

SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION

FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2002

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FINANCIAL STATEMENTS

FOR YEAR ENDED 31 DECEMBER 2002

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**INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
SOUTH PACIFIC BUSINESS DEVELOPMENT**

Scope

We have audited the accompanying balance sheet of South Pacific Business Development as of 31 December 2002 and the related statements of income and expenditure and cash flows for the year then ended. These financial statements are the responsibility of the enterprise's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and other disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper accounting records have been kept by South Pacific Business Development as far as appears from our examination of these records and the financial statements give a true and fair view of the financial position of South Pacific Business Development as of December 31, 2002 and of the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.



BETHAM & CO.
Certified Public Accountants

Apia

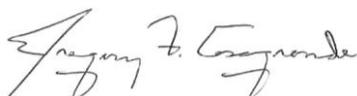
Dated: 27 May 2003

**SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION
BALANCE SHEET
AS AT 31 DECEMBER 2002**

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ACCUMULATED FUNDS	Notes	NZD (\$) 2002	NZD (\$) 2001
Net Loss from Operations:			
1999		(38,058)	(38,058)
2000		(418,831)	(418,831)
2001		(353,420)	(353,420)
2002		(205,728)	-
		<u>(1,016,036)</u>	<u>(810,309)</u>
Represented by:			
CURRENT ASSETS			
Cash on Hand and at Bank	2	62,723	42,872
Loans Receivable	3	182,462	222,940
Other Receivables	4	23,241	108,154
		<u>268,426</u>	<u>373,965</u>
CURRENT LIABILITIES			
Other Creditors and Accruals	5	13,819	15,131
Working Capital		254,607	358,834
FIXED ASSETS	6	49,115	72,122
TERM LIABILITIES/QUASI EQUITY			
Soft Loans/Quasi Equity	8	1,319,758	1,241,265
		<u>(1,016,036)</u>	<u>(810,309)</u>

The above balance sheet is to be read in conjunction with the notes to accounts on pages 5 to 9.



Gregory F. Casagrande
PRESIDENT

27-May-03

Date

**SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION
STATEMENT OF INCOME AND EXPENDITURE
FOR YEAR ENDING 31 DECEMBER 2002**

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		NZD (\$)	NZD (\$)
INCOME	Notes	2002	2001
Interest from Loans		67,772	162,586
Interest on Bank Accounts		532	3,180
Miscellaneous Income		905	1,186
Gain on Disposal		11,473	-
Grants	10	68,907	-
		149,589	166,953
EXPENDITURE			
Bank Charges		2,601	1,150
Collection Fees - Delinquent Loans	11	53,811	5,239
Communications		9,405	12,637
Depreciation	6	44,148	52,852
Bad Debts		-	24,045
Insurance		3,711	3,177
Interest on Overdraft		175	-
Interest on Loans		33,610	79,376
Loss on Assets		-	9,112
Office Expense		2,687	4,215
Rental Expenses		13,030	13,436
Other Expenses		32,076	37,923
Printing and Stationeries		10,464	10,642
Professional Services		3,105	4,435
Public Relations		3,429	12,254
Repairs and Maintenance		18,452	20,611
Salaries and Wages		81,507	109,457
National Provident Fund		3,215	-
Accident Compensation Board		728	-
Taxes and Fees		697	776
Transportation		23,705	19,991
Travel		756	11,114
Loss on Foreign Exchange		14,005	21,720
		355,317	454,162
Excess of Expenditures over Income		(205,728)	(287,209)
Non-Recurring Item	9	-	(66,210)
Transfer to Accumulated Funds		(205,728)	(353,420)

The above statement of income and expenditure is to be read in conjunction with the notes to accounts on pages 5 to 9.

**SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION
STATEMENT OF CASHFLOWS
FOR YEAR ENDING 31 DECEMBER 2002**

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	NZD (\$) 2002	NZD (\$) 2001
CASHFLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Loan Principal Repayments	339,787	510,249
Loan Interest Repayments	71,428	119,641
Receipts from Suppliers and Employees	905	1,186
Interest from Bank	532	-
Cash was applied to:		
Loans Disbursements	(294,846)	(420,567)
Payments to Suppliers and Employees	(263,554)	(268,883)
Others	40,855	(12,354)
Net Cashflows from Operating Activities	<u>(104,893)</u>	<u>(70,728)</u>
CASHFLOWS FROM INVESTING ACTIVITIES		
Proceeds from Disposal	11,473	-
Purchase of Fixed Assets	(21,141)	(60,100)
Net Cashflows from Investing Activities	<u>(9,668)</u>	<u>(60,100)</u>
CASHFLOWS FROM FINANCING ACTIVITIES		
Soft Loans/Quasi Equity (Casagrande, SPBD-USA, Gilmore)	120,304	158,594
Loan Repayment -PlaNet Finance	(21,189)	-
Grants	68,907	-
Interest Paid on Loans	(33,610)	(77,962)
Net Cashflows from Financing Activities	<u>134,412</u>	<u>80,632</u>
NET INCREASE/ (DECREASE) IN CASH	19,851	(50,197)
OPENING CASH BALANCE	42,872	93,069
CLOSING CASH BALANCE	<u>62,723</u>	<u>42,872</u>

Represented by:

Samoa-based Accounts

ANZ Bank - Access Account	56,754	14,072
ANZ Bank - Chequing Account	1,987	1,545
ANZ Bank - Grameen Trust Account	227	5,594
ANZ Bank - Term Deposit	-	562
Cash on Hand	1,494	13,334
Petty Cash	302	2,347

New Zealand-based Account

Bank of New Zealand	1,961	5,417
	<u>62,723</u>	<u>42,872</u>

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Accounting**

These accounts are prepared in accordance with the historical cost convention. Accrual accounting is used to match expenses with revenues. Generally accepted accounting principles have been applied.

(b) **Depreciation**

Depreciation is calculated so as to write off the net cost of each fixed asset during its expected useful life. The principal rates and methods used are as follows:

Office Equipment	5 years	Straight line
Computers	5 years	Straight line
Furniture and Fittings	5 years	Straight line
Leasehold Improvements	4 -5 years	Straight line
Used Motor Vehicles	2-3 years	Straight line

(c) **Foreign Currency**

All amounts are expressed in New Zealand dollars. Transactions in local currency have been converted to New Zealand dollars at the average exchange rates for the quarter in which they occurred. Assets and liabilities in local currencies at balance date have been converted at rates ruling at that date, except for fixed assets. Exchange differences are taken to the statement of income and expenditure.

(d) **Income Tax**

SPBD is registered as a charitable organization under the Charitable Trust Act 1965. Charitable organizations are not liable for income tax, according to the Income Tax Act 1974.

(e) **Comparative Figures**

This is the third year since South Pacific Business Development (SPBD) started its operations. The audited figures for the year ended 2001 are provided for comparison.

2 CASH AND BANK BALANCES

	2002	2001
Samoa-based Accounts		
ANZ Bank - Access Account	56,754	14,072
ANZ Bank - Checking Account	1,987	1,545
ANZ Bank - Grameen Trust Account	227	5,594
ANZ Bank - Term Deposit	-	13,334
Cash on Hand	1,494	2,347
Petty Cash	302	562
New Zealand-based Account		
Bank of New Zealand	1,961	5,417
	<u>62,723</u>	<u>42,872</u>

**SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION
NOTES TO ACCOUNTS
FOR YEAR ENDING 31 DECEMBER 2002**

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3 LOANS RECEIVABLE	2002	2001
Total Disbursements (Accumulative Since Inception)	1,526,938	1,378,965
Less: Repayments (Accumulative Since Inception)	(1,134,606)	(889,567)
Less: Write-offs - Loans (Principal) - Note 3(b)	(168,365)	-
Gross Loans Receivable	223,967	489,398
Less: Loan Contingency Reserve (Note 7)	(41,505)	(266,459)
	182,462	222,939

3 (a) Loans Receivable

Ending Balance as at 31 December 2001		489,398
Add/Less: 2002 Transactions	WST	NZD
2002 Disbursements	494,957	294,846
2002 Repayments	(570,399)	(339,787)
Write-offs -(Principal) - Note 3(b)	(282,634)	(168,365)
Foreign Exchange Effect on Prior Loans Receivable		(52,126)
Total		(265,431)
Balance as at 31 December 2002		223,967

3(b) Write-offs 2002

Total Write-offs (Principal Only) as at 31 December 2002		168,365
Represented by:	WST	NZD
Loans issued in 2000	226,256	134,781
Loans issued in 2001	52,469	31,255
Loans issued in 2002	3,910	2,329
Balance as per above total	282,635	168,365

3(c) The Individual and Employee Loans have been shown separately under the "Other Receivables" in 2001. It was decided in 2002 to merge all loan categories (Group/Flexi/Employee/Individual) under "Loans Receivable", in order to reflect the total amount of loans outstanding at the end of the year.

4 OTHER RECEIVABLES

Due from Employees	900	10,061
Prepayment	1,625	1,338
Due from Former Employee/Others	856	42,001
Others (Deposit/Travel Advance)	701	-
Interest Due	19,159	67,245
Loans to Individuals	-	11,912
Less: Reserve for Doubtful Debts	-	(9,157)
Less: Reserve for Non-Recurring Item	-	(15,246)
	23,241	108,154

**SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION
NOTES TO ACCOUNTS
FOR YEAR ENDING 31 DECEMBER 2002**

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5 OTHER CREDITORS AND ACCRUALS	2002	2001
Interest Payable	1,852	1,325
Accrued Expenses	11,967	13,807
	<u>13,819</u>	<u>15,131</u>

6 FIXED ASSETS

2002	Cost	Accumul. Deprec.	Depreciation Charge	Net Book Value
Office Equipment	6,809	3,155	1,353	3,654
Computers	29,380	13,264	5,876	16,116
Furniture and Fittings	12,358	5,994	2,553	6,364
Leasehold Improvements	11,194	5,585	1,396	5,609
Motor Vehicles	103,626	86,254	32,970	17,372
	<u>163,367</u>	<u>114,252</u>	<u>44,148</u>	<u>49,115</u>

2001	Cost	Accumul. Deprec.	Depreciation Charge	Net Book Value
Office Equipment	6,304	1,801	1,094	4,504
Computers	29,380	7,388	4,351	21,992
Furniture and Fittings	11,317	3,442	2,052	7,876
Leasehold Improvements	11,194	4,189	1,396	7,005
Motor Vehicles	101,389	70,643	43,959	30,746
	<u>159,585</u>	<u>87,462</u>	<u>52,852</u>	<u>72,122</u>

7 LOAN CONTINGENCY RESERVE

	WST	NZD	2002	2001
Loan Contingency Reserve			41,505	266,459
Balance at Year-End 2001	436,263	266,459		
Foreign Exchange Effect on Transfer	0	(6,577)		
Opening Balance for 2002	436,263	259,882		
Less: Write-off - Loans (P+I)	(341,987)	(203,722)		
Less: Write-off - Former Employees	(24,602)	(14,656)		
Ending Balance for 2002	<u>69,674</u>	<u>41,505</u>		

8 SOFT LOANS/QUASI EQUITY

	2002	2001
Grameen Trust	29,412	33,958
PlaNet Finance	-	20,458
SPBD-USA	107,846	114,850
Scott Gilmore	10,000	2,000
Gregory F. Casagrande	1,172,500	1,070,000
Total	<u>1,319,758</u>	<u>1,241,265</u>

8 SOFT LOANS/QUASI EQUITY (cont'd)

Grameen Trust

SPBD received a loan of USD \$15,000 from Grameen Trust. The loan is to be paid off within two years beginning September 2003. The interest rate is 2% p.a. on the balance outstanding at the end of December every year.

PlaNet Finance

SPBD received a loan of EUR \$10,000 in 2001 from the PlaNet Finance. The loan, bearing an interest of 6% p.a., was fully repaid back on 1 September 2002.

SPBD-USA

SPBD received a loan of USD \$50,000 in 2001 from SPBD-USA, of which USD \$10,000 was allocated for Technology and Good Governance Account as provided in the agreement. An additional loan of USD \$5,000 was received in 2002 which brings the total to USD \$55,000. The loan is to be repaid within 3 years beginning 30 March 2004. The interest rate is 1% p.a. on the balance outstanding at the end of December every year.

Scott Gilmore

SPBD received two loans from Mr. Gilmore (NZD \$2,000 in 2001 and NZD \$8,000 in 2002) totaling NZD \$10,000 at 0% p.a. interest rate.

Gregory F. Casagrande

This is a long term, low interest loan from Gregory F. Casagrande, SPBD's Founder, Chairman and President. The loan has been used to finance the start-up and growth of SPBD. The loan balance as of year-end 2002 is NZD \$1,172,500. The loan is composed of 7 different tranches with varying interest rates and durations. The average loan interest cost is under 3% p.a. The loan is to be paid down in increasing quarterly payments as SPBD becomes financially viable with a final principal payment in 2007.

9 EXTRAORDINARY ITEM

This relates to a non-recurring provision for possible losses which have been assessed by management as not being recoverable due to theft committed by a former SPBD Center Manager who is now serving time in jail for her theft.

10 GRANTS

SPBD received a USD \$35,000 grant from SPBD-USA to further expand our microcredit loan portfolio.

11 COLLECTION FEES - DELINQUENT LOANS

Starting in 2002, SPBD has turned over a number of defaulted loans to Drake & Co., a legal firm to initiate legal action for loan recoveries. There is a normal delay between hiring the legal firm, paying legal fees, securing court orders and receiving collections. Significant loan recoveries are expected in fiscal year 2003.

12 LOAN LOSS PROVISIONING

The purpose of the loan provisioning policy is to set aside adequate funds to cover for potential losses associated with SPBD's loan portfolio. Loan loss provisioning is conducted no less frequent than quarterly in conjunction with the preparation of quarterly financial statements. Due to improved loan portfolio conditions and existing high level of reserves, no additional reserve for bad debts is made for 2002.

13 LOAN WRITE-OFF

The purpose of the loan write - off is to remove from SPBD's balance sheets loans in arrears, where there is no hope of any material loan payment recovery. Any loan in arrears exceeding 24 weeks (normal loans) or 12 weeks (flexible loans) are short listed for potential write -offs. A review for possible write-offs is done twice a year.

14 GENERAL

SPBD is a microfinance organization founded by Gregory F. Casagrande, which was registered on 18 January 2000. SPBD is a Grameen Bank replication and as such provides training, unsecured credit and motivation to mostly poor women for the purpose of starting or expanding small businesses. These small businesses enable SPBD's members to significantly improve the lives of their families. SPBD also provides unsecured housing improvement and childhood education loans to members with successful businesses.