

BASIS OF PREPARATION

1 Accounting Policies

The financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. The financial statements have been prepared on a historical cost basis.

The financial statements incorporate the following principal accounting policies, which were incorporated during the current financial year:

1.1 Revenue

Rental income and maintenance revenue excluding Value Added Taxes are recognised and recorded in the financial statements on the date the service is rendered to a customer.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and effective rate over the period to maturity, when it is determined that income will accrue to equipment account.

Vote funds are the amounts appropriated to the trading entity in accordance with the final budget known as capital augmentation

Revenue from sale of equipment is recognised in the income statement when the risk and rewards are transferred to the buyer of equipment.

1.2 Property, plant and equipment

Property, plant and equipment is carried at book value while industrial and synthetic drilling diamonds are carried at market value. The revaluation of drilling diamonds is done by a professional valuator on an annual basis.

1.3 Depreciation

Depreciation on plant and equipment for equipment account is written off at the rate of 12,5 per annum. Drilling diamonds are depreciated at a rate of 50% per annum on straight-line method.

1.4 Revaluation surplus

Surplus on valuation of equipment is transferred directly to a revaluation reserve. Valuation surplus realised on sale is transferred from the revaluation reserve to the income statement. Valuation of the drilling diamonds is done on annual basis by the professional independent valutors. These valutors use market prices at the date of valuation in determining the market value of drilling diamonds.

1.5 Financial instruments

Receivables are carried at the original invoice amount less provision made for the impairment of these receivables. Such provision for the impairment of receivables is established if there is objective evidence that the Equipment Trading Account will not be able to collect the amounts due according to the original terms of the receivables. Receivables for services rendered are recognised in the balance sheet as a current asset and as income in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by separate disclosure in the notes to enhance the usefulness of the financial statements.

Payables are carried at the fair of the consideration to be paid in future for services that have been supplied and invoiced or formally agreed with the supplier. Payables for services delivered are recognised in the balance sheet as a current liabilities and as expenditure in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

Investment deposit is classified as current asset as they can be realised anytime within twelve months of the balance sheet date.

1.6 Impairment loss

At each balance sheet date, the equipment trading account reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets may be impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of the asset (cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its carrying amount. Impairment losses are immediately recognised as an expense, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under the standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

1.8 Investment income

Interest receivable on the investment deposit with the Corporation for Public Deposits is not accounted for on the Equipment Trading Account. The interest receivable is paid directly to Treasury and

is not recognised as revenue as it is not available for use on the equipment account.

1.9 Government grant

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate.

1.10 Comparative figures

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. The comparative figures shown in these financial statements are limited to the figures shown in the previous year's audited financial statement and such other comparative figures that the department may reasonably have available for reporting.

INCOME STATEMENT FOR THE YEAR ENDED
31 MARCH 2005

| | Note | 2005 R'000 | 2004 R'000 |
|-------------------------------|------|---------------|---------------|
| | | 69 705 | 53 458 |
| Revenue | 1 | 58 071 | 45 997 |
| Other income | 2 | 11 622 | 7 433 |
| Interest received | | 12 | 28 |
| Operating expenses | 7 | (37 321) | (16 182) |
| Operating profit for the year | | 32 384 | 37 276 |
| Net profit for the year | | 32 384 | 37 276 |

BALANCE SHEET AS AT 31 MARCH 2005

| | Note | 2005 R'000 | 2004 R'000 |
|-------------------------------------|------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Plant and equipment | 4 | 62 471 | 31 892 |
| Current assets | | | |
| Cash and cash equivalents | 3 | 3 867 | 2 732 |
| Accounts receivable | 8 | 4 209 | 5 854 |
| TOTAL ASSETS | | 70 547 | 40 478 |
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Retained earnings | | 68 335 | 35 951 |
| Revaluation reserve | | 597 | 516 |
| Current liabilities | | | |
| Accounts payable | | 1 615 | 4 011 |
| TOTAL EQUITY AND LIABILITIES | | 70 547 | 40 478 |

STATEMENT OF CHANGES IN EQUITY FOR THE
YEAR ENDED 31 MARCH 2005

| | Revaluation Reserve | Note | Capital Augmentation | Retained Earnings | Total |
|---|---------------------|------|----------------------|-------------------|----------------|
| Balance at 1 April 2003 | 455 | | 2 500 | 135 274 | 138 229 |
| Net profit for the year | - | | - | 37 276 | 37 276 |
| Capital augmentation | - | | - | - | - |
| Revaluation on assets | 61 | | - | - | 61 |
| Capital repayment | - | | - | (615) | (615) |
| Balance at 31 March 2004 | 516 | | 2 500 | 171 935 | 174 951 |
| Balance at 1 April 2004 (Restated) | 516 | | 2 500 | 171 935 | 174 951 |
| Effect of restatement (Government Grant) | - | 11 | - | (284) | (284) |
| Effect of restatement on fixed assets | - | 10 | - | (106 101) | (106 101) |
| Capital augmentation written off | - | 12 | (2 500) | - | (2 500) |
| Depreciation written off | - | | - | (29 599) | (29 599) |
| Restated Retained Earnings 2004 | 516 | | - | 35 951 | 36 467 |
| Net profit for the year | - | | - | 32 384 | 32 384 |
| Capital augmentation | - | | - | - | - |
| Revaluation on assets | 81 | | - | - | 81 |
| Capital repayment | - | | - | - | - |
| Balance at 31 March 2005 | 597 | | - | 68 335 | 68 932 |

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

| | Notes | 2005 R'000 | 2004 R'000 |
|---|-------|-----------------|-----------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | 9 | 57 507 | 51 438 |
| Interest received | | 12 | |
| Cash paid to suppliers and employees | | (27 252) | (33 457) |
| Bank charges | | (16) | |
| Net cash inflow from operating activities | 5 | <u>30 251</u> | <u>17 981</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Additions to fixed assets | 6 | (38 203) | (33 189) |
| Proceeds on sale of fixed assets | 2 | 9 087 | 9 079 |
| Net cash outflow from investing activities | | <u>(29 116)</u> | <u>(24 110)</u> |
| Net cash inflow from financing activities | | | |
| Net decrease/decrease in cash and cash equivalents | | 1 135 | (6 129) |
| Cash and cash equivalents at the beginning of the year | | <u>2 732</u> | <u>8 861</u> |
| Cash and cash equivalents at the end of the year | | <u>3 867</u> | <u>2 732</u> |

**NOTES TO THE ANNUAL FINANCIAL
STATEMENTS FOR THE ENDED
31 MARCH 2005**

| | Note | 2005 R'000 | 2004 R'000 |
|--|------|---------------|---------------|
| 1 Revenue | | | |
| Rental of equipment with book value | | 36 508 | 32 412 |
| Rental of equipment without book value | | 15 034 | 13 167 |
| Maintenance costs collected | | 514 | 418 |
| Main account and water trading account | | 4 493 | - |
| Main account | | 1 522 | - |
| | | <u>58 071</u> | <u>45 997</u> |
| 2 Other income | | | |
| Government grant | | 2 535 | 2 500 |
| Profit from sale of equipment | | 9 087 | 4 933 |
| | | <u>11 622</u> | <u>7 433</u> |
| 3 Cash with Paymaster-General | | | |
| Bank account | | 3 767 | 2 632 |
| Investment deposit | | 100 | 100 |
| | | <u>3 867</u> | <u>2 732</u> |
| 4 Property, Plant and Equipment (Restated - 2005) | | | |
| Cost | | 71 361 | 33 158 |
| Acc Depreciation | | (8 971) | (1 688) |
| Net book value | | 62 390 | 31 470 |
| Total plant and equipment | | <u>62 390</u> | <u>31 470</u> |

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE ENDED 31 MARCH 2005

Property, plant and equipment: 2005

A summary of fixed assets movements during the year is set out below:

| Year ended 31 March 2005 | Opening net book value | Addi- tions R'000 | Dispo- sals R'000 | Depre- ciation R'000 | Acc depre- ciation | Closing net book value R'000 |
|-----------------------------|------------------------------|-------------------------|-------------------------|----------------------------|--------------------------|--|
| Equipment | 33 158 | 38 203 | - | (7 283) | (8 971) | 62 390 |

Property, plant and equipment: 2004

A summary of fixed assets movements during the year is set out below:

| Year ended 31 March 2004 | Opening net book value | Restated | Addi- tions R'000 | Dispo- sals R'000 | Depre- ciation R'000 | Acc depre- ciation | Closing net book value R'000 |
|--------------------------------|------------------------------|-----------|-------------------------|-------------------------|----------------------------|--------------------------|--|
| Equipment | 106 101 | (106 101) | 33 158 | - | (1 688) | (1 688) | 31 470 |

| | 2005 R'000 | 2004 R'000 |
|--------------------------------------|---------------|---------------|
| Drilling diamonds | | |
| Carrying value | 827 | 781 |
| Additions | - | 31 |
| Depreciation | (211) | - |
| Accumulated depreciation | (616) | (405) |
| Impairment | - | (31) |
| Revaluation on diamonds | 81 | 46 |
| Carrying value at end of year | 81 | 422 |
| Industrial diamonds | - | 376 |
| Synthetic diamonds | 81 | 46 |
| Total carrying value | 62 471 | 31 892 |

Drilling diamonds are valued on annual basis by Atlas Copco (Pty) Ltd who are independent professional valuers. They used the market price indices at 31 March 2005 to determine the replacement cost. The movement on revaluation surplus is shown as follows,

| | | |
|--------------------------------------|----|----|
| - Revaluation surplus | 81 | 46 |
| - Movement for the period | 40 | |
| - Depreciation charge for the period | 40 | |

| | 2005 R'000 | 2005 R'000 |
|---|---------------|---------------|
| 5 Cash generated by operations | | |
| Net profit | 32 384 | 37 276 |
| Adjusted for: | | |
| Depreciation | 7 494 | 2 093 |
| Non cash item - debtor | 2500 | (568) |
| Impairment of equipment | - | 1 311 |
| Proceeds on sale of plant and equipment | (9 087) | (9 079) |
| Increase/decrease in debtors | (855) | (5 854) |
| Increase/decrease in creditors | (2 396) | 2 730 |
| Interest received (not operations) | (12) | (28) |
| Bank charges | 16 | 18 |
| Difference in assets purchased | - | 35 |
| Theft and Losses | 944 | - |
| Rebuilt cost | - | (10 237) |
| Non Cash items | (737) | 284 |
| | <u>30 251</u> | <u>17 981</u> |

| | | |
|---|-----------------|-----------------|
| 6 Additions to plant and equipment | | |
| Purchase of drilling diamonds | - | (31) |
| New equipment | (38 203) | (33 158) |
| Rebuilt equipment | - | - |
| | <u>(38 203)</u> | <u>(33 189)</u> |

| | | |
|--|---------------|---------------|
| 7 Expenditure | | |
| The following items have been charged in arriving at the operating profit: | | |
| Depreciation | 7 494 | 2 093 |
| Maintenance costs | 18 274 | 12 791 |
| Impairment | - | 1 280 |
| Bank charges | 16 | 18 |
| Theft & Losses | 944 | - |
| Central construction workshop | 1 615 | - |
| Rebuilt Cost | 8 978 | - |
| | <u>37 321</u> | <u>16 182</u> |

| | 2005 R'000 | 2005 R'000 |
|--|---------------|---------------|
| 8 Accounts Receivable | | |
| Exchequer account | 3 740 | 2 954 |
| Water trading account | 753 | 684 |
| Government grant | (284) | 2 216 |
| | <u>4 209</u> | <u>5 854</u> |
| 9 Cash Received from Customers | | |
| Proceed from sale of equipment | - | 9 079 |
| Rental of equipment with book value | 36 508 | 28 774 |
| Rental of equipment without book value | 15 034 | 13 167 |
| Maintenance cost | 514 | 418 |
| Government Grants | 4 751 | - |
| Main Account | 700 | - |
| | <u>57 507</u> | <u>51 438</u> |

10 Change in accounting policy

Assets prior to 1 April 2003 were taken on at their cost value when they were supposed to be capitalised at R1.00 each as per National Treasury guidelines. The assets on CEMS (Construction Equipment Management System) had a book value of R106 101 000 which was capitalised. The assets have been taken on at R1.00 each in order to comply with National Treasury guidelines (Asset Management Framework). The resultant effect is as indicated below:

| | | R'000 Gross | Taxation |
|-------------------------------|------|----------------|----------|
| Decrease in assets | 2004 | 106 101 | nil |
| Decrease in retained earnings | 2004 | 106 101 | nil |

The R29 599 000 which was depreciated from the cost value of R135 700 000 and left book value of R106 101 000 has been transferred from depreciation under expenditure to retained income of 2003/04 as a write off.

11 Fundamental error

In 2004 financial year the amount to the value of R284 458 was wrongly included in the revenue account which led to overstatement of revenue by that mentioned amount at 31 March 2004. The effects are shown below.

| | | R'000 Gross | Taxation |
|---------------------------------|------|----------------|----------|
| Decrease in accounts receivable | 2004 | 284 | nil |
| Decrease in retained earnings | 2004 | 284 | nil |

12 Fundamental error

Capital Augmentation of R2 500 000 was suppose to be included as revenue only in 2002/3 but it was credited in revenue and equity and debited in the bank account and accounts receivables. This lead to overstatement of equity and accounts receivables. The effects are shown below.

| | | R'000 Gross | Taxation |
|---------------------------------|------|----------------|----------|
| Decrease in accounts receivable | 2004 | 2 500 | nil |
| Decrease in equity | 2004 | 2 500 | nil |



A U D I T O R - G E N E R A L

REPORT OF THE AUDITOR-GENERAL TO
PARLIAMENT ON THE FINANCIAL STATEMENTS
OF THE NATIONAL FOREST RECREATION
AND ACCESS TRUST FOR THE YEAR ENDED
31 MARCH 2005

1 AUDIT ASSIGNMENT

The financial statements as set out on pages 219 to 221 for the year ended 31 March 2005, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004).

These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting authority. My responsibility is to express an opinion on these financial statements, based on the audit.

2 NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations, which came to my attention and are applicable to financial matters.

The audit was completed in accordance with Auditor-General Directive No. 1 of 2005.

I believe that the audit provides a reasonable basis for my opinion.

3 AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the National Forest Recreation and Access Trust at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999).

4 EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Operation of the National Forest Recreation and Access Trust

In terms of the National Forest Act, 1998 (Act No. 84 of 1998) the National Forest Recreation and Access Trust was established with effect from 1 April 1999.

During the 1999-2000 financial year the National Hiking Way Fund was dissolved. An amount of R1 669 293 was transferred from the fund to the trust.

The trust has remained dormant since inception. Formal approval by the Minister of Water Affairs & Forestry to commence with the operational activities has not been given.

4.2 Progress with previous SCOPA resolutions

As per SCOPA's ninety-fourth report of 2003, the department was to seek clarity from the National Treasury as to whether the trust should be listed as a public entity. The National Treasury's response was that the trust did not meet the listing requirements of a public entity in terms of the Public Finance Management Act.

No progress was made regarding the recommendation that the trust should commence with the utilisation of the trust funds as noted in paragraph 4.1.

5 APPRECIATION

The assistance rendered by the staff of the National Forest Recreation and Access Trust during the audit is sincerely appreciated.



A H Muller for Auditor-General
Pretoria

NATIONAL FOREST RECREATION AND ACCESS TRUST

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 MARCH 2005

| | Notes | 2004/05 R | 2003/04 R |
|---------------------------------|-------|--------------|--------------|
| Assets | | | |
| Current assets | | 2 969 140 | 2 754 648 |
| Amounts immediately recoverable | | 2 966 411 | 2 751 919 |
| Cash with | | 2 729 | 2 729 |
| Paymaster-General | | 2 969 140 | 2 754 648 |
| Equity | | | |
| Capital fund | 2 | 2 969 140 | 2 754 648 |
| | | 2 969 140 | 2 754 648 |

Department of Water Affairs and Forestry, Pretoria,

Dr. T.L. Simelane
Accounting Officer
National Forest Recreation and Access Trust

NATIONAL FOREST RECREATION AND ACCESS TRUST

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2005

| | 2004/05 R | 2003/04 R |
|--------------------------------|--------------|--------------|
| Income | 214 492 | 241 327 |
| Investment Income | 214 492 | 241 327 |
| Expenditure | - | - |
| Net income for the year | 214 492 | 241 327 |

NATIONAL FOREST RECREATION AND ACCESS TRUST

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2005

| | 2004/05 R | 2003/04 R |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Interest received | 214 492 | 241 327 |
| Cash generated by operations | <u>214 492</u> | <u>241 327</u> |
| Cash flows from investing activities | | |
| Increase in investment | (214 492) | (241 327) |
| Net cash outflow from investing activities | <u>(214 492)</u> | <u>(241 327)</u> |
| Net increase in cash and cash equivalent | - | - |
| Cash and cash equivalent at the beginning of the year | 2 728 | 2 729 |
| Cash and cash equivalent at the end of the year | <u>2 728</u> | <u>2 729</u> |

NATIONAL FOREST RECREATION AND ACCESS TRUST

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2005

| | Accumulated profit R | Total R |
|------------------------------|-------------------------|------------------|
| Balance 1 April 2003 | 2 513 321 | 2, 513 321 |
| Interest received | 241 327 | 241 327 |
| Balance 31 March 2004 | <u>2 754 648</u> | <u>2 754 648</u> |
| Balance 1 April 2004 | 2 754 648 | 2 754 648 |
| Interest received | 214 492 | 214 092 |
| Balance 31 March 2005 | <u>2 969 140</u> | <u>2 968 740</u> |

NATIONAL FOREST RECREATION AND ACCESS TRUST

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policy

- 1.1 The financial statements are, unless indicated otherwise, prepared on an historical cost basis according to the undermentioned policy which, in all significant respects, is applied consistently.
- 1.2 Income is acknowledged on an cash basis.
- 1.3 Cash and bank

The Fund does not have a formal counter party policy, but the credit risk in respect of cash resources is limited as the counter party is a high quality credit institution with a sound reputation. Fund management consider that the carrying amount of cash and bank approximates to their fair value.

1.4 Investment risk management

The Corporation for Public Deposits (CPD) manages the investments of the Fund. The CPD is independent from the Fund and has a sound reputation. The investment strategy is to maximise long-term growth and return on the investment portfolio while maintaining a low level of risk within the portfolio. In order for this objective to be achieved, significant investments include government bonds, bills and securities, deposits and cash. Of the total investments, approximately 21% are held in deposits and cash.

1.5 Price risk

Due to the nature and extent of the Fund's investments, the Fund is not unduly exposed to price risks as investments are held to maturity or in cash and deposits.

1.6 Interest rate risk

Investments in the form of bills, bonds and securities held by the Fund will normally be exposed to interest rate risk. Since these investments are held to maturity, they are not unduly exposed to interest rate risk.

1.7 Other risks

Cash flow and liquidity risks of the Fund are minimal as the majority of investments are held in cash and deposits. The Fund does not have any foreign accounts receivables, foreign accounts payable or derivative market instruments.

2 Capital fund

| | 2004/05 | 2003/04 |
|--------------------------------------|------------------|------------------|
| | R | R |
| Balance at the beginning of the year | 2 754 648 | 2 513 321 |
| Net income for the year | 214 492 | 241 327 |
| Balance at the end of the year | <u>2 969 140</u> | <u>2 754 648</u> |

