

BORDER RURAL COMMITTEE
(Association incorporated under Section 21)
REGISTRATION NUMBER 1998/020094/08

31 DECEMBER 2005

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APPROVAL OF ANNUAL FINANCIAL STATEMENTS

The Directors are responsible for the presentation to stakeholders of the financial position at the end of the financial year, and of the results for the year as set out in the Financial Statements.

The Financial Statements have been prepared on a going concern basis, in accordance with the provisions of the Companies Act, conform with applicable accounting standards, and are presented, applying consistent and appropriate accounting policies, supported by reasonable and prudent judgement estimates.

Management has been delegated with the responsibility of implementing systems of internal control and maintaining accounting and information systems designed to provide reasonable assurance as to the reliability of the Financial Statements, ensuring that assets are safe-guarded and that transactions are executed and recorded in accordance with generally accepted business practices and procedures and that the risks of error, fraud and loss are reduced in a cost-effective manner.

The external auditors are responsible for auditing and reporting on the Financial Statements in the course of executing their statutory duties. Their report is set out on page 1.

The annual financial statements on pages 6 to 12 were approved by the Directors on 2 March 2006 and signed on its behalf by:-

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REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF
THE BORDER RURAL COMMITTEE

We have audited the annual financial statements which comprise the balance sheet, income statement, cash flow statement and related notes of the Border Rural Committee set out on pages 2 to 12 for the year ended 31 December 2005. These financial statements are the responsibility of the company's directors. Our responsibility is to audit the financial statements and to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with South African Auditing Standards issued by the Auditing Standards Committee. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company at 31 December 2005 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice, and in the manner required by the Companies Act.

S K WHITFIELD & CO
REGISTERED ACCOUNTANT AND AUDITORS
CHARTERED ACCOUNTANTS (SA)

2 March 2006

BORDER RURAL COMMITTEE

REPORT OF THE DIRECTORS 31 DECEMBER 2005

GENERAL REVIEW

Strategic and programme review

As anticipated in our previous report, BRC's protracted period of consolidation ended in 2004. 2005, the first year of our new strategic cycle, saw significant organisational growth and expansion. This growth is reflected in all sections of this report.

There were two main components of programme work implemented during 2005, namely the Vulamasango Singene ('Open the door so that we can go in') campaign and restitution-related development work in Keiskammahoek and Cata. Both these components of work are central to our vision of rights-based rural development, as outlined in our strategic plan.

Since 2002, our most significant advocacy intervention has been to push for redress for victims of betterment dispossession through the Vulamasango Singene campaign. We entered 2005 with a firm conviction that the most pressing campaign priority was to expand its community base. In order to achieve this objective in a sustainable manner, we shored up the methodology and systems underpinning the campaign. More specifically, we developed a 'three-phase' methodology and instituted a comprehensive information management system. The three phases are (1) initialisation of community education and organisation, (2) implementation of district-level work, and (3) deepening the process in the post-mass action period.

These advances enabled us to achieve significant expansion. During the year, we facilitated the establishment of committees in 198 villages, in the districts of King Williams Town, Herschel/ Sterkspruit and Cofimvaba/ Tsomo. Through this work, we engaged directly with over 30 000 people. That is, over 30 000 people attended campaign meetings and signed declaration forms addressed to the Minister for Agriculture and Land Affairs.

One of the new educational tools that we introduced during 2005 was the 'speak-out'. This process involved identifying people in affected villages who had lived through the dispossession, assisting them to prepare their testimonies, and arranging and convening plenary sessions where they could share their experiences and stories with the general village population. These tasks were performed by the respective village committees. During the second half of the year, over 900 elderly people 'spoke out' across the above-mentioned villages, to about 13 000 of their fellow villagers.

This groundwork paved the way for three successful events of mass activity towards the end of the year. On 27 September about 6000 people marched through the streets of King Williams Town, en route to submitting their declaration forms and a memorandum to government officials. Then, on 27 October, 600 community leaders from Herschel/ Sterkspruit participated in a mass educational session. Finally, on 3 December approximately 7000 people from the villages in Cofimvaba/ Tsomo descended on the Chris Hani Stadium at Magwala to attend a campaign concert. It is not an exaggeration to assert that the Vulamasango Singene campaign is now established as the most significant social movement in the land sector in South Africa. We also note that most of the people who participated in campaign activities in 2005 were women.

One of the reasons that we were able to significantly expand the community base of the campaign was that we intensified our strategy of targeted networking. More specifically, we continued to invest heavily in communicating with Alliance structures at both local and provincial levels, and we sought out and established links with a variety of partner organisations. In this regard, particular mention should be made of the useful contributions made by the Herschel Legal Advice Office and the Department of Communication at the Walter Sisulu University, to campaign activities.

The process of negotiating with government to agree on appropriate redress for victims of betterment dispossession limped along for the first three-quarters of the year. But the mass action described above ended government's complacency in this regard. By the end of the year, we had reached agreement on a number of key issues, including:

- Government will implement a 'betterment redress programme'.

- Institutional responsibility for the programme will vest with the Provincial Land Reform Office (PLRO).
- The criteria for eligibility for the programme will be very similar to those of the restitution programme.
- The programme will be claims-based.

By the end of the year, we were close to agreeing with government on the details of a finalised claim form. Also, we managed to convince government to allow direct community participation in the negotiation process.

The commencement of development work in Keiskammahoek (arising from the settlement of restitution claims in 2002) depended on the signing of all necessary agreements between involved government institutions. The signing was delayed by concerns about financial management capacity at municipal level. In an effort to resolve the impasse, BRC resorted to legal action from late 2004. In early 2005 this action yielded mixed results. Although we did not succeed in our court case, the judge forced the parties to return to the negotiation table. Here it was agreed that the development process will be administered by the district municipality rather than the local municipality. To this effect the overall Settlement Agreement was revised and all parties signed the amended agreement. Once the parties sign the revised financing agreement, the development process will finally begin.

During the hiatus period, we focused on building institutional capacity at village level, through training the development committees and establishing youth committees in seven of the nine claimant villages. The fact that we have managed to sustain community interest in the development process in the face of tremendous difficulties is an important outcome of our work.

In Cata we achieved some significant milestones during 2005. For example:

- The conversion of the seventy-hectare wattle jungle into a managed plantation was completed.
- An initial phase of upgrading the irrigation infrastructure was successfully undertaken. This paved the way for the initialisation of production on a portion of the land towards the end of the year.
- Good progress was made in the homestead food security project. About ten members of the project have exceeded the initial objective of enhancing household food security, and have consistently sold surplus to other community members.
- The heritage museum has been conceptualised, and capacity has been recruited to provide for the opening of this facility in mid-2006.

During this period we conducted an overall assessment of the development process as well as the evaluation of three completed projects (viz the hall, the wattle plantation and the 'water for food' homestead agriculture). The overall assessment was conducted using a questionnaire. The questionnaire was administered to 10% of Cata households, in a random fashion. Some of the findings were as follows:

1. Over two-thirds of the community believes that the interventions pertaining to the hall, classrooms, roads and homestead agriculture have been 'beneficial' or 'very beneficial'.
2. So far, the development process has created employment opportunities for 15% of community members.
3. 22% of community members believe that the development process has improved their economic situation, and 39% believe that it has improved their quality of life.
4. The institution most closely associated with the development process is the Communal Property Association.
5. 81% of the community members are happy with the development process and 64% believe that it has been carried out in a democratic manner.

Despite these advances we faced significant challenges in our work at Cata in 2005. For example, the institutional arrangements in place struggled to support key aspects of the development process. More specifically, the technocratic procedures of the Amatole District Municipality (the 'Administering Entity') have been inadequately flexible and responsive. This experience will inform our approach to negotiations about institutional mechanisms for decentralized development under the betterment redress programme.

Because 2005 was the first year in which we implemented the new strategic plan, we paid close attention to the extent to which all projects carried forward into the year fell into the overall framework of rights-based rural development. In this regard we were disappointed that we were unable to place our agricultural work in certain localities into a more integrated context. The reason for this is that our attempts to leverage funds from municipalities and local donors into these projects were unsuccessful. Consequently, we implemented exit strategies in Gasela, Ngxondoreni and Ann Shaw. Although this was a

difficult process, it has taken us to a point where we enter 2006 as an organisation that is very focused in relation to our strategic plan.

Institutional review

We maintain that the ultimate key to organisational sustainability is the role played by the membership. During 2005, we focused on strengthening the involvement of our members in the planning of organisational programmes. This involved orientation, training and practical involvement in planning (at project level).

The increased role of community members in the life of BRC was also reflected at board level. When one of our non-executive directors, Joe Jordan, tendered his resignation because of time pressures, we approached one of our community members, BN Gcilitshana, to fill this vacancy. Bethwell accepted this request; he is the first community director in the history of BRC.

In 2005, we increased the size of staff and implemented a mini-restructuring exercise to improve the internal balance between programme and administration capacity. The strategic plan committed the organisation to "moderate growth in the size of staff, through recruiting new employees on short-term contract". During the course of 2005, we recruited three new employees into the organisation in this manner. All three were integrated into the organisation through a focused induction programme. At the end of the year our total staff complement was thirteen.

Similarly, an "immediate priority" outlined in the strategic plan was the re-deployment of an employee located in the Administration Department, into the Programmes Department. In order to give effect to this decision, the department embarked on a restructuring exercise from the beginning of the year. The department conducted various experiments in relation to task allocation and performance and the three non-management staff in the department were all given appropriate training opportunities. By the end of 2005, the department had successfully completed the restructuring exercise.

Finally, during 2005 the cumulative tally of all staff's years of service at BRC reached 100. This is a major milestone and it reflects both stability of the staff complement and the commitment of individual employees to the organisation.

REVIEW OF OPERATIONAL RESULTS

The financial position of the Company and the results of its operations and cash flows for the year are fully contained in the financial statements here presented.

The comparison of actual to budgeted expenditure for the current year is as follows:

	ACTUAL	BUDGET	VARIANCE	% SPENT
Administration	550052	550000	-52	100
Programme costs	858476	827500	-30976	104
Consultants	240315	220000	-20315	109
Accommodation & expenses	48212	43800	-4412	110
M/V running costs	312368	292500	-19868	107
Printing & stationary	64011	71500	7489	90
Salaries	2091403	1918700	-172703	109
Inputs	860972	780000	-80972	110
Travel	27711	26000	-1711	107
Workshop expenses	571971	520000	-51971	110
TOTAL	5625491	5250000	-375491	107

This comparison shows that our actual total expenditure was 107% of budgeted expenditure. More or less, this percentage of over-expenditure is reflected in the respective budget lines. In this regard we note that we did not have a single instance of expenditure greater than 110% of the budgeted figure.

BRC formulates its initial annual budgets a few months before the commencement of each new financial year. These initial budgets are amended in the middle of each year, based on actual expenditure and actual income in the first six months, and projected expenditure and income for the second six months. Our initial budget for 2005 was approximately R6,1 million. In July, we reduced this figure to R5,25 million. However, the volume of mass action supported in the final quarter of the year was greater than anticipated and late in the year we received unexpected income from a number of donors. Thus we approved the moderate over-expenditure reflected in these figures.

In 2004 BRC spent R3,35 million, whereas in 2005 we spent R5,62 million. This constitutes an increase in expenditure of 67%. This was necessary given our increased scope of work. We managed to achieve this increase without compromising either operational efficiency or the strength of the balance sheet. The

overall balance sheet value increased from R9,7 million in 2004 to R11,1 million in 2005.

CONCLUSION

As the Vulamasango Singene campaign escalates to a culmination point, we feel a sense of both excitement and responsibility. In 2006, the parties involved in the negotiation process will decide on many crucial issues which will have important implications for the rural poor in Ciskei and Transkei for the next decade at least. However, before getting too swept up in the moment, we would like to reflect for a moment on the fact that we have arrived at this point, at the brink of history. A few years ago, the land reform community thought that we were misguided and unrealistic to take up this fight. Yet we did, because we understood that for the rural poor, their most vivid and dastardly encounter with apartheid was betterment dispossession. Consequently and unsurprisingly, they have responded en masse to the campaign. And the key point is that without the tens of thousands of people who have embraced the campaign as their own, we would have had no chance of reaching this point. We dedicate this report to each and every supporter of the campaign.

Directorate

B N GCILITSHANA	Appointed 17 October 2005
P GROOTBOOM	Appointed 8 June 2005
T W S JORDAN	Resigned 17 October 2005
R A KINGWILL	
G N MATEBESE	
M A NKOTA	Resigned 8 June 2005
J J ROODT	
Z R SEMANE	
A F H WESTAWAY	

Physical Address

16 St George's Road
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REPUBLIC OF SOUTH AFRICA

Registered Office

247 Oxford Street
East London
REPUBLIC OF SOUTH AFRICA

BORDER RURAL COMMITTEE

BALANCE SHEET
31 DECEMBER 2005

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		<u>R</u>	<u>R</u>
<u>ASSETS</u>			
Fixed Property		600 000	600 000
Motor Vehicles		211 628	81 882
Furniture & Equipment		<u>139 460</u>	<u>79 740</u>
PROPERTY, PLANT & EQUIPMENT	2	951 088	761 622
INVESTMENTS	3	152 704	595 602
CASH ON TERM DEPOSIT		7 346 476	6 059 141
Deposits		1 500	1 500
Accounts receivable		71 710	17 147
Staff loans	4	43 346	8 400
Cash at bank		114 959	105 801
Cash on short term deposit		2 436 966	2 151 491
Cash on hand		<u>2 352</u>	<u>1 211</u>
CURRENT ASSETS		<u>2 670 832</u>	<u>2 285 550</u>
TOTAL ASSETS		<u>11 121 101</u>	<u>9 701 915</u>
 <u>FUNDS AND LIABILITIES</u>			
ACCUMULATED FUNDS			
Capital Fund	5	951 088	761 622
Revenue Reserve	6	7 499 180	6 654 743
Human Resources Reserve	7	330 000	190 000
DONOR FUNDS	8	508 742	1 581 675
Grants in advance		1 000 000	-
Accounts payable		288 411	169 303
Provisions	9	<u>543 680</u>	<u>344 572</u>
CURRENT LIABILITIES		<u>1 832 091</u>	<u>513 875</u>
TOTAL FUNDS AND LIABILITIES		<u>11 121 101</u>	<u>9 701 915</u>

BORDER RURAL COMMITTEE

**INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	<u>2005</u>	<u>2004</u>
	R	R
Grants and donations	4 511 051	4 167 773
Interest	625 112	509 865
Contracts	137 599	228 000
Miscellaneous receipts	<u>123 233</u>	<u>78 749</u>
Total Income	<u>5 396 995</u>	<u>4 984 387</u>
<u>EXPENDITURE</u>		
Administration Expenses	267 920	267 192
Furniture and Equipment	100 932	38 939
Motor Vehicle	181 200	-
Projects, Field & Related Expenses		
Accommodation	48 212	22 139
Travel and conference fees	27 711	6 393
Workshops	571 971	262 340
Inputs	860 972	171 039
Motor vehicle expenses	312 368	157 965
Consultants	240 315	392 943
Programme costs	858 476	575 985
Printing and Stationery	64 011	24 737
Salaries and associated charges	<u>2 091 403</u>	<u>1 439 211</u>
	<u>5 075 439</u>	<u>3 052 752</u>
Total expenditure	<u>5 625 491</u>	<u>3 358 883</u>
(Deficit) / Surplus for the year	<u>(228 496)</u>	<u>1 625 504</u>
Apportioned as follows:		
Revenue Reserve	844 437	797 643
Donor Funds	<u>(1 072 933)</u>	<u>827 861</u>
	<u>(228 496)</u>	<u>1 625 504</u>

BORDER RURAL COMMITTEE

**CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005**

	<u>2005</u>	<u>2004</u>
	R	R
Surplus for the year	(228 496)	1 625 504
<u>Add: Fixed assets capitalised</u>	282 132	38 939
Increase in reserves	<u>140 000</u>	<u>40 000</u>
Cash generated	193 636	1 664 443
Decrease/(Increase) in debtors	(89 509)	22 130
(Decrease)/Increase in creditors/provision	<u>1 318 216</u>	<u>(200 054)</u>
Net cash inflow	1 422 343	1 486 519
Purchase of fixed assets	(282 132)	(38 939)
Investments	442 898	523 407
Increase in cash on deposit	(1 287 335)	(1 903 178)
(Increase)/Decrease in cash on hand	<u>(1 141)</u>	<u>289</u>
Increase in cash balance	294 633	68 098
Cash balances at beginning of year	<u>2 257 292</u>	<u>2 189 194</u>
Cash balances at end of year	<u>2 551 925</u>	<u>2 257 292</u>

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2005

1. SUMMARY OF ACCOUNTING POLICIES

The following are the principal accounting policies of the company which are consistent in all material respects with those applied in the previous year. The financial statements have been prepared on the historical cost basis.

1.1 FIXED ASSETS

Fixed assets are written off in the income statement in the year of purchase thereby matching cost with the related grant income. Where fixed assets remain under the control of the company, these assets are capitalised, and thereafter depreciation is provided and written off over the estimated useful life of the asset.

Motor vehicles 20% straight line
 Furniture and equipment 10%-20% straight line

1.2 INVESTMENTS

Investments are stated at cost less any provisions for permanent diminution in value.

1.3 Certain salaries and associated costs have been allocated to programme costs on a systematic basis of time spent on the appropriate cost centre to which it relates.

1.4 PROVISIONS

Provisions are recognised when Border Rural Committee has a present legal and constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

1.5 REVENUE

Grants are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

2. PROPERTY, PLANT & EQUIPMENT

			<u>2005</u>	<u>2004</u>
<u>2005</u>	<u>Cost</u>	Acc <u>Deprec</u>	<u>Net</u>	<u>Net</u>
	<u>R</u>	<u>R</u>	<u>R</u>	<u>R</u>
Property	600 000	-	600 000	
Motor Vehicles	317 671	106 043	211 628	
Furniture & Equipment	<u>260 423</u>	<u>120 963</u>	<u>139 460</u>	
	<u>1 178 094</u>	<u>227 006</u>	<u>951 088</u>	
<u>2004</u>				
Property	600 000	-		600 000
Motor Vehicles	136 471	54 589		81 882
Furniture & Equipment	<u>263 197</u>	<u>183 457</u>		<u>79 740</u>
	<u>999 668</u>	<u>238 046</u>		<u>761 622</u>

Property comprises 16 St George's Road at cost (December 1998). Being Erf No 13785 East London situate in the Buffalo City Municipality, Eastern Cape Province - measuring 1366 square metres. Held in terms of Deed of Transfer T20646/1998.

Directors' Valuation of property – 31 December 2005: R800 000

BORDER RURAL COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 2005

	<u>2005</u>	<u>2004</u>
	R	R
Net Book Value at 1 January 2004	787 447	
Additions	38 939	
Depreciation	(62 136)	
Scrapped	<u>(2 628)</u>	
Net Book Value at 31 December 2004	761 622	
Additions	282 132	
Depreciation	(92 123)	
Disposals/ Scrapped	<u>(543)</u>	
Net Book Value at 31 December 2005	<u>951 088</u>	
3. INVESTMENTS		
Off-shore investments at valuation	<u>152 704</u>	<u>595 602</u>
Market Value at 31 December 2005	<u>175 152</u>	<u>595 602</u>
4. STAFF LOANS		
Includes loan to director for the purpose of enabling him to properly perform the duties as director.		
Car Loan P Grootboom		
Advance	25 000	
Interest charged	<u>729</u>	
Balance at end of year	<u>25 729</u>	
The loan is repayable in monthly instalments of R900 commencing January 2006.		
5. CAPITAL FUNDS		
Balance at beginning of year	761 662	787 447
Capitalisation of new asset	282 132	38 939
Assets sold or scrapped during the year	(543)	(2 628)
Depreciation	<u>(92 123)</u>	<u>(62 136)</u>
	<u>951 088</u>	<u>761 622</u>
6. REVENUE RESERVE		
Balance at beginning of year	6 654 743	5 884 891
Loss on investment	-	(27 791)
Net surplus for the year	<u>844 437</u>	<u>797 643</u>
	<u>7 499 180</u>	<u>6 654 743</u>
7. HUMAN RESOURCES RESERVE		
Balance at beginning of year	190 000	150 000
Current year charged to income statement	<u>140 000</u>	<u>40 000</u>
Balance at end of year	<u>330 000</u>	<u>190 000</u>

BORDER RURAL COMMITTEE

NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 2005

8. DONOR FUNDS

	Opening Balance	Revenue	Expenditure	Balance at end of year
Total	<u>1 581 675</u>	<u>4 538 829</u>	<u>5 611 762</u>	<u>508 742</u>
Global Ministries UPCN	65 084	-	65 084	-
Africa Group of Sweden	-	652 310	652 310	-
Embassy of Finland	1 101 962	81 797	1 183 759	-
HIVOS	-	793 980	611 939	182 041
Foundation for Human Rights	171 736	270 000	441 736	-
Swiss Agency for Dev & Co-op (SDC)	-	50 000	50 000	-
SDC – TIP	124 476	100 000	224 476	-
North-South-Institute for Development Co-operation	118 417	535 294	535 047	118 664
Canadian Catholic Org for Dev and Peace	-	157 170	157 170	-
Embassy of Belgium	-	399 445	399 445	-
ICCO	-	552 881	552 881	-
Misereor	-	602 952	602 952	-
National Lotteries Board	-	<u>343 000</u>	<u>134 963</u>	<u>208 037</u>
	<u>1 581 675</u>	<u>4 538 829</u>	<u>5 611 762</u>	<u>508 742</u>

	<u>2005</u>	<u>2004</u>
	R	R
9. Provision for long and annual leave	<u>543 680</u>	<u>344 572</u>
10. The income statement has been (credited)/charged the following:		
Dividend Received	-	(559)
Audit Fee	16 950	15 000
Directors Emoluments		
- For managerial and other services		
A Westaway	407 210	386 415
Z Semane	273 013	256 806
M Nkota	85 334	188 526
P Grootboom	<u>133 966</u>	<u>-</u>
	<u>899 523</u>	<u>831 747</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)
31 DECEMBER 2005

11. TAXATION

The company has been approved as a public benefit organisation in terms of section 30 of the Income Tax Act, and the receipts and accruals are exempt from income tax in terms of section 10(1)(cN) of the Act. The company is registered in terms of the Nonprofit Organisations Act, 1997. The registration number is 014-120 NPO.

12. FUNCTIONAL CURRENCY

The financial statements are denominated in South African Rand which is the functional currency of the Company. In order for donors to convert these financial statements the approximate rates of exchange at 31 December 2005.

	2005	2004
	<u>R1</u>	<u>R1</u>
1 US Dollar	6,34	5,58
1 Euro	7,57	7,57
1 CHF (Swiss)	4,90	4,90