sefa

Annual Report

FY2020

“The Living Learning program will empower young people to navigate their own pathway to a positive future”.

Vicki Sutton
Chief Executive Officer, MCM

Chair's Report

It has been my pleasure to work with the Board and team of Sefa and Sefa Partnerships over the past year and it has been a year like no other!

On behalf of the Sefa Board, thank you to all of our key partners and stakeholders - social enterprises, community organisations, shareholders, investors and other key people across the impact investment ecosystem.

A key focus over the past year has been Sefa's refreshed strategy, developed using a theory of change framework. Sefa's 'impact statement' comprises three main parts: social finance, social investment, and partnerships. (Please see the PATHWAYS TO SOCIAL IMPACT diagram on page 3 of this report).

The statement focuses on the demand side, alongside a goal to shift the mindset of investors about investing with purpose. It acknowledges the need for Sefa to work with capital and capability, to increase capacity in purpose driven organisations.

The strategy will be achieved through a stronger connection between Sefa and Sefa Partnerships which includes a shared board of directors, a joint strategy, collaborative teams and shared resources.

With Sefa and Sefa Partnerships working together, both teams will be better equipped to meet the demand from purpose-driven organisations across the development spectrum. The resources from both organisations will co-operate to achieve investment readiness. Sefa will bring the technical focus on capital structuring and capital raising. Sefa Partnerships will bring their focus on building capability and blended finance.

Underlining the new strategy and alignment with Sefa Partnerships, the Sefa Board has delegated authority to a new independent Investment Committee composed of professionals from diverse backgrounds. This diversity aligns with Sefa's principles-based approach to investing, to provide bespoke financial solutions to clients.

Finally, Sefa is recognising that partnerships are at the core of how we do things, which is evident in the following examples.

- As part of the sale of C21's 50% share in Community Sector Banking (CSB) to Bendigo and Adelaide Bank, CSB's Sefa shareholding was transitioned to C21, a company with 38 not-for-profit organisation shareholders. C21 and Sefa are mission aligned to advance the financial future of the not-for-profit sector and allow equitable access to capital.
- NSWALC is Sefa's largest shareholder. When Covid-19 brought to light the urgency of food security, Sefa explored the issue with a community and social business lens. Alongside NSWALC, Sefa made a submission to a parliamentary inquiry on the subject.
- To support Impact Investment Group's (IIG) increased focus on impact investing within the social debt arena, they have approached Sefa to work across their Impact Alternatives Fund and WA Impact Fund. They are seeking Sefa's unique skills and experience working with purpose-driven organisations to unlock additional investment capital. Jeremy Burke, IIG's Head of Product and Strategy, has also joined Sefa's Investment Committee, which will further strengthen this partnership.

Belinda Drew
CHAIR SEFA, CHAIR INVESTMENT COMMITTEEE,
NON-EXECUTIVE DIRECTOR SEFA PARTNERSHIPS

A Message from the CEO

As we reflect on the past financial year, it's impossible to ignore the impacts of Covid-19 on our lives and workplaces. The pandemic has certainly thrown new challenges into the mix for Sefa.

Always identifying new opportunities, we have developed our Building Back Better concept note to add value to organisations through capability building. We have also been selected as a lender as part of the Federal Government's Coronavirus Small and Medium Enterprise (SME) Guarantee Scheme. Sefa is currently the only chosen lender to focus wholly on lending to purpose-driven organisations. We are looking forward to our first loan through this scheme, trusting that it will enable us to play in the working capital space.

Towards the end of FY19-20 we welcomed three new Sefa team members including Renee Martin (Head of Engagement) who will bridge our key pillars of capital and capability. We also welcomed two new Social Finance Relationship Managers: Leo Mburu and Luisa Muller.

These three hit the ground running during lockdown and the challenges that come with working from home. Tanya Wong joined us more recently as our third Social Finance Relationship Manager.

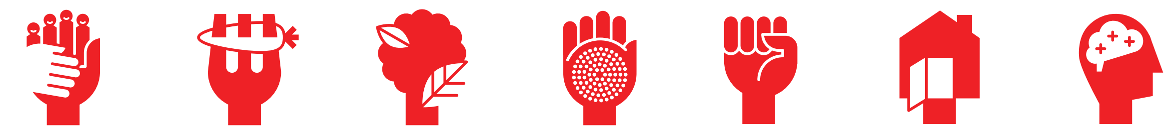
In line with our strategic priorities, we are moving into FY2021 continuing to strengthen our fee for service offering, allowing Sefa to deepen our impact via different pathways and work with larger not-for-profits on innovative structures. This was evident in our work in 2019 with Melbourne City Mission's Living Learning capital raise, an outcomes-based contract and partnership between the Victorian Government, five leading Australian foundations and the not-for-profit sector. We have also been engaged by Lord Mayor's Charitable Foundation to conduct research on catalytic models for philanthropic capital in the affordable housing market.

Looking to the future, we are excited about our pipeline and emerging conversations. We look forward to driving thought leadership, catalytic capital and celebrating our 10-year anniversary next year!

H. Ebeling

Hanna Ebeling
CHIEF EXECUTIVE OFFICER

Our Impact Areas



Community Enterprise | Food | Environment | Indigenous Development | Disability | Crisis & Affordable Accommodation | Education

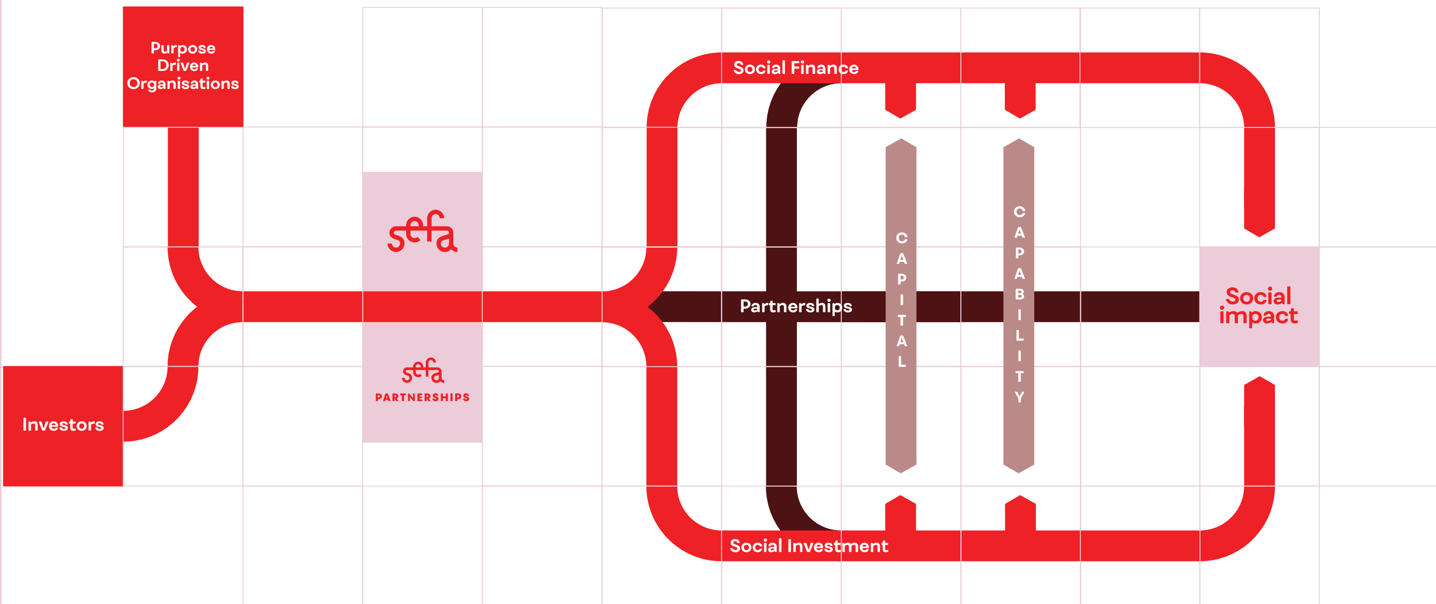
Sefa and Sefa Partnerships work together to support purpose-driven organisations and investors.

We do this through both capital and capability building.

We walk beside organisations on their pathways to becoming sustainable, and offer support beyond just finance.

We believe that the most effective way to unlock this social impact is to work in partnership with other organisations.

Sefa Pathways to Social Impact



We use three main approaches to achieve social impact:

Investment from Sefa's balance sheet

CAPITAL

See case study page 4: The Sydney Retreat

Co-investment in partnership with philanthropy, government and other impact investors

CAPITAL and CAPABILITY

See case study page 5: Shopfront

Professional fee for service, including due diligence and investment readiness

CAPABILITY

See case studies pages 6 and 7: Melbourne City Mission - Living Learning, and Lord Mayor's Charitable Foundation

The Sydney Retreat

LOAN

The Sydney Retreat was established to address the urgent need for reasonably priced facilities for alcoholics and addicts. The organisation became an incorporated charity in 2015, with the goal of becoming a not-for-profit residential facility for recovery from drug and alcohol addiction. Led by a psychiatrist with specialist expertise in addiction treatment, the Sydney Retreat aims to bring about long-term solutions for addicts and their families.

Impact areas

Community Enterprise

"The Sydney Retreat, an important facility and a first for Sydney, really does owe its development to Sefa. They are at the heart of the Sydney Retreat. The finance they have provided gives flexibility and certainty to this vital project. Sefa have been terrific."

JOHN MALONE, CEO
thesydneyretreat.org.au

The Sydney Retreat will offer 40 beds for a 30-day residential education program.

The service will be approximately 75% cheaper than private clinics.

All staff will have at least three years recovery from alcohol or drugs and be well connected with the local Alcoholics Anonymous community.

Up to 240 clients will benefit from their rehab each year.

The program will provide round-the-clock trained counselling staff.

Shopfront Arts Co-op, Sydney NSW

LOAN

Shopfront is a youth-led arts co-operative focusing on developing young people's creativity, confidence and communication. The co-op provides space where they come together to learn, share and bring their imaginations to life. Shopfront believes all young people have a right to expression – no matter their background or ability. That finding their voice and ensuring it is heard is crucial to them, as it is to Australia's cultural landscape.

Impact areas

Disability

Community Enterprise

"Sefa came on board right at the beginning of the process. We were able to leverage their support to obtain government funding, and then Sefa introduced us to the Vincent Fairfax Family Foundation. Sefa helped us to develop a really sound financial strategy. It really felt like a wonderful partnership between Sefa, VFFF and Shopfront, like we all had skin in the game."

DANIEL POTTER, CEO
shopfront.org.au

Shopfront will be able to support an **extra 1,160** participants

Grow annual audiences by **40%**

Co-locate with **six** arts/ community organisations

Six additional offices and one new large rehearsal and performance space will generate supplementary rental income, reducing dependence on government funding.

Lord Mayor's Charitable Foundation (LMCF)

PARTNERSHIP

LMCF has engaged Sefa to conduct a research project on the best models to use for philanthropic capital in the affordable housing market. The project will include a review of domestic and international research on the financing of affordable housing developments.

Impact areas

Crisis & Affordable Accommodation

This project will consider how investment can be layered so that each element of the capital structure is deployed most effectively, particularly considering philanthropy's role.

A high-level comparison of innovative housing models will be undertaken to provide insights about the costs, benefits and scalability of various approaches.

The key findings will be publicly available and provide a starting point for foundation investors.

At a time when affordable housing has the attention of state and federal governments this contribution has the potential to drive innovation and systemic change.

MCM - Living Learning

FEE FOR SERVICE

During the past year Sefa worked with Melbourne City Mission (MCM) on their Living Learning project as part of Partnerships Addressing Disadvantage, an initiative of the Victorian Department of Treasury and Finance. Living Learning works with students of The Hester Hornbrook Academy who previously experienced complex barriers to school engagement and completion. Central to the program is ongoing and personal mental health support.

Impact areas

Education

Sefa worked with MCM and Latitude Network to structure the blended capital and advise on a suitable mechanism to attract financial support for Living Learning.

We also identified suitable investors and supported MCM in the capital raising phase. Five leading philanthropic investors contributed $4m in impact investing.

The successful financing of MCM's Living Learning program via an outcomes-based contract with the Victorian Government is

a ground-breaking impact investment

in several respects:

The first 'Partnership Addressing Disadvantage' to be signed in Victoria.

An impact investment partnership between Government, Philanthropy and the not-for-profit sector that does not rely on external, non-philanthropic investors.

A new investment structure, backed by an Australian Tax Office ruling, which allows trusts and foundations to combine their granting with their corpus for social impact investments.

Table of contents

Directors' Report

Social Enterprise Finance Australia Limited ("SEFA" or the "Company") is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office is Level 1, 1-3 Smail Street, Ultimo NSW 2007.

The directors present their report together with the consolidated financial report of the company, being the Company and its controlled entities – SEFA Investments Limited and the SEFA Loan Fund, or collectively the "Group", for the 30 June 2020 financial year, and the auditor's report thereon.

Directors:

The following persons were directors of Social Enterprise Finance Australia Limited during the financial year and up to the date of this report:

Belinda Drew (appointed 1 January 2017)
Louise Sylvan (appointed 26 October 2011)
Jay Bonnington (appointed 12 September 2016)
Professor Jack Beetson (appointed 1 January 2017)
Scarlet Reid (appointed 29 November 2019)
David Rickards (appointed 23 June 2020)
Lila D'Souza (appointed 9 September 2020)
David Bennett (appointed 1 October 2013, resigned 7 September 2019)
Alastair McGibbon (appointed 1 February 2017, resigned 29 November 2019)
Andrew Cairns (appointed 14 March 2018, resigned 17 March 2020)

Biographies of Directors:

Belinda Drew

Belinda has over 20 years' experience in the community services industry having worked across disability, homelessness, child protection and housing. Belinda was appointed Chair of Social Enterprise Finance Australia Ltd on 7th September 2019.

During the most recent decade of her career, Belinda was focused on building the social investment market in Australia in her role as the CEO of Foresters Community Finance. Most recently Belinda joined the Community Services Industry Alliance as inaugural CEO of a company focused on representing the value of the community services industry to government and the business sectors. Belinda has a passion for the community services industry and contributing to the task of building a strong, sustainable and contemporary sector across Australia.

Belinda is currently: Director of BuyAssist Australia, Director of National Affordable Housing Consortium Board (NAHC), Director of Moreton Bay College Foundation and Director of SEFA Partnerships.

Directors’ Report (continued)

Louise Sylvan

Louise was previously CEO of the Australian National Preventive Health Agency (ANPHA), a Commissioner of the Productivity Commission, and Deputy Chair of the Australian Competition and Consumer Commission. She has also been Chief Executive of the CHOICE - Australian Consumers’ Association, President of Consumers International, Deputy President of the Council of the Medical Foundation of the University of Sydney, a non-executive Director of the UNSW Diplomacy Training Program, and has chaired the OECD’s work on Economics for Consumer Policy. Other roles include six years on the Australian Prime Minister’s Economic Planning Advisory Council, eleven years on the Australian Statistics Advisory Council to the Australian Bureau of Statistics and memberships of the Expert Group on Electronic Commerce and the Self Regulation Task Force.

Louise is currently: Chair of Energy Consumers Australia; Member of NSW Aboriginal Land Council Economic Development Advisory Council; Deputy Chair of Australian Advisory Board on Impact Investing; Director of Australian Risk Policy Institute; Director The Australian Centre for Social Innovation; Chair of The Reliable Affordable Clean Energy (RACE) for 2030 Cooperative Research Centre and Director SEFA Partnerships.

Jay Bonnington

Jay has over 20 years’ experience as a non-executive director on public and private companies, as well as government and advisory boards. Jay has experience in a range of sectors including construction, engineering, energy, manufacturing, utilities, financial services, superannuation and health. She also has experience as a CEO and senior executive in international organisations. From a chartered accounting background, with over thirty years’ experience in various sectors, she has deep operational corporate finance experience.

Jay is currently: Independent Chair of Philanthropy Australia Finance, Risk and Compliance Committee; Independent Chair of the Commercial Passenger Vehicles Victoria (CPVV) Audit, Risk and Compliance Committee and Director of SEFA Partnerships.

Professor Jack Beetson

Jack is a Ngemba Aboriginal man, from western NSW, who has played an active role in Aboriginal affairs in NSW, nationally and internationally for the last thirty years. He is a qualified adult educator, with a Diploma of Aboriginal and Community Adult Education and a Bachelor of Adult Education from UTS. He has completed the Certificate course run by the Australian Institute of Company Directors (AICD), recognised as the definitive program for company directors in Australia. In 2008, he was appointed an Honorary Adjunct Professor at the University of New England.

Jack is currently: Executive Director of the Literacy for Life Foundation and Interim Chair of National Aboriginal Environment Trust and Director of SEFA Partnerships.

Directors' Report (continued)

Scarlet Reid

Scarlet is a highly experienced workplace and regulatory lawyer and is a Partner in the Sydney office of McCullough Robertson. As a former prosecutor with SafeWork NSW, Scarlet is an accomplished litigator and conducts employment, regulatory, corporate and criminal law related litigation matters in various courts and tribunals throughout Australia.

Scarlet is the Australian Founder and Australian Chapter Leader of the Womens' White Collar Defense Association, which is a global organisation that promotes the common business and professional interests of women lawyers who specialise in white collar crime. Scarlet is a Director of SEFA Partnerships.

David Rickards

David was formerly the Head of Research and an Executive Director at Macquarie Bank. After he retired in 2012 he co-founded Social Enterprise Finance Australia Ltd (SEFA). David founded SEFA Partnerships in 2016. Before joining Macquarie Bank he was responsible for establishing the risk management company, BARRA International, in Australia. David was the Director and Treasurer of Bush Heritage Australia for nine years.

David is currently a member of the NSW TCorp Investment Committee, a trustee of the Australian Museum Foundation and a Director of the Australian Environmental Grant Makers Network and is Chair of the Sefa Partnerships Board.

Lila D'Souza

Lila is currently Managing Director of The Purpose Group, which specialises in supporting not-for-profit organisations to develop and lift their operations and to work more strategically and effectively. She is also Company Secretary of the Aboriginal Legal Service (NSW/ACT) and spent nine years at NSW Aboriginal Land Council. Lila has high level not-for-profit expertise in strategic and legal risk management and a keen commitment to good governance, diversity and social justice. Her work has spanned proponent-based projects as well as the for-purpose sector, enabling Lila to see different points of view. Lila is also a Director on the SEFA Partnerships Board.

David Bennett

David retired from Macquarie Group in August 2013 after 35 years in investment banking. He was an Executive Director and held the role of Group Treasurer before he retired. Prior to this David was Global Head Debt Capital Markets. Prior to Macquarie Group's acquisition of Bankers Trust Australia in 1999, David worked for more than 21 years in Bankers Trust's accounting, funds management and in fixed income businesses. David has extensive experience in advising, arranging and underwriting a range of financial instruments in both Australian and overseas. David retired from the SEFA Board on 7 September 2019.

David is currently: Member of Australian Advisory Board on Impact Investing; Chairman of Challenger Retirement Investment Services Limited; Investment Committee Member of Palisade Investment Partners; and Non-Executive Director of AquaSure.

Directors' Report (continued)

Andrew Cairns

Andrew Cairns joined Community Sector Banking as CEO in March 2016 having previously been with the Bendigo & Adelaide Bank Group for over 15 years. His prior roles include CEO of Community Telco Australia, and senior positions in the engineering, mining and pay TV industries where he gained a reputation for growing start-ups and fostering innovation. Andrew resigned from the SEFA Board on 17 March 2020.

Andrew is currently: actively engaged in his community and the not-for-profit sector as chair of Western Water and a Director of Loddon Mallee Housing Services and Director of Bendigo Affordable Housing Company.

Alastair McGibbon

Alastair has more than 20 years' experience in banking and social finance.

Prior to joining SEFA as CEO, Alastair spent 10 years with National Australia Bank where he held the position of Head of Banks and ADIs in the Financial Institutions Group, managing oversight of NAB's FIG transaction origination and counterparty relationships. He has also worked in Australia and offshore with CBA and BT Australia. Alastair resigned from the SEFA Board on 29 November 2019.

He volunteers with disadvantaged groups, with a particular focus on the homeless. Alastair has a degree in Economics from La Trobe University in Melbourne and has completed the Company Directors course with the AICD.

Meetings of Directors:

The number of meetings of the Company's board of directors held during the financial year ended 30 June 2020 was ten, and the number of meetings attended by each director was:

	Meetings eligible to attend	Meetings Attended
Belinda Drew	10	9
Louise Sylvan	10	10
Jay Bonnington	10	9
Jack Beetson	10	7
Scarlet Reid	5	3
David Bennett	3	3
Andrew Cairns	7	4
Alastair McGibbon	5	5

Directors' Report (continued)

The number of meetings of the Company's Audit and Risk Committee held during the financial year ended 30 June 2020 was six, and the number of meetings attended by each committee member was:

	Meetings eligible to attend	Meetings Attended
Louise Sylvan	6	5
Jay Bonnington	6	6
Andrew Cairns	4	3

Principal Activities:

The principal activity of the company during the 2020 financial year was the provision of loans and capability building support to Australian purpose-driven organisations. Assisting organisations to deliver social impact remains the core focus of SEFA and there were no significant changes during this financial period.

Review of operations:

SEFA continued to make good progress in 2019-20. Revenue from operations was down 9% on prior year to $1.16M due to lower interest income. Interest income was lower due to a combination of lower average loan book value over the year combined with the impact of lower interest rates. SEFA's strategy to diversify income and increase its fee-for-service offering has proven to be successful with over 50% growth in other income during the year.

This income diversification has resulted in improved financial performance with the operating loss (before provisions) of $108,095 for the year which represents an improvement of over $97,078 when compared with the prior year. This indicates the overall strengthening of the underlying business operations.

This year SEFA continued to support a broad range of purpose-driven organisations in acquiring finance to deliver social impact. The loan portfolio and blended finance deals continue to be the backbone of the organization and during the year two new clients were advanced loans and six clients managed to repay their loans in full. SEFA now has cumulative disbursements of more than $31 million achieved since formation of the business.

During the year, SEFA made the decision to write off the loan that was categorized as credit impaired in previous years. Despite management efforts, it was determined that this loan was uncollectible and resulted in a reduction of the loan portfolio of $447,000. As this loan was deemed credit impaired previously, it was provided for in the loan provision reserve and as such the write off did not have a significant impact on the current year's profitability.

The challenging Covid-19 environment in the second half of the financial year also impacted the purpose-driven sector economically. Close relationships with clients are at the centre of SEFA's operating model and as a result of early, proactive monitoring and management all outstanding loans continue to perform well.

Directors' Report (continued)

In addition to executing some solid blended financing outcomes, SEFA is securing mandates for its investment readiness, capital structuring and due diligence services. The recruitment of a new Head of Engagement role signifies SEFA's commitment to deepening partnerships and collaboration within the sector.

As a certified BCorp member, SEFA continues to prove its commitment to high standards of social and environmental performance, transparency and accountability. SEFA continues to invest in its people, as well as its own infrastructure. In 2020, SEFA invested in upgrading its IT infrastructure to support the growing needs of the business, particularly in the current environment.

Dividends:

The Company does not propose to declare a dividend for the year ended 30 June 2020.

State of Affairs:

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the year under review not otherwise disclosed in this report.

Significant Events after Balance Sheet Date:

There has not arisen in the interval between the end of the financial year and the date of this report any item, any other transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent years.

Future Developments:

Further information about likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Group.

Insurance and Indemnity of Directors and Officers:

During the financial year, the officers of the Company, including the directors as named earlier in this report, general managers, company secretaries and other executive officers were covered by insurance obtained by SEFA. This insurance indemnifies Directors and Officers against allegations of wrongdoing (other than intentional wrongdoing).

Indemnity of Auditors:

The Company has entered into an agreement to indemnify Ernst and Young, the auditor of the Group and its staff, against any liability (including legal costs) that Ernst and Young or its staff may incur in connection with any claim by a third party arising from the Group's breach of the terms and conditions of their engagement letter. No insurance premiums are paid out of the Group's assets in relation to insurance cover for the auditors of the Group.

Directors’ Report (continued)

Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001:

The Lead Auditor’s Independence Declaration, as required under Section 307C of the Corporations Act 2001, is set out on page 17.

This report is made in accordance with a resolution of the directors.

Dated at Sydney 28/ 10/ 2020

For and on behalf of the Board of Directors.

Belinda Drew
Chair of the Board

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Auditor's Independence Declaration to the Directors of Social Enterprise Finance Australia Limited

As lead auditor for the audit of Social Enterprise Finance Australia Limited for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Social Enterprise Finance Australia Limited and the entities it controlled during the financial year.

Ernst & Young

Kester Brown
Partner
28 October 2020

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2020

	Note	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Interest income	2	884,975	1,092,143
Other income	2	277,377	181,458
Total operating income		**1,162,352**	**1,273,601**
Administrative expenses	2	(1,078,645)	(1,185,065)
Funding costs	2	(183,559)	(262,250)
Loan provision reserve		(8,243)	(31,459)
Total expenses		**(1,270,447)**	**(1,478,774)**
Profit/(Loss) before taxation		**(108,095)**	**(205,173)**
Income tax (expense) / benefit	3	-	-
Profit/(Loss) for the year		**(108,095)**	**(205,173)**
Comprehensive income		-	-
Total comprehensive income attributable to:			
Owners of Social Enterprise Finance Australia		**(108,095)**	**(205,173)**

The Consolidated Statement of Comprehensive Income is to be read in conjunction with the notes to the financial statements set out on pages 22 to 35

Consolidated Balance Sheet

As at 30 June 2020

	Note	Year ended 30 June 2020 $	Year ended 30 June 2019 $
ASSETS			
Current Assets			
Cash and cash equivalents		**3,806,783**	4,014,117
Loans and advances to customers	**5**	**2,623,054**	3,214,050
Prepayment and other current assets	**6**	**56,199**	88,900
Total Current Assets		**6,486,036**	7,317,067
Non-Current Assets			
Fixed assets	**7**	**7,537**	1,326
Loans and advances to customers	**5**	**10,567,446**	12,236,802
Total Non-Current Assets		**10,574,983**	12,238,128
TOTAL ASSETS		**17,061,019**	19,555,195
LIABILITIES			
Current Liabilities			
External Borrowings	**9(a)**	**1,975,000**	2,350,000
Other liabilities and accruals	**8**	**182,818**	240,206
Total Current Liabilities		**2,157,818**	2,590,206
Non-Current Liabilities			
External Borrowings	**9(a)**	**6,135,417**	8,089,110
Total Non-Current Liabilities		**6,135,417**	8,089,110
TOTAL LIABILITIES		**8,293,235**	10,679,316
NET ASSETS		**8,767,784**	8,875,879
EQUITY			
Issued share capital	**10**	**2,240,000**	2,240,000
Retained earnings		**6,635,879**	6,841,052
Current Earnings		**(108,095)**	(205,173)
TOTAL EQUITY		**8,767,784**	8,875,879

The Consolidated Balance Sheet is to be read in conjunction with the notes to the financial statements set out on pages 22 to 35

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Note	Issued share capital $	Retained earnings $	Total $
As at 1 July 2018		**2,240,000**	**6,841,052**	**9,081,052**
(Loss) after tax		-	**(205,173)**	**(205,173)**
Total comprehensive income for the period		-	**(205,173)**	**(205,173)**
Transactions with owners in their capacity as owners:				
Share capital issued		-	-	-
Dividends paid		-	-	-
As at 30 June 2019	**10**	**2,240,000**	**6,635,879**	**8,875,879**
As at 1 July 2019		**2,240,000**	**6,635,879**	**8,875,879**
(Loss) after tax		**-**	**(108,095)**	**(108,095)**
Total comprehensive income for the period		**-**	**(108,095)**	**(108,095)**
Transactions with owners in their capacity as owners:				
Share capital issued		**-**	**-**	**-**
Dividends paid		**-**	**-**	**-**
As at 30 June 2020	**10**	**2,240,000**	**6,527,784**	**8,767,784**

The Consolidated Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements set out on pages 22 to 35

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Note	2020 $	2019 $
Cash flows from operating activities			
Payments to suppliers and employees		**(1,038,596)**	(1,141,327)
Interest costs paid		**(210,350)**	(265,415)
Interest income received		**891,455**	1,090,954
Other income received		**277,377**	144,703
Net cash used by operating activities	**15**	**(80,114)**	(171,085)
Cash flows from investing activities			
Loan principal repayments received from customers		**3,761,453**	3,376,955
Loans advanced to customers		**(1,559,980)**	(4,190,105)
Net cash used by investing activities		**2,201,473**	(813,150)
Cash flows from financing activities			
External borrowing received		**275,000**	379,928
External borrowing repaid		**(2,603,693)**	-
Net cash from financing activities		**(2,328,693)**	379,928
Net increase/(decrease) in cash and cash equivalents		**(207,334)**	(604,307)
Cash and cash equivalents at beginning of period		**4,014,117**	4,618,424
Cash and cash equivalents at end of period		**3,806,783**	4,014,117

The Consolidated Statement of Cash Flows is to be read in conjunction with the notes to the financial statements set out on pages 22 to 35

Notes to the consolidated financial statements

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied unless otherwise stated. The financial statements are for the consolidated entity consisting of Social Enterprise Finance Australia Limited and its subsidiaries. The Company is a for profit company limited by shares and incorporated in Australia.

(a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards - Reduced Disclosure Requirements, other authoritative pronouncements of the Australian Accounting Standards Board, and the Corporations Act 2001.

The Group has adopted AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements. The adoption of AASB1053 and AASB 2010-2 has allowed the Company to remove a number of disclosures, in particular the disclosures around Financial risk management objectives and policies.

AASB 16 Leases became effective for annual periods beginning on or after 1 January 2019. AASB 16 requires lessees to account for all leases under a single on balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. AASB16 will change the accounting treatment of operating leases held by the Company that fall outside of the two recognition exemptions of the new standard.

The Company has performed an assessment of all leases and has concluded that no leases that fall within the scope of AASB16.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(r) below.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(b) Foreign currency translation

Functional and Presentation currency

The Group's financial statements are presented in Australian dollars, which is Social Enterprise Finance Australia's and its subsidiaries functional and presentation currency.

(c) Revenue Recognition

Revenue recognition is in accordance with AASB15. Assessment is carried out to identify the contract with customer, performance obligations under the contract and transaction price. Transaction price is allocated to each performance obligation and revenue is recognised when a specific performance obligation has been satisfied.

Interest income

Interest income is recognised using the effective interest method, with interest accrued over the relevant period using the effective interest rate, which is the rate that exactly discounts the estimated future cash flows over the expected life of the financial asset to the net carrying amount of the financial asset.

Other income

Revenue is recognised when performance obligations are met - once the service as been provided to the customer.

(d) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Social Enterprise Finance Australia Limited ('Company') as at 30 June 2020 and the results of all subsidiaries for the year then ended. The Company and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(e) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(f) Taxation

Income tax on the profit or loss for the period comprises of current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates at the balance sheet date.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(g) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

For statements of cash flows presentation purposes, cash and cash equivalents consists of the cash and cash equivalent as defined above.

Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) Leases

Leases are recognised, measured and presented in line with AASB 16 Leases.

The application of AASB 16 requires the Fund to make judgements that affect the valuation of right-of-use assets and the valuation of lease liabilities. These include determining contracts within the scope of AASB 16, determining the contract terms and determining the interest rate used for discounting of future cash flows.

The lease terms determined by the Fund comprises non-cancellable period of lease contracts, periods covered by an option to extend reasonably certain not to exercise that option. The lease terms are applied to determine the depreciation rate of right-of-use assets.

For leases with terms not exceeding twelve months and for leases of low-value assets (less than $5,000), the Fund has exercised the optional exemptions. The lease payments under these contracts are recognised on a straight-line basis over the lease term as other operating expenses.

In all other leases in which the Fund acts as the lessee, the present value of future lease payments is recognised as a financial liability. Correspondingly, the right-of-use asset is recognised within property, plant and equipment at the present value of the lease liability. The present value of the lease liability is determined using the discount rate representing the weighted average incremental borrowing rate.

The right-of-use asset is depreciated on a straight-line basis over the lease term or, if shorter the useful life of the leased asset.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(i) Loans, advances and other receivables

Loans and advances are initially recognised at cost. Loans and advances are held at cost less provision for impairment. Loans, advances and other receivables are presented as current assets unless collection is not generally expected for more than 12 months after the reporting date. Individual impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. This may be after an interest or principal payment is missed or when a banking covenant is breached. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of any impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. In circumstances where an asset has been individually assessed for impairment and no objective evidence of impairment exists, then it will be subject to a collective assessment. Collective impairment is identified for classes of assets that share similar risk characteristics.

The loan provision reserve is currently based on a general provision following the application of IFRS9 as at year end. Applying IFRS9, credit risk assessment has been performed on SEFA portfolio, all loans are assessed as Stage 1 (Peforming). The 12 month expected credit losses are then calculated based on following parameters: actual interest rate of each individual loan, 2.6% probability of default and 90% expected loss given default.

(j) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are stated at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or classes of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid and are stated at cost. The amounts are unsecured and are usually paid within 90 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(m) Non-Loan Provisions

A non-loan provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, 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.

(n) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(o) Issued share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, for example as a result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(p) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(q) Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet where there is a legal right of offset and there is an intention and ability to settle on a net basis. The Group nets loans, deposits and derivative transactions where it enters into master agreements with counterparties where there is an intention and ability to settle net.

(r) Accounting Estimates and Judgements

The preparation of the financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Notes to the consolidated financial statements (continued)

Note 1 - Summary of Significant Accounting Policies (continued)

(r) Accounting Estimates and Judgements (continued)

Specific areas of accounting estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Impairment losses on loans and advances

The Group regularly reviews its loan portfolios carried at cost to assess for impairment. This review is conducted across all asset types and impairment provisions are established to recognise the risk of losses within the loan portfolios. As explained in the company's accounting policy on Loans, advances and other receivables, impairment loss calculations involve the estimation of future cash flows of loans and advances based on observable data at the balance sheet date, historical loss experience for assets with similar credit risk characteristics and other factors including, inter alia, future prospects of the customers, value of collateral held and reliability of information.

The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment provisions given the range of asset types, number of customers and current economic conditions. Consequently, these allowances can be subject to variation.

Coronavirus (COVID-19) impact

COVID-19, which is a respiratory illness caused by a new virus, was declared a world-wide pandemic by the World Health Organisation in March 2020. COVID-19, as well as measures to slow the spread of the virus, have since had a significant impact on the economy. The Company has considered the impact of COVID-19 and associated economic volatility in preparing its financial statements. The impact of COVID-19 has resulted in the application of further judgement in the areas in which significant judgement already occurs.

As a consequence of COVID-19 and in preparing these financial statements, management:
• reviewed external market communications to identify other COVID-19 related impacts;
• completed a thorough review of the loan portfolio with particular focus on loan recoverability;
• considered the impact of COVID-19 on the Company's financial statement disclosures.

(s) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less impairment in the financial statements of Social Enterprise Finance Australia Limited.

The subsidiary is SEFA Investments Limited which is a sole beneficiary of SEFA Loan Fund, a unit trust.

Notes to the consolidated financial statements (continued)

2. Profit Before Income Tax

	2020	2019
	$	$
Interest income		
Interest income on cash deposits	**31,171**	79,592
Interest income on loans and advances to customers	**853,804**	1,012,551
Total interest income	**884,975**	1,092,143
Interest expense - external	**(183,559)**	(262,250)
Total interest expense	**(183,559)**	(262,250)
Net interest income	**701,416**	829,893
Other income		
Other fee income	**277,377**	181,458
Total other income	**277,377**	181,458
Staff costs		
- Salaries and contractor costs	**715,765**	801,893
- pension costs and other post retirement costs	**56,576**	70,556
- other	**1,809**	1,978
Building occupancy costs	**29,741**	36,519
Communications	**2,160**	3,907
Information technology expenses	**13,963**	8,540
Travel and accommodation	**21,517**	28,291
Other expenses	**237,114**	233,381
Total administrative expenses	**1,078,645**	1,185,065

Notes to the consolidated financial statements (continued)

3. Income Tax

	2020 $	2019 $
Operating loss from ordinary activities before income tax	**(108,095)**	(205,173)
Prima facie income tax benefit at 27.5% (2019: 27.5%)	**(29,726)**	(56,423)
Tax effect of non-deductible expenses/non-assessable income in determining taxable profit:		
Current year tax losses not recognised as a deferred tax asset	**29,726**	56,423
	29,726	56,423
Total Income tax benefit from continuing operations	**-**	**-**
Recognised in the income statements		
Total income tax benefit in Statement of Comprehensive Income	**-**	-

4. Deferred Tax Benefit

	2020 $	2019 $
Income tax provision	**-**	-
Deferred tax benefit	**-**	-
Deferred tax liabilities	**-**	-
Net position	**-**	-

The Group has a accumulated Australian tax losses of $773,856 (2019: $665,760) which have not been recognised in the balance sheet as a deferred tax asset. This deferred tax asset is available for offsetting against future profits subject to continuing to meet relevant statutory tests.

5. Loans and Advances to customers

	2020 $	2019 $
Gross loans and advances to customers before provisions	**13,528,736**	16,228,062
Provisions for loan impairment	**(338,235)**	(777,210)
Net loans and advances to customers	**13,190,501**	15,450,852
Classified as:		
Current	**2,623,054**	3,214,050
Non-current	**10,567,447**	12,236,802
	13,190,501	15,450,852

6. Prepayments and Other Assets

	2020 $	2019 $
Prepayments	**24,735**	13,040
Accrued interest receivable	**2,032**	8,511
GST receivable	**5,098**	2,861
Other debtors	**24,334**	64,488
	56,199	88,900

Notes to the consolidated financial statements (continued)

7. Property, plant and equipment

	Computer & Telecom $	Total $
At 30 June 2019		
Cost	2,136	-
Accumulated depreciation	(811)	-
Net carrying amount	**1,325**	**-**
Movements in carrying amounts		
Opening net carrying amount	1,325	-
Purchases	8,906	-
Disposals	-	-
Depreciation charge for the year	(2,695)	-
Closing net carrying amount	**7,536**	**-**
At 30 June 2020		
Cost	11,041	-
Accumulated depreciation	(3,505)	-
Net carrying amount	**7,536**	**-**

8. Other liabilities and accruals

	2020 $	2019 $
Trade and sundry creditors	**26,685**	1,341
Accrued expenses	**50,000**	76,961
Accrued employee entitlements	**68,270**	97,250
Accrued interest payable	**37,863**	64,654
	182,818	240,206

9. (a) Maturities of Liabilities

	2020			2019		
	Current $	**Non-current $**	**Total $**	Current $	Non-current $	Total $
External Borrowings	**1,975,000**	**6,135,417**	**8,110,417**	2,350,000	8,089,110	10,439,110
Total liabilities	**1,975,000**	**6,135,417**	**8,110,417**	2,350,000	8,089,110	10,439,110

The Non-current External Borrowings are for fixed terms of more than 12 months and are subject to roll over with agreement of the lenders. The majority of borrowings have a fixed term of 5 years with an average interest rate of the RBA cash rate plus 2.5%.

9. (b) Loan facilities

NAB Facility B	$235,890	Drawn:	$2,640,417	Undrawn balance: $1,359,583
Lord Mayor's Charitable Foundation	$3,000,00	Drawn:	$1,900,000	Undrawn balance: $1,100,000

Notes to the consolidated financial statements (continued)

10. Issued Share Capital

Consolidated and Company	2020 Number	2020 $	2019 Number	2019 $
Ordinary shares each fully paid				
Opening balance	**2,240,000**	**2,240,000**	2,240,000	2,240,000
Share capital issued	**-**	**-**	-	-
Closing balance	**2,240,000**	**2,240,000**	2,240,000	2,240,000

Shareholders:

The Company has issued 2,240,000 fully paid shares to its shareholders at A$1 per share. The Company does not have authorised capital or par value in respect of its issued shares.

Ordinary shares
Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder's meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

11. Interests in Company Undertakings

Shares in controlled entities
Social Enterprise Finance Australia Limited holds shares in its wholly owned subsidiary SEFA Investments Limited (10 shares at $ 1.00 each) and acts as a trustee of SEFA Loan Fund. SEFA Investments Limited is the sole beneficiary of the SEFA Loan Fund.

12. Key Management Personnel Disclosures

Key Management Personnel constitute those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the entity.

Key Management Personnel (KMP) compensation

	2020 $	2019 $
Key management personnel compensation	**388,008**	313,991

All KMPs are employed by the parent entity, Social Enterprise Finance Australia Limited.

Transactions with Key Management Personnel

At 30 June 2020, key management persons who had loans from or deposits with the parent entity or any of its controlled entities were:

- David Rickards who is a shareholder and a Director of the parent entity has a long term loan to Social Enterprise Finance Australia Loan Fund of $300,000 (2019: $300,000) on which interest was paid $9,512 (2019: $11,945) via his family trust of which David is a beneficiary.

- Louise Sylvan who is a shareholder and a Director of the parent entity has a long term loan to Social Enterprise Finance Australia Loan Fund of $200,000 (2019: $200,000) on which interest was paid $6,341 (2019: $7,963) via an entity related to her.

Notes to the consolidated financial statements (continued)

13. Related Party Transactions

(a) Parent entities
The parent entity within the Group is Social Enterprise Finance Australia Limited.

Information related to Social Enterprise Finance Australia Limited (the parent entity).

Information relating to Social Enterprise Finance Australia Limited (the Parent)

	2020	2019
	$	$
Current assets	**81,305**	124,169
Total assets	**2,473,735**	2,510,388
Current Liabilities	**144,955**	180,282
Total liabilities	**144,955**	180,282
NET ASSETS	**2,328,780**	2,330,106
Issued share capital	**2,240,000**	2,240,000
Retained earnings	**90,105**	91,807
Current Earnings	**(1,327)**	(1,702)
TOTAL EQUITY	**2,328,778**	2,330,105
Profit or loss of the Parent entity	**(1,327)**	(1,702)

(b) Key management personnel
Disclosures relating to key management personnel are set out in note 12.

(c) Transactions with related parties
Transactions between the parent entity and various related parties during the year consisted of:

SEFA Ltd provides a range of services to SEFA Loan Fund as per the management agreement signed 14th August 2015 and backdated to the commencement of the SEFA Loan Fund.

These services include:

(i) maintenance of the trust and statutory records of the Fund;
(ii) liaison with ASIC with respect to compliance with the Australian Financial Services License;
(iii) support for the maintenance and seeking of funds under management; and
(iv) the provision of information necessary for the accounts of the Fund to be accurately maintained; and
(v) governance.

These transactions were made on normal commercial terms and conditions.

As at 30 June 2020, the parent entity had loans and advances to SEFA Loan Fund of $2,384,893 (2019: $2,384,893) from which interest was received and receivable amounted to $75,357 (2019: $94,873). The Management fee charged by the parent entity to SEFA Loan Fund was $839,643 (2019: $1,015,909).

Notes to the consolidated financial statements (continued)

13. Related Party Transactions (continued)

(d) Loans to/from related parties

Loans to SEFA Loan Fund	**2020** **$**	2019 $
Balance at beginning of the year	**2,384,893**	2,384,893
Addition during the year	**-**	-
Interest charged	**75,357**	94,873
Interest received	**(75,357)**	(94,873)
Balance at end of the year	**2,384,893**	2,384,893

Loans from other related parties

	2020 **$**	2019 $
Loans payable		
BRC Padua Pty Limited	**200,000**	200,000
Carrawa Pty Ltd	**300,000**	300,000
Regal Foundation	**300,000**	300,000
Interest paid	**(25,364)**	(31,852)

(e) Terms and conditions

Transactions relating to dividends, calls on partly paid shares and subscriptions for new ordinary shares were on the same terms and conditions that applied to other shareholders.

All other transactions were made on normal commercial terms and conditions and at market rates. Loans are fixed for 5 years at commercial interest rates. Outstanding balances are unsecured and are repayable in cash.

14. Subsequent events

There have been no material post balance sheet events which would require disclosure or adjustment to the 30 June 2020 Financial statements.

15. Reconciliation of profit / (loss) for the period to net cash inflow from operating activities

	2020 **$**	2019 $
Net profit/(loss) attributable to unitholders	**(108,095)**	(205,173)
Increase/(decrease) in loan provision reserve	**9,999**	31,459
(Increase)/decrease in interest receivables	**6,479**	(1,189)
(Increase)/decrease in receivables	**95,682**	(22,276)
(Increase)/decrease in interest payable	**(26,791)**	(3,165)
Increase/(decrease) in liabilities	**(57,388)**	29,259
Net cash used in operations	**(80,114)**	(171,085)

Directors' Declaration

In the opinion of the directors of Social Enterprise Finance Australia Limited (“the Company”):

(a) the financial statements and notes set out on pages 18 to 35, are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of the Group as at 30 June 2020 and of performance,for the year ended 30 June 2020; and

   (ii) complying with Australian Accounting Standard requirements- Reduced disclosure requirements, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

(b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Dated at Sydney, 28 / 10 / 2020

Signed in accordance with a resolution of the directors.

Belinda Drew

Chairman

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Independent Auditor's Report to the Members of Social Enterprise Finance Australia Limited

Opinion

We have audited the financial report of Social Enterprise Finance Australia Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and

(b) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information obtained date of this auditor's report is the information included in pages 1 to 8 and the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

K Brown

Kester Brown
Partner

Melbourne
28 October 2020

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