

report of the board members

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2006

2006

Financial Report

The NSFAS Board presents its report for the year ended 31 March 2006. This report forms part of the audited financial statements.

1. GENERAL REVIEW

The National Student Financial Aid Scheme is a statutory body acting in terms of the National Student Financial Aid Scheme Act (Act 56 of 1999). The activities of the Scheme for the accounting period under review are clearly reflected in the attached financial statements.

2. RESULTS

	2006	2005
New grants*	R954,764,733	R724,463,235
Student loan recovery re-injected	R265,869,703	R250,518,298
Loans awarded	R1,216,462,033	R985,489,460
Administration expenses	R21,487,639	R17,310,938
Administration expenses to awards ratio	1.77%	1.76%
Bursary awards**	R376,260,399	R 302,603,441
Pass rate (number of courses passed)	75.61%	74.31%

* During the year under review grants were received from the South African government via the Department of Agriculture, the Department of Education, the Department of Labour, the Eastern Cape Provincial Government, and various other donors.

**Up to 40% of a loan may be converted into a bursary. This was the eleventh year that bursaries have been awarded to students who have successfully completed some or all of their registered courses.

3. PROPERTY AND EQUIPMENT

There has been no change in the nature of property and equipment of the Scheme, and its policy relating to the use thereof remains the same.

4. POST BALANCE SHEET EVENTS

No other material facts or circumstances have occurred between the accounting date and the issue of this report.

5. CORPORATE GOVERNANCE

In terms of the NSFAS Act, Committees of the Board were established including an Executive Committee, an Audit Committee, a Finance Committee, a Human Resources Committee, an NGO Partnership Committee, a Research Committee, and a Communications and Fundraising Committee, all of which make for good corporate governance. The Committees meet regularly throughout the year, giving input into the five regular board meetings that take place each year.

The Minister accepted the resignation of the Chairperson, Prof Vuyisa Tanga, after she was appointed Vice-Chancellor of the Cape Peninsula University of Technology with effect from 7 April 2006. The Minister appointed Mr Siphon Pityana as the new Chairperson with effect from 7 April 2006.

Mr Ivan Mzimela was appointed from 1 May 2005. Dr Sanette Boshoff ceased to represent the Department of Education with effect from 1 October 2005 as she had resigned from the Department. Ms Nasima Badsha was appointed by the Minister of Education to represent the Department of Education from 1 November 2005. Mr Theuns Tredoux ceased to represent the National Treasury from 1 February 2006 following his transfer to the Department of Education.

Following the resignation of the Chairperson of the Audit Committee with effect from 18 March 2005, the Board began a process to identify a suitable replacement. In the interim the Board appointed Mr Pete Smith as the Chairperson of the Audit Committee at its meeting on 27 May 2005 until a further appointment is made.

A new NSFAS Board was appointed with effect from 1 July 2004 for a four-year term. The membership of the Board is set out on page 8.

6. NATURE OF ACTIVITIES

The nature of the activities of the Scheme is to provide sustainable financial assistance in the form of loans and bursaries to eligible students at public higher education institutions, to administer such loans and bursaries and to recover the loans from the students once they are employed and earning in excess of R26,300 per annum.

Interest is raised on student loans at an average two percent real rate of interest (average inflation rate as assessed by the Board, plus 2%). The interest rate for 2006/07 is currently 6% and was 5% for 2005/06.

Although the interest rate is normally raised on student loans at an average two percent real rate of interest, the Board agreed that the interest rate should be increased from 5% to 6% (and not 7%, as suggested by the predicted inflation rate of approximately 5% for 2006/07), subject to a half year review in May 2006. It was also agreed to look at a possible formula for relating interest rate changes to the prime rate.

Once students have initiated repayment, the interest accumulated on their outstanding debt to date is recognised as income as follows: interest repaid is recognised as interest earned and interest still to be repaid as at year end is raised as interest accrued. These interest amounts are detailed in note 15 to the annual financial statements.

Up to 40% of NSFAS standard awards could be converted into bursaries. The percentage converted is dependent on students' pass rates. In addition, the Scheme manages some funds on behalf of donors with the stipulation that the funds are awarded as full bursaries.

7. STUDENT AWARDS

	Academic years		Financial years		
	2005	2004	2006	2005	1991 - 2005
Loans awarded					
Number of students	106,852	98,813			437,569
Rands	R 1,216,462,033	R 985,489,460			R 6,838,981,831*
Loans repaid					
During the year			R329,396,064	R245,362,939	R1,293,488,094
Capital			R 250,110,259	R185,156,633	R 1,024,810,579
Interest earned			R 79,285,805	R 60,206,306	R 268,677,515

*Total awards since the Scheme's inception in 1991, before bursaries conversion.

Internal systems are regularly enhanced to ensure constant improvement in the Scheme's loan recovery strategy. By the end of the financial year under review, normal monthly recoveries had reached R26 million.

8. PROVISION FOR DOUBTFUL DEBTS

A model specific to NSFAS was developed in the previous financial years by Fifth Quadrant Actuaries and Consultants to determine a realistic provision for doubtful debts and was contingent on two key factors namely mortality rate (including an element for disability) and loan recovery rate. A variable for changes in the employment rate has now also been developed and is included in the present version of the model, although the assumption remains that current rates of employment will remain constant.

Taking into consideration the improvement in the loan recovery rate, keeping constant the effect of mortality as for the previous year, and assuming that the rate of employment remains constant over the next 10 years, the provision for doubtful debts amounts to 27.4%. The decrease in the provision from 29.9% in the prior year is primarily due to improved efficiency in loan recoveries.

	2006 R	2005 R	Increase/ (decrease) R
On Capital			
Total outstanding capital	3,890,326,106	3,285,825,185	604,500,921
Provision at 27.4% (2005: 29.9%)	1,065,933,423	982,461,731	83,471,692
On Interest			
Total interest accrual	723,860,303	578,687,538	145,172,765
Provision at 27.4% (2005: 29.9%)	198,337,723	173,027,574	25,310,149

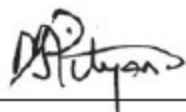
The model for calculating the provision for doubtful debts will be reviewed later in the year, with particular emphasis on the impact of employment.

9. APPROVAL AND STATEMENT OF RESPONSIBILITY

The annual financial statements which appear on pages 24 to 40 were approved by the Board and signed on their behalf. The NSFAS Board is responsible for the maintenance of adequate accounting records and the preparation and integrity of the financial statements and related information. The auditors are responsible to report on the fair presentation of the financial statements. The financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practices (GAAP), the prescribed Standards of Generally Recognised Accounting Practices (GRAP), and in the manner required by the Public Finance Management Act (Act 1 of 1999).

The NSFAS Board is also responsible for the Scheme's system of internal financial control. This is designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the NSFAS Board to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

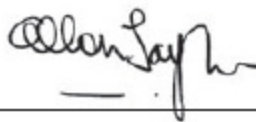
The financial statements have been prepared on the going concern basis, since the NSFAS Board has every reason to believe that the Scheme has adequate resources in place to continue in operation for the foreseeable future.



Chairperson

Cape Town

Date: 31 May 2006



Chief Executive Officer