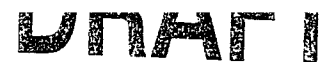
**Business Address**  
42 Boundary Street  
Tzaneen  
0850

**Postal Address**  
P O Box 212  
Tzaneen  
0850

**POST BALANCE SHEET EVENT**

No events have occurred between the financial year end and the date of this report that would 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)  
**INCOME STATEMENT**  
 for the year ended 30 JUNE 1999



	<u>Notes</u>	<u>1999</u> R	<u>1998</u> R
<b>OPERATING INCOME</b>			
Loan interest earned		2 566 919 ✓	1 026 690 ✓
Interest on investment		429 542 ✓	974 812 ✓
Interest paid		(73 653) ✓	(114 886) ✓
Bad debts		-	(454) ✓
		<hr/>	<hr/>
<b>MARGIN ON LENDING ACTIVITIES</b>			
Operating expenses		(3 074 945)	(2 276 718) ✓
		<hr/>	<hr/>
<b>OPERATING LOSS</b>			
Sundry income		3 183 ✓	1 349 ✓
Profit on disposal of fixed assets		-	500 ✓
		<hr/>	<hr/>
<b>LOSS before head office expenses</b>			
Head office expenses		(1 538 864)	(388 707) ✓
		<hr/>	<hr/>
<b>LOSS before grants</b>			
Operational grants received	1 2	(1 687 818) 2 486 527	(1 507 979) -
		<hr/>	<hr/>
<b>NET INCOME/(LOSS) for the year</b>			
Transfer to non-distributable reserves	3	798 709 (94 546)	(1 507 979) (94 546)
RETAINED INCOME at beginning of year		289 658	1 892 183
		<hr/>	<hr/>
RETAINED INCOME at end of year		993 821	289 658
		<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
 (An association incorporated under Section 21 of the Companies Act)  
**BALANCE SHEET**  
 at 30 JUNE 1999

**URAF I**

	<u>Notes</u>	<u>1999</u> R	<u>1998</u> R
<b>CAPITAL EMPLOYED</b>			
NON-DISTRIBUTABLE RESERVE	3	461 332	366 786
GENERAL CAPITAL RESERVE	4	587 953	582 523
DEVELOPMENT RESERVE	5	6 654 460	6 654 460
EDUCATIONAL RESERVE	6	5 300	2 300
OPERATIONAL GRANT RESERVE	7	99 931	512 726
RETAINED INCOME		993 821	289 658
		<hr/>	<hr/>
EQUITY FUNDS		8 802 797	8 408 453
LONG-TERM LOANS	8	500 000	-
		<hr/>	<hr/>
<b>TOTAL CAPITAL EMPLOYED</b>		<b>9 302 797</b>	<b>8 408 453</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>EMPLOYMENT OF CAPITAL</b>			
FIXED ASSETS	9	655 750	604 654
INVESTMENTS	10	1 529 679	1 413 732
<b>CURRENT ASSETS</b>			
Loans	11	5 585 765	3 375 454
Accounts receivable		61 167	96 349
Cash and short-term funds		2 467 269	3 811 396
		<hr/>	<hr/>
Total current assets		8 114 201	7 283 199
		<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>			
Accounts payable		306 819	203 854
Bank overdraft	13	190 014	157 373
Current portion of long-term loan	8	-	531 905
Short term loan	12	500 000	-
		<hr/>	<hr/>
Total current liabilities		996 833	893 132
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>7 117 368</b>	<b>6 390 067</b>
		<hr/>	<hr/>
<b>TOTAL EMPLOYMENT OF CAPITAL</b>		<b>9 302 797</b>	<b>8 408 453</b>
		<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**  
 (An association incorporated under Section 21 of the Companies Act)  
**CASH FLOW STATEMENT**  
 30 JUNE 1999



	<u>Notes</u>	<u>1999</u> R	<u>1998</u> R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised by operations	A	(4 072 834)	(4 056 872)
Interest on investment		429 542	974 812
Interest paid		(73 653)	(114 886)
		<hr/>	<hr/>
<b>Net cash outflow from operating activities</b>		(3 716 945)	(3 196 946)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to fixed assets		(94 133)	(506 851)
Proceeds on disposal of fixed assets		-	500
Increase in investment		(115 947)	(114 775)
		<hr/>	<hr/>
<b>Net cash outflow from investing activities</b>		(210 080)	(621 126)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Operational grant reserve utilised		(412 795)	-
Operational grant received		2 486 527	512 726
Capital grants received		8 430	-
Long-term loans repaid		(531 905)	(531 905)
Increase in short-term loans		500 000	112 010
Increase in long-term loans		500 000	-
		<hr/>	<hr/>
<b>Net cash inflow from financing activities</b>		2 550 257	92 831
		<hr/>	<hr/>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		(1 376 768)	(3 725 241)
Cash and cash equivalent at beginning of period		3 654 023	7 379 264
		<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	B	<u>2 277 255</u>	<u>3 654 023</u>

THE SMALL ENTERPRISE FOUNDATION  
 (An association incorporated under Section 21 of the Companies Act)  
 NOTES TO THE CASH FLOW STATEMENT  
 30 JUNE 1999

	<u>Notes</u>	<u>1999</u> R	<u>1998</u> R
<b>A. RECONCILIATION OF LOSS BEFORE OPERATIONAL GRANTS RECEIVED TO CASH GENERATED FROM OPERATIONS</b>			
Loss before grants		(1 687 818)	(1 507 979)
Interest on investment		(429 542)	(974 812)
Interest paid		73 653	114 886
Depreciation		43 037	36 303
Profit on disposal of fixed assets		-	(500)
		<hr/>	<hr/>
Operating loss before working capital changes		(2 000 670)	(2 332 102)
Decrease/(increase) in accounts receivable		35 182	(13 471)
Increase in accounts payable		102 965	9 365
Increase in operating assets –loans		(2 210 311)	(1 720 664)
		<hr/>	<hr/>
Cash utilised by operations		(4 072 834)	(4 056 872)
		<hr/> <hr/>	<hr/> <hr/>
<b>B. CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts:			
Cash and short term funds		2 467 269	3 811 396
Bank overdraft		(190 014)	(157 373)
		<hr/>	<hr/>
		2 277 255	3 654 023
		<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**

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**ACCOUNTING POLICIES**

**30 JUNE 1999**



The annual financial statements are prepared on the historical cost basis and incorporate the following principal accounting policies, which have been consistently applied in all material respects.

**Loan interest earned**

Given the risk profile of the loans book, interest earned on loans is suspended until received.

**Other interest received**

Other interest received is accrued on a daily basis.

**Grants received**

Operational grants received

These are grants which are specifically designated as being 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. Where such grants have not been fully utilised during the relevant period, the balance remaining is transferred to reserves.

Grants for loan capital

Grants designated for loan capital are taken directly to General Capital Reserve.

**Investments**

Investments are stated at cost less amounts written off. Where, in the opinion of the directors, a permanent diminution in value has occurred, a provision is raised and charged to the income statement.

**Fixed assets**

Fixed assets are depreciated on historical cost using the straight line method over the estimated useful lives of the assets.

**Development expenses**

Development expenses are charged against operating profit as incurred, and represent expenses that are not of a normal operational nature including research, consulting and conference expenses that are incurred with a view to improving the methodology, strengthening the management and expanding the operations.

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**30 JUNE 1999**

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	<u>1999</u> R	<u>1998</u> R
<b>1. LOSS BEFORE GRANTS</b>		
The loss before grants is arrived at after taking into account the following:		
Depreciation	43 037	36 303
Auditors remuneration		
- statutory audit	35 000	29 640
- USAID recipient audit	20 000	-
- audit expenses	9 000	8 480
Directors' emoluments		
- For managerial duties	283 651	195 260
- Expenses relating to managerial duties	22 981	38 456
<b>2. OPERATIONAL GRANTS RECEIVED</b>		
Ford Foundation	412 795	-
USAID	2 073 732	-
	<hr/>	<hr/>
	2 486 527	-
	<hr/> <hr/>	<hr/> <hr/>
<b>3. NON-DISTRIBUTABLE RESERVE</b>		
Revaluation of guaranteed capital investment		
Balance at beginning of the year	366 786	272 240
Surplus on revaluation of investment	94 546	94 546
	<hr/>	<hr/>
	461 332	366 786
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**

30 JUNE 1999

	<u>1999</u> R	<u>1998</u> R
<b>4. GENERAL CAPITAL RESERVE</b>		
<p>The General Capital Reserve comprises grants received from donors other than USAID (see Development Reserve note 5). Such grants are, for the 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. All grants have been designated by the donors concerned as Loan Capital to be utilised for future disbursements of loans to members.</p>		
Balance at beginning of the year	582 523	582 523
Grants for year	5 430	-
	<hr/>	<hr/>
	587 953	582 523
	<hr/> <hr/>	<hr/> <hr/>
<b>5. DEVELOPMENT RESERVE</b>		
<p>The Development Reserve comprises solely grants received from USAID in terms of a five year agreement which expired in September 1995. Such funds were designated by USAID as Financial Structure support. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.</p>		
Balance at beginning and end of year	6 654 460	6 654 460
	<hr/> <hr/>	<hr/> <hr/>
<b>6. EDUCATIONAL RESERVE</b>		
<p>The Educational Reserve comprises a single grant from a group of workers at LAPA, Toronto, Canada. 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.</p>		
Balance at the beginning of year	2 300	2 300
Grants for the year	3 000	-
	<hr/>	<hr/>
Balance at the end of year	5 300	2 300
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

30 JUNE 1999



	<u>1999</u> R	<u>1998</u> R
<b>7. OPERATIONAL GRANT RESERVE</b>		
<b>Ford Foundation</b>		
<p>A grant of US\$100 000 was approved to cover operational costs relating to action research aimed at improving the impact and sustainability of TCP. This research will take place through to January 2000.</p>		
Grant at the beginning of year	512 726	-
Grant for the year	-	512 726
Utilised to cover costs	(412 795)	-
	<hr/>	<hr/>
Balance at the end of year	99 931	512 726
	<hr/> <hr/>	<hr/> <hr/>
<b>8. LONG-TERM LOANS</b>		
<b>Loan 1</b>		
<p>Triodos Bank of the Netherlands has approved a loan facility for R1 million. The loan is redeemable in two instalments of R500 000 each (1 July 2004 and 1 July 2005).</p>		
<p>Interest is paid at a rate of 4.5% below prime (minimum 14.5% per annum), and is payable six monthly in arrears.</p>		
<p>The loan is secured by a cession of the Triodos advances.</p>		
	500 000	-
	<hr/> <hr/>	<hr/> <hr/>

**THE SMALL ENTERPRISE FOUNDATION**

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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**

**30 JUNE 1999**



	<u>1999</u> R	<u>1998</u> R
8. LONG-TERM LOANS (continued)		
Loan 2		
Portion funded by DBSA is repayable in a single instalment on 31 March 1999. Interest at a rate of 11.5% per annum is payable six monthly in arrears.	-	531 905
Less: current portion transferred to current liabilities	-	(531 905)
	<hr/>	<hr/>
	-	-
	<hr/> <hr/>	<hr/> <hr/>

9. FIXED ASSETS

1999

	<u>Land &amp; Buildings</u>	<u>Furniture &amp; Fittings</u>	<u>Office Equipment</u>	<u>Computer Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
		R	R	R	R	
<b>Cost</b>						
At beginning of the year	472 873	67 296	83 457	83 172	11 623	718 421
Additions	21 164	28 920	16 814	27 235	-	94 133
	<hr/>					
At end of year	494 037	96 216	100 271	110 407	11 623	812 554
	<hr/>					
<b>Accumulated depreciation</b>						
At beginning of year	-	15 580	45 991	47 595	4 601	113 767
Additions	-	8 457	15 653	16 021	2 906	43 037
	<hr/>					
At end of year	-	24 037	61 644	63 616	7 507	156 804
	<hr/>					
Net book value	494 037	72 179	38 627	46 791	4 116	655 750
	<hr/> <hr/>					

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**30 JUNE 1999**

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9. **FIXED ASSETS (continued)**

**1998**

	<u>Land &amp; Buildings</u>	<u>Furniture &amp; Fittings</u> R	<u>Office Equipment</u> R	<u>Computer Equipment</u> R	<u>Motor Vehicles</u>	<u>Total</u>
<b>Cost</b>						
At beginning of the year	-	50 623	83 457	65 867	11 623	211 570
Additions	472 873	16 673	-	17 305	-	506 851
<b>At end of year</b>	<b>472 873</b>	<b>67 296</b>	<b>83 457</b>	<b>83 172</b>	<b>11 623</b>	<b>718 421</b>
<b>Accumulated depreciation</b>						
At beginning of year	-	9 628	31 832	34 309	1 695	77 464
Additions	-	5 952	14 159	13 286	2 906	36 303
<b>At end of year</b>	<b>-</b>	<b>15 580</b>	<b>45 991</b>	<b>47 595</b>	<b>4 601</b>	<b>113 767</b>
<b>Net book value</b>	<b>472 873</b>	<b>51 716</b>	<b>37 466</b>	<b>35 577</b>	<b>7 022</b>	<b>604 654</b>

1999  
R

1998  
R

The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. The directors value the above property on open market basis at R500 000.

Purchased on 10 March 1998	410 000	410 000
Improvements in 1998	62 873	62 873
Improvements in 1999	21 164	-
	<u>494 037</u>	<u>472 873</u>

**THE SMALL ENTERPRISE FOUNDATION**

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

30 JUNE 1999

	<u>1999</u> R	<u>1998</u> R
<b>10. INVESTMENTS</b>		
Listed		
Investec Bank Limited- Investec Equity Fund	268 962	258 613
- Fedsure General Equity Fund	269 783	258 731
- Guarantee Capital Trust	990 934	896 388
	<hr/>	<hr/>
	1 529 679	1 413 732
	<hr/> <hr/>	<hr/> <hr/>
<p>The market value of the investments held at Investec Bank Limited on 30 June 1999 amounted to R1 810 196 (1998 : R1 801 012).</p>		
<b>11. LOANS</b>		
Loans outstanding	7 174 111	4 300 559
Unearned interest	(1 531 924)	(873 702)
Provision for bad debts	(56 422)	(51 403)
	<hr/>	<hr/>
	5 585 765	3 375 454
	<hr/> <hr/>	<hr/> <hr/>
<b>12. SHORT TERM LOAN</b>		
<p>The amount represents a working capital loan from Khula Enterprises Limited. The loan bears interest at a rate of 14.5% per annum interest is payable monthly in arrears. The capital portion of the loan is payable within ten months of receipt of the loan.</p>		
<p>This loan is secured by a cession of the Khula end user loans.</p>		
	500 000	-
	<hr/> <hr/>	<hr/> <hr/>

**13. BANK OVERDRAFT**

The bank overdraft facilities amounting to R60 000 and R100 000 are from Nedbank and The Standard Bank Limited and respectively. The Nedbank facility is secured by a personal surety by J R de Wit. The Standard Bank facility is unsecured.

**14. TAXATION**

No provision has been made for taxation as the company has an estimated tax loss of R3 766 959 (1998: R2 079 141).

**15. 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 employee's contributions to the fund.

**16. COMPARATIVE AMOUNTS**

Certain comparative amounts have been reclassified in order to ensure consistent disclosure.