

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

**ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2004**

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**(Registration number: 1991/003485/08)**  
**ANNUAL FINANCIAL STATEMENTS**  
**30 June 2004**

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**DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS**

The directors are responsible for ensuring that the annual financial statements fairly present the financial position and operating results of the company. The annual financial statements have been compiled by management in terms of South African Statements of Generally Accepted Accounting Practice and are supported, where appropriate, by reasonable and prudent judgments and estimates.

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 6 to 25, were approved by the board of directors on 12 October 2004 and are signed on its behalf by:

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Director

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Director

## **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 6 to 25 for the year ended 30 June 2004. These annual financial statements are the responsibility of the company's directors. Our responsibility is to report on these annual financial statements based on our audit.

### **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 that the financial statements are free of material misstatement. 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 2004, 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.

**REPORT OF THE INDEPENDENT AUDITORS  
TO THE MEMBERS OF THE SMALL ENTERPRISE FOUNDATION (continued)**

**Funding of the business**

Without further qualifying our opinion above, we draw attention to the fact that the company is not yet generating sufficient interest income to fund its operations and business activities, and is still dependent on grants in order to continue as a going concern in the foreseeable future.

Registered Accountants and Auditors  
Chartered Accountants (CA) SA  
Johannesburg  
19 October 2004

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS**  
**30 June 2004**

The directors have pleasure in presenting their report on the company for the year ended 30 June 2004.

**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 Small Enterprise Foundation ("SEF"), has since inception, granted 167 768 (2003: 127 276) loans to the value of R170 million (2003: R124 million).

**OPERATING RESULTS**

Results for the year ended 30 June 2004 are set out on page 7 of the financial statements. The directors are pleased to report a 41% increase in gross loan advances as well as a 46% increase in loan interest income. At the same time expenses, excluding finance costs, increased by only 15%.

**LOAN LOSS RESERVES**

In cases where borrowers experience death amongst their members, the company will decrease the group's repayment and write-off the amount owed by the member. Such write-offs are classified as death write-offs and are included under operating expenses. During the year under review an amount of R71 240 (2003: R51 378) was written-off.

A debt is declared bad once it is 84 days in arrears. An amount of R207 159 (2003: R195 432) 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, 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 R49 862 (2003: R175 696).

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**REPORT OF THE DIRECTORS (continued)**  
**30 June 2003**

**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 (Chairperson)  
Mr Mutle Constantine Mogase (Non-executive)  
Mr John Robert de Wit (Managing Director)  
Mr Matome Patrick Malatji (Non-executive)  
Mr Sanjay Doshi (Non-executive)  
Mr Ben Nkuna (Executive)  
Ms Sizeka Monica Rensburg (Non-executive)

Secretary and Public Officer - J R de Wit and Nexia Levitt Kirson Chartered Accountants (S.A.)  
Auditors – Deloitte & Touche

**Business Address**

42 Boundary Street  
Tzaneen  
0850

**Postal Address**

P O Box 212  
Tzaneen  
0850

**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 2004**

	Notes	2004 R	2003 R
<b>ASSETS</b>			
<b>Non-current Assets</b>			
Property and equipment	2	926,480	1,030,732
<b>Total non-current assets</b>		926,480	1,030,732
<b>Current Assets</b>			
Advances (principal outstanding)	3	19,089,947	13,500,400
Accrued interest on advances		933,428	592,385
Accounts receivable	4	207,755	151,445
Cash and short term funds		4,461,846	3,395,651
<b>Total current assets</b>		24,692,976	17,639,881
<b>TOTAL ASSETS</b>		25,619,456	18,670,613
<b>FUNDS AND LIABILITIES</b>			
<b>Funds</b>			
General capital reserve	5	587,953	587,953
Development reserve	6	6,760,016	6,709,676
Educational reserve	7	20,188	5,800
Operational grant reserve	8	-	35,602
Accumulated income		5,315,260	3,356,025
<b>Total funds</b>		12,683,417	10,695,056
<b>Non-current liabilities</b>			
Long term loans	9	7,501,260	4,124,939
<b>Current Liabilities</b>			
Short term loans	10	4,470,818	3,110,709
Accounts payable		963,961	739,909
<b>Total current liabilities</b>		5,434,779	3,850,618
<b>TOTAL FUNDS AND LIABILITIES</b>		25,619,456	18,670,613

**THE SMALL ENTERPRISE FOUNDATION**  
**(An association incorporated under Section 21 of the Companies Act)**  
**INCOME STATEMENT**  
**for the year ended 30 JUNE 2004**

	Notes	2004 R	2003 R
<b>OPERATING INCOME</b>			
Interest earned on advances		10,701,784	7,322,206
Other interest received		173,110	303,646
Realised profit on sale of investments		-	388,740
Finance costs		(937,030)	(649,210)
Bad debts	11	(207,159)	(195,432)
<b>MARGIN ON LENDING ACTIVITIES</b>			
Operating expenses		(6,615,061)	(6,184,238)
<b>OPERATING INCOME/(LOSS)</b>			
Sundry income		140,959	34,358
Profit/(loss) on disposal of property and equipment		12,512	(978)
<b>INCOME/(LOSS) before head office expenses</b>			
Head office expenses		(3,929,215)	(2,980,223)
<b>LOSS before grants</b>			
Operational grants utilised to cover expenses	12 13	(660,100) 2,619,335	(1,961,131) 2,748,818
<b>NET INCOME/(LOSS) FOR THE YEAR</b>			
		1,959,235	787,687



**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 2004**

	General capital reserve R	Development reserve R	Educational reserve R	Operational grant reserve R	Accumulated income R	Total R
<b>Balance at 30 June 2002</b>	587,953	6,699,213	5,800	1,964,058	2,568,338	11,825,362
Operational grants received	-	10,463	-	1,006,145	-	1,016,608
Operational grants refunded and other movements	-	-	-	(185,783)	-	(185,783)
Operational grant reserve - utilised to cover costs	-	-	-	(2,748,818)	-	(2,748,818)
Net income for the year	-	-	-	-	787,687	787,687
<b>Balance at 30 June 2003</b>	587,953	6,709,676	5,800	35,602	3,356,025	10,695,056
Operational grants received	-	50,340	14,388	2,583,733	-	2,648,461
Operational grant reserve - utilised to cover costs	-	-	-	(2,619,335)	-	(2,619,335)
Net income for the year	-	-	-	-	1,959,235	1,959,235
<b>Balance as at the 30 June 2004</b>	587,953	6,760,016	20,188	-	5,315,260	12,683,417

**THE SMALL ENTERPRISE FOUNDATION**  
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**CASH FLOW STATEMENT**  
**for the year ended 30 JUNE 2004**

	Notes	2004 R	2003 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash utilised by operations	A	(5,460,565)	(6,924,299)
Other interest received		173,110	303,646
Finance costs		(937,030)	(649,210)
Net cash outflow from operating activities		(6,224,485)	(7,269,863)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds on sale of investments		-	1,005,974
Additions to property and equipment		(103,211)	(387,313)
Proceeds on disposal of property and equipment		9,000	4,487
Increase in investments		-	(13,886)
Net cash (outflow)/inflow from investing activities		(94,211)	609,262
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase in long term loans		3,376,321	3,124,939
Increase in short term loans		1,360,109	139,265
Development grants returned and other movements		-	(185,783)
Development grants received		50,340	10,463
Educational grants received		14,388	-
Operational grants received		2,583,733	1,006,145
Net cash inflow from financing activities		7,384,891	4,095,029
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,066,195	(2,565,572)
Cash and cash equivalents at beginning of the year		3,395,651	5,961,223
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	B	4,461,846	3,395,651

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE CASH FLOW STATEMENT**  
**for the year ended 30 JUNE 2004**

	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
<b>A. CASH UTILISED BY OPERATIONS</b>		
Loss before grants	(660,100)	(1,961,131)
Adjusted for:		
Other interest received	(173,110)	(303,646)
Profit on sale of investments	-	(388,740)
Finance costs	937,030	649,210
Depreciation	210,975	130,626
(Profit)/loss on disposal/scrapping of property and equipment	(12,512)	978
Movement in provision for bad debts	136,939	118,787
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	439,222	(1,753,916)
Adjusted for changes in working capital:		
(Increase)/decrease in accounts receivable	(56,310)	226,847
Increase in accounts payable	224,052	99,338
Increase in operating assets - principle outstanding and accrued interest before movement in provision for bad debts	(6,067,529)	(5,496,568)
	<hr/>	<hr/>
Cash utilised by operations	(5,460,565)	(6,924,299)
	<hr/> <hr/>	<hr/> <hr/>
<b>B. CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents consist of cash on hand and cash balances with banks. Cash and cash equivalents included in the cash flow statement comprised the following balance sheet amounts		
Cash and short term funds	4,461,846	3,395,651

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**30 June 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice.

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

**Interest earned on advances**

Interest earned on advances is recognised using the effective interest rate method over the term of the loans.

**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, an impairment provision is raised and charged to the income statement.

**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.

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 SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**30 June 2004**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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.

At 30 June 2004, the company's principal financial assets included cash and short term funds, advances and accrued interest, and accounts receivable. Advances and accrued interest are measured at amortised cost. Cash and short term funds and accounts receivable are stated at their nominal values. All financial assets are reduced by appropriate allowances for estimated irrecoverable amounts where applicable.

At 30 June 2004, the company's principal financial liabilities included accounts payable, short and long term loans. Short and long term loans are measured at amortised cost. Accounts payable are stated at their nominal value.

**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 2004

**2. PROPERTY AND EQUIPMENT**

2004 Cost	Land & buildings	Furniture & fittings	Office equipment	Computer equipment	Motor vehicles	Total
	R	R	R	R	R	R
At beginning of year	530,191	190,280	149,015	290,987	268,523	1,428,996
Additions	-	8,600	63,996	20,700	18,915	112,211
Disposals and scrappings	-	-	(25,530)	-	-	(25,530)
At end of year	530,191	198,880	187,481	311,687	287,438	1,515,677
<b>Accumulated depreciation</b>						
At beginning of year	13,011	125,593	102,187	121,989	35,484	398,264
Depreciation	13,255	27,323	22,829	82,161	65,407	210,975
Disposals and scrappings	-	-	(20,042)	-	-	(20,042)
At end of year	26,266	152,916	104,974	204,150	100,891	589,197
<b>Net book value</b>	<b>503,925</b>	<b>45,964</b>	<b>82,507</b>	<b>107,537</b>	<b>186,547</b>	<b>926,480</b>

**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 2004

**2. PROPERTY AND EQUIPMENT (continued)**

2003 Cost	Land & buildings R	Furniture & fittings R	Office equipment R	Computer equipment R	Motor vehicles R	Total R
At beginning of year	517,195	198,928	149,182	236,251	36,623	1,138,179
Additions	12,996	2,685	13,772	125,960	231,900	387,313
Disposals and scrappings	-	(11,333)	(13,939)	(71,224)	-	(96,496)
At end of year	530,191	190,280	149,015	290,987	268,523	1,428,996
<b>Accumulated depreciation</b>						
At beginning of year	-	104,491	94,412	142,288	17,478	358,669
Depreciation	13,011	30,392	18,292	50,925	18,006	130,626
Disposals and scrappings	-	(9,290)	(10,517)	(71,224)	-	(91,031)
At end of year	13,011	125,593	102,187	121,989	35,484	398,264
<b>Net book value</b>	517,180	64,687	46,828	168,998	233,039	1,030,732

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 JUNE 2004**

	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
<b>2. PROPERTY AND EQUIPMENT (continued)</b>		
<p>The land and building is situated on Erf 199 in the township of Tzaneen Extension 4, Registration Division LT, Northern Transvaal. In the prior year, P. Visser (MIVSA), a candidate valuer, independently estimated the market value of the property at R880 000.</p>		
<b>3. ADVANCES (PRINCIPAL OUTSTANDING)</b>		
Loans outstanding	19,554,450	13,827,964
Provision for bad debts	(464,503)	(327,564)
	<u>19,089,947</u>	<u>13,500,400</u>
Movement in the provision for bad debts		
Balance at beginning of year	327,564	208,777
Current year movement in provision for bad debts	136,939	118,787
	<u>464,503</u>	<u>327,564</u>

The advances have been ceded as security on the Hivos Triodos Bank loan and the Khula Enterprise Finance loan. See Note 9.

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

Effective interest rates, based on a declining balance, range from 70,1% p.a. to 82,1% p.a.

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



**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 JUNE 2004**

**3. ADVANCES (PRINCIPLE OUTSTANDING) (continued)**

A total amount of R65 529 (2003: R163 044) was in arrears at the financial year-end. An analysis of the arrears for the current year is presented below. The ratios presented are based on the arrears balance, divided by the gross advances amount as at year-end.

	<b>R</b>	<b>%</b>
1- 30 days	20,466	0.10
31- 60 days	23,992	0.12
61- 90 days	21,071	0.10
	<hr/>	<hr/>
Total	65,529	0.32
	<hr/> <hr/>	<hr/> <hr/>

**4. ACCOUNT RECEIVABLE**

Included in accounts receivable is an amount for staff debtors of R93 300 (2003: R125 932). These constitute small loans available generally to all first time vehicle users, salary advances given to staff, as well as study loans. These loans are interest free. There were no arrears in respect of staff loans (2003: R Nil) at the financial year-end. Loans are normally repaid over a period of two years.

A study loan of R14 314 was advanced to an executive director during the prior year. This amount was repaid in full during the current year.

	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
Staff debtors and other accounts receivable	207,755	151,445
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**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 2004**

	<u>2004</u>	<u>2003</u>
	R	R
<b>5. GENERAL CAPITAL RESERVE</b>		
The General Capital Reserve comprises of grants received from donors other than USAID (see Development Reserve, note 6). 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. No new grants were received during the year under review.		
Balance at end of year	<u>587,953</u>	<u>587,953</u>
<b>6. DEVELOPMENT RESERVE</b>		
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. As with General Capital reserve, all such grants are designated as Loan Capital to be used for future disbursements of loans to members.		
Balance at end of year	<u>6,760,016</u>	<u>6,709,676</u>
<b>7. EDUCATIONAL RESERVE</b>		
The Educational Reserve comprises 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.		
Balance at end of year	<u>20,188</u>	<u>5,800</u>

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 JUNE 2004**

	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
<b>8. OPERATIONAL GRANT RESERVE</b>		
These grants are intended for institutional strengthening to enable SEF to obtain financial self-sufficiency.		
Grants at the beginning of year	35,602	1,964,058
Utilised to cover costs	(2,619,335)	(2,748,818)
Grants received during the year	2,583,733	1,006,145
- Hivos	613,462	-
- Institute for Development Studies	87,926	80,372
- USAID	-	694,605
- Khula Enterprise Finance Limited	1,687,677	-
- HSDU	194,668	231,168
Grants refunded and other movements	-	(185,783)
Balance at the end of year	-	35,602

**9. LONG TERM LOANS**

**Hivos Triodos Bank**

Hivos Triodos Bank of the Netherlands approved a total loan facility of R1 million. The loan was redeemable in South African Rand, in two instalments of R500 000 each, on 1 July 2004 and 1 July 2005 respectively. The repayment terms of the loan were renegotiated in August 2004. The loan is now redeemable in one instalment of R1 million on 1 July 2005. No specific grace period is specified in the contract.

Interest is paid at a rate of 4% below prime, with a minimum of 14% and a maximum of 18% per annum, and is payable six monthly in arrears.

A further loan facility of R 4 million was approved during the current year. R2 million was drawn down against the additional loan facility during the current financial year. The loan is redeemable in South African Rand, in two instalments of R1 million each, on 1 July 2007 and 1 July 2008 respectively. No grace period is specified in the contract.

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 JUNE 2004**

	<u>2004</u>	<u>2003</u>
	R	R
<b>9. LONG TERM LOANS (continued)</b>		
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.		
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 to micro entrepreneurs financed by this loan facility.		
Balance at the beginning of year	1,000,000	1,000,000
Additional drawdowns	2,000,000	-
Short-term portion transferred to current liabilities	-	(500,000)
Balance at the end of the year	<u>3,000,000</u>	<u>500,000</u>

The average balance outstanding during the year on the first loan, calculated on a straight-line basis, was R1 000 000 (2003: R1 000 000). Interest accrued and paid during the year amounted to R140 000 (2002: R140 000). There were no arrears in respect of this loan during the year under review. (2003: R Nil).

The average balance outstanding during the year on the additional drawdown, calculated on a straight-line basis, was R1 000 000. Interest accrued and paid during the year amounted to R134 194. There were no arrears in respect of this loan during the year under review.

**THE SMALL ENTERPRISE FOUNDATION**  
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**NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)**  
**for the year ended 30 JUNE 2004**

	<u>2004</u>	<u>2003</u>
	<u>R</u>	<u>R</u>
<b>9. LONG TERM LOANS (continued)</b>		
<b>Khula Enterprise Finance Limited</b>		
In the previous year, 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 base rate minus 3% and drawdowns are repayable over 36 months from the date of the specific drawdown.		
This loan is secured by a cession of the Khula end user loans.		
Balance at the end of year	6,940,476	5,363,428
Short-term portion transferred to current liabilities	(4,018,309)	(1,738,489)
	<u>2,922,167</u>	<u>3,624,939</u>
<b>Tembeka Social Investment Company Limited</b>		
In November 2003, the company entered into a new loan agreement with Tembeka Social Investment Company Limited. The loan facility under this agreement is R500 000. Interest is calculated at 12 % and is payable quarterly in arrears. The loan is repayable in one instalment on 30 November 2006.		
Balance at the end of year	505,000	-

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	<u>2004</u>	<u>2003</u>
	<u>R</u>	<u>R</u>
<b>9. LONG TERM LOANS (continued)</b>		
Tembani International Guarantee Fund and Teba Bank		
<p>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 calculated at prime less 1 % and is payable monthly. The loan is repayable monthly. Maturity date is 25 February 2009.</p>		
<p>This loan is secured by a cession of a fixed deposit of R500 000 held at Standard Bank and a letter of credit for R2,1 million by City Bank New York on behalf of Tembani International Guarantee Fund.</p>		
Balance at the end of year	1,476,221	-
Short-term portion transferred to current liabilities	(402,128)	-
	<u>1,074,093</u>	<u>-</u>
	<u>7,501,260</u>	<u>4,124,939</u>

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	<u>2004</u>	<u>2003</u>
	<u>R</u>	<u>R</u>
<b>10. SHORT TERM LOANS</b>		
Khula Enterprise Finance Limited		
A seed loan of R872 220 was extended by Khula Enterprise Finance Limited in the prior year. No interest is charged on this unsecured loan. The loan amount was converted to a grant during the current year due to certain performance targets being met by 30 June 2004.	-	872,220
In the current year the company entered into a loan agreement with Margaretha Vintges. The loan amount advanced was R50 000. Interest calculated at prime less 4%. The loan and accrued interest is repayable within 12 months from the date of the advance.	50,381	-
Current portion of Hivos Triodos Bank loan	-	500,000
Current portion of Khula Enterprise Finance Limited business loan	4,018,309	1,738,489
Current portion of Teba Bank loan	402,128	-
	<u>4,470,818</u>	<u>3,110,709</u>

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	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
	<hr/>	<hr/>
<b>11. BAD DEBTS</b>		
Bad debts consist of the following:		
Bad debts written off	280,867	240,817
Bad debts recovered	(73,708)	(45,385)
	<hr/>	<hr/>
	207,159	195,432
	<hr/> <hr/>	<hr/> <hr/>
<b>12. LOSS BEFORE GRANTS</b>		
The loss before grants is arrived at after taking into account the following:		
Staff Costs	7,093,542	6,195,548
Auditors' remuneration		
- Statutory audit - current year	73,530	55,000
- Statutory audit - prior year under provision	13,619	-
- Audit expenses	23,012	16,934
- Other services	4,583	-
Depreciation	210,975	130,626
Operating lease payments - Buildings	65,979	91,533
Death write offs	71,240	51,378
Legal fees	111,507	193,934
Directors' emoluments		
- For managerial duties (paid by the Company)	761,032	698,070
- Expenses relating to managerial duties	69,839	24,572
Current year movement in provision for bad debts	136,939	118,787



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	<b>2004</b>	<b>2003</b>
	<b>R</b>	<b>R</b>
<b>13. OPERATIONAL GRANTS UTILISED TO COVER EXPENSES</b>		
H.S.D.U	194,667	243,335
Ford Foundation (Operations)	-	1,560,789
USAID	-	694,602
Ford (Aids)	-	3,163
Institute for Development Studies	123,528	101,433
Khula Enterprise Finance Limited	1,687,677	-
Hivos	613,463	145,496
	<u>2,619,335</u>	<u>2,748,818</u>

No donations or subsidies in kind were received during the year under review (2003: R Nil).

**14. TAXATION**

No provision has been made for taxation as the company is currently in a tax loss position.

**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 employer and employees' contributions to the fund. In 2004, the employer contributed R693 434 (2003: R720 070) towards provident fund and group life premiums. Current contributions to the provident fund are charged against income as incurred.

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**16. COMPARATIVE AMOUNTS**

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

**17. LEASE LIABILITIES**

As the company's lease contracts are cancellable within 1 month, no future lease obligations were disclosed in the annual financial statements.

**18. 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 policies, 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 that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. As the Company is still dependant on grants in order to continue as a going concern, the managing of this risk factor 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.