

**REPORT OF DIRECTORS (CONTINUED)**

**For the year ended to 30 June 2007**

**RISK MANAGEMENT**

A risk assessment process was conducted during the year. In addition to that, Ikangala Water endeavors to minimize risks by ensuring that appropriate organisational controls, systems and ethics are adopted by all

**COMPLIANCE WITH THE PUBLIC FINANCE MANAGEMENT ACT AND THE WATER SERVICES ACT**

The legal process to empower Ikangala Water to collect revenue from municipalities have not yet been finalized. Due to this uncertainty the board could therefore not submit a budget for 2007 financial year to the relevant treasury as required by the PFMA and a business plan for the financial period 2007 to 2011 as required by the Water Services Act.

It is impractical for Ikangala Water to comply with all the PFMA requirements due to its limited size

**DIRECTORS**

The Board of Directors as at 1 July 2006 were:-

Mr FH Nkoana	(Chairperson)
Mr SPD Skhosana	

**IKANGALA WATER**  
**BALANCE SHEET**  
**As at 30 June 2007**

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		R	R
<b>ASSETS</b>			
Non current assets			
Property, plant and equipment	2	67,609	64,720
Loans receivable	3	-	-
		<u>67,609</u>	<u>64,720</u>
Current assets			
Trade and other receivable	4	8,540	213,111
Cash and cash equivalents		<u>983,305</u>	<u>850,090</u>
		<u>991,845</u>	<u>1,063,201</u>
Total assets		<u>1,059,454</u>	<u>1,127,921</u>
<b>EQUITY AND LIABILITIES</b>			
Capital and reserves			
General reserve fund		5,437	5,437
Accumulated funds		<u>789,726</u>	<u>814,937</u>
		<u>795,163</u>	<u>820,374</u>
Current liabilities			
Trade and other payables	5	<u>264,292</u>	<u>307,547</u>
Total equity and liabilities		<u>1,059,455</u>	<u>1,127,921</u>

**IKANGALA WATER**  
**INCOME STATEMENT**  
**For the year ended 30 June 2007**

	<u>Notes</u>	<u>2007</u> R	<u>2006</u> R
Revenue	6	<u>1,326,045</u>	<u>1,383,497</u>
Other operating income		3,727	211,386
Board members fees	7	190,987	203,680
Depreciation		11,841	10,808
Administration expenses		382,141	284,363
Other operating costs		334,386	405,543
Staff remuneration		<u>509,456</u>	<u>554,123</u>
NET OPERATING (DEFICIT) / SURPLUS	8	(99,040)	136,366
Investment income	9	73,829	659
(DEFICIT) / SURPLUS FOR YEAR		<u>(25,211)</u>	<u>137,025</u>

**IKANGALA WATER**  
**STATEMENT OF CHANGES IN EQUITY FUND**  
**For the year ended 30 June 2007**

	<u>General</u> <u>Reserve Fund</u>	<u>Accumulated</u> <u>Funds</u>	<u>Total</u>
	R	R	R
Balance 1 July 2005	5,437	677,912	683,349
Surplus for the year	-	137,025	137,025
Balance at 1 July 2006	5,437	814,937	820,374
Deficit for the year	-	(25,211)	(25,211)
Balance at 30 June 2007	5,437	789,726	795,163

**IKANGALA WATER**  
**CASH FLOW STATEMENT**  
**For the year ended 30 June 2007**

	<u>Notes</u>	<u>2007</u> R	<u>2006</u> R
<b>OPERATING ACTIVITIES</b>			
Operating (deficit) / surplus before working capital changes	A	(87,198)	227,118
Working capital movements	B	161,316	(165,609)
Cash generated by operations		74,118	61,509
Investment income		73,829	659
Net inflow from operating activities		147,947	62,168
<b>INVESTING ACTIVITIES</b>			
Decrease in loans receivable		-	19,497
Property, plant and equipment additions		(14,731)	(60,530)
		(14,731)	(41,033)
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents at the beginning of the year		133,216	21,135
		850,090	828,955
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>			
		983,305	850,090

**IKANGALA WATER**  
**NOTES TO THE CASH FLOW STATEMENT**

**For the year ended 30 June 2007**

	<u>2007</u>	<u>2006</u>
	R	R
<b>A OPERATING (DEFICIT) / SURPLUS BEFORE WORKING CAPITAL CHANGES</b>		
Operating (deficit) / surplus	(99,040)	136,366
Adjustment for:		
Depreciation	11,842	10,808
Provision for impairment to loans receivable	-	79,944
	<u>(87,198)</u>	<u>227,118</u>
<b>B WORKING CAPITAL MOVEMENTS</b>		
Decrease in accounts receivable	204,571	(88,880)
Decrease in trade and other payables	(43,255)	(76,729)
	<u>161,316</u>	<u>(165,609)</u>

**IKANGALA WATER****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****For the year ended 30 June 2007****1. ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, except for revenue arising from the provision of water services to municipalities. The following are the principal accounting policies, which have been consistently applied in all material respects with those in the previous year, except as otherwise indicated.

The financial statements are prepared on the historical cost basis except for financial instruments carried at fair value.

**General reserve fund**

Any surplus funds which have not been set aside for a specific purpose or particular fund, may at the discretion of the Board, be transferred to a General Reserve Fund. The money in the General Reserve Fund may be applied by the Board at its discretion for any purpose permitted in terms of the Water Services Act.

**Property, plant and equipment**

Property, plant and equipment is stated at historical cost less accumulated depreciation. Expenditure on additions and improvements to tangible property, plant and equipment are capitalised.

Depreciation is calculated on historical cost less the asset residual values using the straight line method over the estimated useful lives of the assets. The method and rates used are determined by conditions in the industry:

Computer equipment	33%
Furniture and fittings	10%
Vehicles	25%

**Borrowing costs**

All borrowing costs are expensed in the period in which they are incurred.

**IKANGALA WATER**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**For the year ended 30 June 2007**

**Revenue recognition**

Revenue comprises the value of water provision services and sewerage fees less value added tax.

Revenue arising from the water provision services and sewerage fees from municipalities is recognised in the income statement on a cash basis.

Revenue arising from the water provision services and sewerage fees from other water service consumers other than municipalities is recognised in the income statement on the accrual basis.

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

**Operating Leases**

Leases where the lessor retains the risk and rewards of ownership of the underlying assets are classified as operating leases.

**Government grants**

Government grants are recognised as income when received.

**Financial instruments**

**Measurement**

Financial instruments are initially measured at cost, which includes transaction costs, except for those of fair value through profit and loss. Subsequently these instruments are measured as set out below.

Investments that meet the criteria for classification as held to maturity financial assets are carried at amortised cost.

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

**For the year ended 30 June 2007**

**Financial instruments (continued)**

**Trade and Other Receivables**

Trade and loan are classified as loans and receivables are measured at amortised costs less impairment adjustments.

Goodwill and intangible assets with indefinite useful lives and the cash generating units to which these assets have been allocated are tested for impairment even if there is no indication of impairment. Impaired goodwill and intangible assets with indefinite useful lives are only reversed when the associated business is sold

**Cash and cash equivalents**

Cash and cash equivalents are measured at fair value, with changes in fair value being included in profit or loss.

**Retirement benefit costs**

It is the policy of the corporation to provide retirement benefit costs for employees. Contributions to provident funds are charged to income in the year in which they become payable

**Provisions**

Provisions are recognised when the board has a legal or constructive obligations as a result of past events, for which it is probable that an outflow at economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

**IKANGALA WATER**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2007**

	<u>2007</u> R	<u>2006</u> R
<b>2. PROPERTY, PLANT AND EQUIPMENT</b>		
Computer equipment		
At cost	116,832	111,801
Accumulated depreciation	<u>113,137</u>	<u>107,147</u>
	<u>3,695</u>	<u>4,655</u>
Office equipment		
At cost	90,193	80,493
Accumulated depreciation	<u>26,279</u>	<u>20,429</u>
	<u>63,914</u>	<u>60,064</u>
Motor vehicle		
At cost	59,299	59,299
Accumulated depreciation	<u>59,299</u>	<u>59,298</u>
	<u>-</u>	<u>1</u>
	<u>67,609</u>	<u>64,720</u>

	<u>Computer equipment</u> R	<u>Office equipment</u> R	<u>Motor vehicle</u> R	<u>Total</u> R
2007				
Beginning of year				
Net carrying value	<u>4,655</u>	<u>60,064</u>	<u>1</u>	<u>64,720</u>
Current year movements				
- Additions	9,700	5,031	-	14,731
- depreciation	<u>(3,719)</u>	<u>(8,121)</u>	<u>(1)</u>	<u>(11,842)</u>
End of year				
Net carrying value	<u>10,636</u>	<u>56,974</u>	<u>-</u>	<u>67,609</u>

**IKANGALA WATER****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****For the year ended 30 June 2007****2. PROPERTY, PLANT AND EQUIPMENT (continued)**

	<u>Computer equipment</u> R	<u>Office equipment</u> R	<u>Motor vehicle</u> R	<u>Total</u> R
2006				
Beginning of year				
Net carrying value	<u>12</u>	<u>14,984</u>	<u>1</u>	<u>14,997</u>
Current year movements				
- Additions	10,857	49,673		60,530
- depreciation	<u>(6,214)</u>	<u>(4,593)</u>	<u>-</u>	<u>(10,807)</u>
End of year				
Net carrying value	<u>4,655</u>	<u>60,064</u>	<u>1</u>	<u>64,720</u>

The historical cost of fully depreciated assets amounts to: R160 336 (2006:R 160 336)

**3. LOANS RECEIVABLE**

	<u>2007</u> R	<u>2006</u> R
Current board members tax arrears owing to Ikangala Water	-	78,311
Previous Board members tax arrears owing to Ikangala Water	193,522	115,211
Consultants tax arrears owing to Ikangala Water	28,578	28,578
Provision for impairment to loans receivable	<u>(222,100)</u>	<u>(222,100)</u>
	<u>-</u>	<u>-</u>

**4. TRADE AND OTHER RECEIVABLES**

	<u>2007</u> R	<u>2006</u> R
Trade receivables	-	212,155
Deposits and prepayments	8,540	7,270
Impairment of trade receivable	<u>-</u>	<u>(6,314)</u>
	<u>8,540</u>	<u>213,111</u>

**IKANGALA WATER****NOTES TO THE ANNUAL FINANCIAL STATEMENTS****For the year ended 30 June 2007**

	<u>2007</u>	<u>2006</u>
	R	R
5. TRADE AND OTHER PAYABLES		
Trade payables	145,067	151,238
Value added tax	5,563	8,513
Provisions	<u>113,661</u>	<u>147,795</u>
	<u>264,292</u>	<u>307,547</u>

Revenue comprises of:

Water services- Cash	<u>1,326,045</u>	<u>1,383,497</u>
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## 7. BOARD MEMBERS FEES

The following amounts were paid to the board members during the year

SGS Castle	-	50,169
FH Nkoana	159,145	137,285
SPD Skhosana	<u>31,842</u>	<u>16,227</u>
	<u>190,987</u>	<u>203,680</u>

**IKANGALA WATER**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2007**

	<u>2007</u> R	<u>2006</u> R
<b>8. NET OPERATING (DEFICIT) / SURPLUS</b>		
Net operating (deficit) / surplus is arrived at after taking the following items into account.		
Expense		
Auditor's remuneration		
W: Computer equipment	3 719	6 214
Office equipment	8 121	4 593
Board members fees		
Ikangala Water did not have an internal audit function during the	112 374	111 113
Members subsistence, travelling and allowances	78 614	92 567
Lease rentals		
Premises	112 614	73 220
Equipment	39 285	34 771
Consultancy fees	118 079	27 851
<b>9. INVESTMENT INCOME</b>		
Interest on call account	73 829	659
	<u>73 829</u>	<u>659</u>
<b>10. INCOME TAX EXPENSE</b>		

No provision for income tax is made as Ikangala Water is exempt from tax in terms of Section 10(1)(b) of the Income Tax Act

**IKANGALA WATER**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**For the year ended 30 June 2007**

<u>2007</u>	<u>2006</u>
R	R

**11. RELATED PARTY TRANSACTIONS**

As indicated in note 3, the following PAYE amounts were due by Board Members at year end.

Current Board Members:  
 SGS Castle

-	38 062
<u>-</u>	<u>38 062</u>

**12. FUTURE OPERATING LEASE PAYMENTS**

Not later than one year  
 Between 2 to 5 years

37 344	27 916
<u>54 051</u>	<u>87 680</u>
<u>91 395</u>	<u>115 596</u>

**IKANGALA WATER**  
**DETAILED INCOME STATEMENT**  
**For the year ended 30 June 2007**

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	<u>2007</u>	<u>2006</u>
	<u>R</u>	<u>R</u>
<b>INCOME</b>		
Water sales	1,326,045	1,383,497
Grant received	-	-
Interest received	73,829	659
Other income	3,727	211,386
	<u>1,403,601</u>	<u>1,595,542</u>
<b>EXPENSES</b>		
Auditor's remuneration	5,365	75,496
Bad debts	-	-
Bank charges	7,989	7,387
Board members fees	190,987	203,680
Computer expenses	3,746	5,843
Consulting fees	118,079	27,851
Depreciation	11,842	10,808
Donations and gifts	6,554	20,484
Entertainment	3,412	5,046
Insurance	34,456	34,165
Lease rentals	151,900	107,991
Membership fees	60,313	57,169
Petrol and oil	6,240	12,517
Printing, stationery and postage	36,008	36,777
Provision for bad debts movement	(6,314)	79,944
Public relations	-	10,000
Recruitment costs	6,689	5,117
RSC Levies	102	3,123
Salaries and wages	509,456	554,123
Security	2,325	2,084
Telephone, fax and internet	158,727	109,476
Training	25,046	9,058
Traveling expenses	30,615	25,999
Water and electricity	65,275	54,380
	<u>1,428,813</u>	<u>1,458,517</u>
(Deficit) / Surplus	<u>(25,212)</u>	<u>137,025</u>