

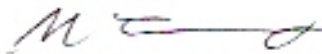
The debt situation within the Municipality is becoming unacceptable and urgent attention needs to be given to resolving this. The attitude of non payment is well set in within the community and the Management and Council need to become directly involved and be prepared to put extreme pressure on residents to pay failing which the Municipality will not survive as it is already experiencing severe cash flow restraints.

**B) CAPITAL EXPENDITURE**

Expenditure on fixed assets during the year was R 1 098 589 and detail is provided on Appendix C. These purchases were funded from the Transitional and other grants and further items will be purchased once an analysis of the Municipality's needs has been done.

**C) THE FUTURE**

Due mainly to the comment regarding the debtors (as well as a culture of non payment created by poor debt control), the Municipality will continue to experience cash flow problems for the foreseeable future and will have to request urgent assistance from Govt. until all of the problems have been ironed out and the Municipality is able to stand on its feet.



J Luvuno (Mr)  
Municipal Manager

# Accounting Policies

## 1. Basis of Presentation

1.1. These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and Report on the Published Annual Financial Statements of Local Authorities (2<sup>nd</sup> edition January 1996).

1.2. The financial statements have been prepared on the historical cost basis, adjusted for capital expenditure as more fully detailed in paragraph 3 below. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

1.3. The financial statements are prepared on the accrual basis:

-Income is accrued when collectable and measurable. Certain direct income is accrued when received, such as traffic fines and certain licences.

-Expenditure is accrued in the year it is incurred.

## 2. Consolidation

The balance sheet includes the Rate and General Services, the different funds, reserves and provisions.

## 3. Fixed Assets

3.1. Fixed Assets are stated:

-at historical cost, or

-at valuation, (based on the market price at acquisition), where assets have been acquired by grant or donation

-while in existence or fit for use.

3.2. Depreciation

The balance shown against the heading " Loans redeemed or other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for Depreciation, however certain structural differences do exist. By way of this " Provision" assets are written down over their estimated useful life. Apart from advances from the various internal funds, assets may also be acquired through:

-Appropriations from income, where the full cost of the asset forms an immediate and direct charge against operating income, and therefore it is unnecessary to make any further provision for depreciation.

-Grant or donation, where the amount representing the value of such grant or donation is immediately credited to the "Loans redeemed or other Capital Receipts" account.

3.3. All net proceeds from the sale of fixed property are credited to the Public Improvement Fund. Net proceeds from the sale of all other assets are credited to the Capital Development Fund.

3.4. Capital assets are financed from different sources, including external loans, operating income and internal advances. These loans are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time the advance is made.

#### **4. Inventory**

Stock is valued at the lower of cost, determined on the weighted average basis and the net realisable value less a provision to cover obsolete stock.

#### **5. Funds and Reserves**

##### **5.1 Capital Development Fund**

The Local Authorities Ordinance no 25 of 1974 requires a minimum contribution of 3 percent of Revenue income of a local Authority for the financial year. The transfer to the CDF has been based on Billed Revenue only, excluding Equitable share, Grant Funding and Penalties.

##### **5.2 Public Improvement Fund**

The Local Authorities Ordinance no 25 of 1974 stipulates that this fund be maintained in respect of all property belonging to the Municipality, that is not used for a specific purpose relating to the provision of services. Any surplus funds available are either advanced internally or invested externally.

##### **5.3 Investments**

Investments are shown at cost, and are invested as per the Local Authorities Ordinance no 25 of 1974.

#### **6. Income Recognition**

##### **Electricity and Water Billing**

Meters on properties are read and billed on a monthly basis. When meters cannot be read (faulty meters) in a certain month, they are billed on average usage basis.

##### **Assessment Rates**

The council currently applies a rating system based on the area of a property as well as a fixed cost per building unit thereon as carried over from uMsekeli.



**Nquthu Municipality**  
**Balance sheet**  
**as at 30th June 2004**

<b>CAPITAL EMPLOYED</b>	<b>Note</b>	<b>2004</b>	<b>2003</b>
<b>Funds &amp; Reserves</b>		<b>R 4,107,829</b>	<b>R 3,234,675</b>
Statutory Funds	1	R 3,433,716	R 2,681,350
Reserves	2	R 674,113	R 553,325
<b>Retained Income</b>		<b>R -5,121,816</b>	<b>R -6,931,292</b>
<b>Total</b>		<b>R -1,013,987</b>	<b>R -3,696,617</b>
<b>Trust Funds</b>	3	<b>R -3,628,358</b>	<b>R -1,408,352</b>
<b>Long Term Liabilities</b>	4	<b>R 579,108</b>	<b>R 955,911</b>
<b>Consumer Deposits</b>	5	<b>R 100,429</b>	<b>R 100,429</b>
		<b>R -3,962,808</b>	<b>R -4,048,629</b>
<b>EMPLOYMENT OF CAPITAL</b>			
<b>Fixed Assets</b>	6	<b>R 269,271</b>	<b>R 469,968</b>
<b>Investments</b>	7	<b>R 1,695,130</b>	<b>R 2,633,658</b>
<b>Net Current Assets</b>		<b>R -5,927,209</b>	<b>R -7,152,255</b>
<b>Current Assets</b>		<b>R 3,162,317</b>	<b>R 2,741,327</b>
Debtors	8	R 1,840,208	R 1,631,838
Stock		R 994,712	R 994,712
SARS		R 327,397	R 114,777
Cash at Bank		R -	R -
<b>Current Liabilities</b>		<b>R 9,089,526</b>	<b>R 9,893,582</b>
Creditors	10	R 1,811,890	R 2,226,013
Unallocated Receipts	10	R 5,833,716	R 7,497,856
Short term portion of L T Liabilities	3	R 234,314	
Bank Overdraft	9	R 1,209,606	R 169,713
		<b>R -3,962,808</b>	<b>R -4,048,629</b>

**Nquthu Municipality**  
**Cash Flow Statement**  
**as at 30th June 2004**

	Note	2004	2003
Cash generated by operations	15 R	1,195,490	R 2,566,789
Investment income	R	205,910	R 2,923
(Increase)/Decrease in working capital	16 R	-1,012,426	R -2,042,314
Less: external interest paid	15 R	-121,147	R -409,154
<b>Cash available from operations</b>	R	<b>268,827</b>	R <b>118,244</b>
Cash contributions from the State	R	-1,549,353	R 5,404,897
Nett proceeds on disposal of fixed assets	R	200,000	
<b>CASH RETAINED FROM OPERATING ACTIVITIES</b>	R	<b>-1,080,526</b>	R <b>5,522,941</b>
<b>CASH UTILISED IN INVESTING ACTIVITIES</b>			
Investment in Fixed Assets	5 R	-1,098,591	R -1,663,106
<b>NETT CASH FLOW</b>		<b>R -2,179,117</b>	<b>R 3,859,835</b>
<b>CASH EFFECTS OF FINANCING ACTIVITIES</b>			
Increase/(Decrease) in long term loans	17 R	200,695	R 240,068
Increase/(Decrease) in short term loans	R	-	R -
(Increase)/Decrease in cash investments	18 R	938,528	R -101,985
(Increase)/Decrease in bank and cash	19 R	1,039,893	R -3,997,918
<b>NETT CASH (GENERATED)/UTILISED</b>		<b>R 2,179,117</b>	<b>R -3,859,835</b>

**Nguthu Municipality**  
**Notes to the Financial Statements**  
**as at 30th June 2004**

	2004	2003
<b>1 STATUTORY FUNDS</b>		
Refer Appendix A		
Capital Development Fund	R 1,674,847	R 1,674,847
Public Improvement Fund	R 1,608,869	R 1,056,503
	<b>R 3,433,716</b>	<b>R 2,681,350</b>
<b>2 RESERVES</b>		
Audit fee	R	R 700,000
Leave pay	R 674,113	R 333,325
	<b>R 674,113</b>	<b>R 553,325</b>
<b>3 TRUST FUNDS</b>		
Refer Appendix A		
Total	R -3,628,358	R 1,400,152
ILW	R 424,855	R 434,555
LLMS	R 47,084	
Municipal Support	R -365,717	R -129,729
LED	R -215,364	
Library	R 41,395	R 51,179
Transitional	R 1,352,156	R 1,585,668
Housing	R -3,238,173	R -2,548,777
Taxi Project	R -1,094,206	
Mun Systems Infrastr.	R 550,000	R 400,000
Dev & Planning	R 250,000	
CMIP Phase 2	R -2,278,276	R -2,278,276
DRSA LED	R 22,770	R 84,500
Sundry Grants	R 969,786	R 992,678
<b>4 LONG TERM LIABILITIES</b>		
Refer Appendix B		
ARSA Bank	R 813,427	R 955,911
Short term portion	R 774,314	
<b>Balance</b>	<b>R 579,108</b>	<b>R 955,911</b>
<b>5 CONSUMER DEPOSITS</b>		
Electricity & Water Services	<b>R 100,429</b>	<b>R 100,429</b>
<b>6 FIXED ASSETS</b>		
Fixed Assets at beg. of year	R 38,528,479	R 30,218,058
Capital Outlay during year	R 1,098,591	R 5,310,421
Less assets w/ off, transferred or disposed	R -	R -
<b>Total Fixed Assets</b>	<b>R 39,627,070</b>	<b>R 35,528,479</b>
Less: Loans redeemed and other capital receipts	R 39,357,799	R 38,058,511
Prior Year	R 38,058,511	R 33,704,000
Current Year	R 1,299,288	R 4,354,509
<b>Nett Fixed Assets</b>	<b>R 269,271</b>	<b>R 469,968</b>

## 7 INVESTMENTS

Unlisted:		
Short Term Deposits	<u>R 1,695,130</u>	<u>R 2,633,658</u>

## 8 DEBTORS

Current debtors - rates and services	R 9,433,764	R 6,891,054
Provision for bad and doubtful debts	<u>R 8,020,666</u>	<u>R -8,020,666</u>
Net Current debtors	R 1,413,098	R -1,129,612

New Commercial Centre	R 264,502	R -
Receipts Underbank 2002	R 29,330	R 29,330
Staff M/Vehicles	R 53,145	R 53,145
uMckheli	R 80,133	R 80,133
Salaries suspense		R 451,322
Missing vouchers		R 415,860
Sundry Debtors		R 61,729
Unprocessed Receipts	<u>R 1,640,208</u>	<u>R 1,671,538</u>

Debtors days outstanding

## 9 CASH ON HAND AND AT BANK

Current Account overdraft	<u>R 1,209,646</u>	<u>R -169,713</u>
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## 10 CREDITORS

Accruals	R 1,673,668	R 1,022,992
Salary clearing	R -978,421	R -
Umzimyathi	R 1,266,643	R 967,485
Sundry Creditors		<u>R 235,536</u>
	<u>R 1,811,890</u>	<u>R 2,226,013</u>

Unallocated receipts prior years	<u>R 5,833,716</u>	<u>R 7,497,856</u>
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## 11 ASSESSMENT RATES

Assessment Rates are based on the differential rating system and are based on a property m2 and unit building rate.

	<u>R 181,137</u>	<u>R 790,873</u>
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## 12 COMMITTEE MEMBERS REMUNERATION

Mayoral allowances	R 103,120	R 14,660
Councillors Allowances	<u>R 1,545,614</u>	<u>R 480,096</u>
	<u>R 1,648,734</u>	<u>R 494,756</u>

## 13 FINANCE TRANSACTIONS

Total external interest earned	<u>R 205,910</u>	<u>R 72,170</u>
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Total external interest paid	<u>R 730,879</u>	<u>R 409,154</u>
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Capital charges debited to Income Statement		
Interest paid	R 121,147	R 409,154
Loans redeemed	<u>R 200,696</u>	<u>R 292,901</u>
	<u>R 321,843</u>	<u>R 702,055</u>