

PUBLISHED ANNUAL FINANCIAL STATEMENTS

SEDIBENG DISTRICT MUNICIPALITY

30 JUNE 2006



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GENERAL INFORMATION

EXECUTIVE MAYOR

Councillor M.J. Hlongwane

SPEAKER

Councillor N.P. Mbatha - Mthimkulu

MEMBERS OF THE MAYORAL COMMITTEE

Councillor N.J. Felix

Councillor S.V. Khumalo

Councillor A. Makhubo (Chief Whip)

Councillor P.B. Tsotetsi

Councillor J.A. Duncan

Councillor M.E. Tsokolibane

Councillor M.L. Kubheka

Councillor M.R. Letsoenyo

Councillor S. Maphalla

GRADING OF LOCAL AUTHORITY

Grade 11

AUDITORS

Auditor-General

BANKERS

Absa Bank

REGISTERED OFFICE

Civic Centre

Corner Beaconsfield
and Leslie Streets

Vereeniging

P.O. Box 471

Vereeniging
1930

Telephone (016) 450-3074

Fax (016) 422-1546

Municipal Manager:

Ms L Seftel

BA (Hons), PDM

Acting Chief Financial Officer:

Mr KR Netshivhale

B.Comm, PGD (Business Management)

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on pages 9 to 24 were presented to the Auditor General on the signed date

MUNICIPAL MANAGER

L SEFTEL

29 August 2006

ACTING CHIEF FINANCIAL OFFICER

KR NETSHIVHALE

29 August 2006

FOREWORD

It is my pleasure to present the financial statement for the period 2005 -2006. The financial management of the resources of the Municipality is an important mechanism for service delivery. Sound management is usually the foundation on which good services are delivered. It is in this context that I view these financial statements.

I trust that an examination of these statements will reflect three important things:

1. the spending priorities of this Municipality
2. the level of compliance with required legislation.
3. the commitment that Sedibeng District Municipality has to sound financial management.

The process of finalising financial statements also presents a great opportunity to continuously improve our internal controls and our external oversight of our finances. Each financial statement, and the subsequent opinion of the Auditor General, also helps us to make continuous improvements.

The desire for positive audit opinions has pushed us to confirm that our Municipal Manager, Chief Financial Officer and other senior Section 57 employees have this objective as a key performance indicator in their performance contracts.

For the purposes of following through on our improvement path we have opted to retain the services of our internal auditors Price Waterhouse & Coopers. We are also fortunate that since the last elections of May 2006, more than 80% of the political leadership have been returned to office. This further enhances our ability to continue good work that was started in the last term of office.

I would like to express my thanks and appreciation to our Council, Members of our Mayoral Committee, Members of the Finance Section 80 Committee in particular, the Remuneration Committee, the Audit Committee and to all staff who have made positive contributions. The office of the Auditor-General has worked closely with us to ensure transparency and compliance and therefore we would like to thank them as well.

Our deepest thanks goes to the people of Sedibeng that keep us motivated, who remain vigilant about our works and for whom we exits in the first place.

I thank you.

Clr Mlungisi Hlongwane
Executive Mayor.

CHIEF FINANCIAL OFFICER'S REPORT

Introduction

It gives me great pleasure to present a summary of the operating results for the 2005/2006 financial years. The 2005/2006 financial year ended with an operating surplus of R15 262 246. After taking into account the previous year's deficit of R3 456 833 and appropriations for the year of R1 223 373, the unappropriated surplus for the year resulted as R10 582 040.

During the financial year the council showed strong positive cash flow and it was in a position to settle a long term loan of R35 Million owed to INCA. The council was able to service the existing loans as shown in annexure "B" of the financials. Although the repayment of the loan impacted negatively on the appropriated deficit the provincial Department of Public Transport, Roads and Works has written off the licensing debt. This will result in a credit of R3,4 million which will improve the council's financial status.

The salary percentage of the total expenditure exceeds the norm of 33% due to the agency functions done on behalf of the Provincial Government. Repair and maintenance (1%) is below the benchmark of 10% as a result of the District not owing any infrastructure assets.

During the current year under review the council as a medium term capacity municipality started implementing supply chain regulations as of 1st January 2006 and on the 1st of July 2006 will be converting the financials to conform to GRAP/GAMAP standards. The above will boost the credibility and consistency of financial reporting of the council.

1. Operating results

Details of the operating results per object of income and expenditure are included in Appendices D and E. The overall operating result for the year is as follows:

INCOME	Actual 2005-2006 R	Actual 2004-2005 R	Variance 2005-2006 %	Budget 2005-2006 R	Variance Actual/ Budget %
Opening surplus/(Deficit)	(3,456,833)	399,414	965.48%	-	-
Operating income for the year	221,873,578	228,693,776	8.87%	188,080,703	(10.81%)
	218,416,745	229,093,190		188,080,703	
EXPENDITURE					
Operating expenditure for the year	206,611,332	246,910,362	16.30%	188,075,253	(9.89%)
Appropriations	1,223,373	(14,360,339)	112.83%	-	-
Closing surplus/(Deficit)	(10,582,040)	(3,456,833)	(3.00%)	5,450	
	218,416,745	229,093,190		188,080,703	

The closing deficit is as a result of the R35 million loan being redeemed at 30 June 2006 which resulted in fixed assets being redeemed with the same value. Operating income as well as expenditure is high compared to budget due to grants received and spent during the year mainly towards capital projects. Grants received on capital projects are normally expensed in our books due to the fact that these projects will ultimately be capitalized in the books of the local municipalities upon completion thereof. The decrease in operating income by (8.87%) was mainly as result of the support grants being reduced by R24,584,607 for the year due to MIG projects funding being channeled directly to the B municipalities.

Appropriations of R1,841 919 were mainly as a result of adjustments and corrections made during the year relating to the previous years. The major prior year adjustments resulted due to the Department of Transport writing back the amount of R18,924,827 owed on arrear license money. The asset value was redeemed by the loan repayment to the value of R25,052,881 while Lesedi local municipality was paid for the rental agreement entered into regarding the License department occupy some offices of Lesedi local municipality. The amount paid in respect of the prior year amounts to R1,395,877. In the prior year bad debts provision were over stated with an amount of R5,410,196. This adjustment was necessary due to the debtor balance decrease.

1.1_ **Balance sheet and financial statement ratios**

	2005/2006	2004/2005
Surplus/Deficit) before appropriations	1,738,280	(18,216,586)
(Deficit) at the end of the year	(3,560,473)	(3,456,833)

Percentages of total expenditure:

Description	2005/2006	2004/2005
Salaries & wages: Total expenses	46.18%	36.66%
General expenditure: Total expenses	19.98%	22.60%
Repair & Maintenance: Total expenses	1.05%	1.01%
Contributions & Financial charges: Total expenses	21.46%	16.10%
Inter Governmental Grants: Total expenses	11.33%	23.63%

2. **CAPITAL EXPENDITURE AND FINANCING**

The expenditure incurred on fixed assets during the year under review amounted to 51,232,687 of which R15,250,312 was capitalized. The capital expenditure for the year is represented by the following categories:

	2005-2006 Actual R	2005-2006 Budget R	Variance Actual/ Budget %	2004 - 2005 Actual R
Buildings	12,038,527	11,631,000	3.5%	10,548,301
Computers	522,765	867,229	39.7%	
Electricity	167,949	-		564,425
Furniture	605,808	707,925	(14%)	455,423
Roads, Water & Sanitation,	24,940,141	26,228,000	(4.9%)	2,322,096
Transport, LED, Environ	4,454,546	8,100,000	(45%)	43,734,585
Vehicles	351,706	370,000	(4.9%)	19,355,548
Housing	33,456	5,735,000	(99.4%)	1,832,826
Service delivery	8,117,789	-		
Total	51,232,687	53,639,154	(4.5%)	78,813,204

Resources used to finance the fixed assets were as follows:

	2005-2006 Actual R	2005-2006 Budget R	Variance Actual/ Budget	2004 - 2005 Actual R
Contributions from operating income	22,354,050	21,876,154	2.2%	20,415,799
Contributions from External loan	10,992,273			22,850,018
Contributions from provincial grants	17,886,364	31,763,000	(43.7%)	35,547,387
	51,232,687	53,639,154	(4.5%)	78,813,204

The total expenditure of 51,232,687 is inclusive of assets transferred to the local municipalities done on their behalf while the expenditure incurred on fixed assets during the year for the district amounted to R15,250,312 (Refer to Appendix C) made up of R3,061,668 from grants, R6,606,973 from own sources and R5,581,671 from the external loan. This amount has been capitalized in the books of the district. The total contribution from the operating income including local municipalities consists of R22,354,050 funded out of own sources and the balance of R17,886,364, funded out of grants received from both province and National. The R50,000,000 loan acquired from ABSA in 2003/2004 financial year, R10,992,273 has been spent in the current financial year and R44,723,521 has been spent in total to date.

The reason for the under spending or variances on the budgeted amounts were as a result of the housing grant budgeted for was not received and therefore the envisaged PHP house project did not continue. With infrastructure development grants, projects for roads, storm water and transport did not start nor was any money received from the Provincial government.

3. INVESTMENTS AND CASH

Investments on 30 June 2006 amounted to R5,722,500 (2004/2005 – R35,987,246). The investment deposit of R35,000,000 has paid the loan to INCA on 30 June 2006. The cash balance on the balance sheet is represented by a bank balance of R65,031,211 with cheques not yet presented to the bank amounting to R12,121, direct deposits not yet receipted amounting to R1,726,934 ,outstanding deposits amounting to R183,904 and cash advances (cashier floats at various pay points) to the amount of R23,175. This resulted in a cashbook balance of R 63,499,234

4. EXTERNAL LOANS

An external loan to the amount of thirty five million rand (R 35 000 000) was obtained from INCA. in 1997 at an interest rate of 16.35% per annum. A long term deposit was ceded to INCA to serve as a bullet payment at the end of the term (30 June 2006). Interest was payable bi-annually on 30 June and 31 December. The external loan was redeemed at 30 June 2006 by means of the secured investment.

A loan of fifty million rand (R50,000,000) was obtained from ABSA in 2004 at an interest rate of 12.75% and is secured by the municipality's right to proceeds of some RSC Levies which have been ceded to the bank but limited to the capital balance outstanding & six months interest in arrears. Interest is payable bi-annually on 31 March and 30 September.

5. FUNDS AND PROVISIONS

Leave pay provision opening balance as at 1 July 2005 was R5,053,175 with net movements for the year of R308,950 (consisting of contributions of R2,150,474 and expenditure for the year of R1,841,524). This resulted in the closing balance of R5,362,125 at year end. Refer to Appendix "A".

6. REGIONAL FUNCTIONS

The following income from regional functions was reported in the Income Statement of the District during the year.

	2005/2006	2004/2005
Market	R 5,639,205	R 4,851,573
Technorama	R 3,399	R 16,093
Airport	R 17,782	R 41,734
Theatre/Town Hall	R 439,539	R 373,120

7. PROVINCIAL FUNCTIONS

The following income from provincial functions was reported in the Income Statement of the District during the year.

	2005/2006	2004/2005
Ambulance	R 24,972,143	R 22,024,118
Health	R -	R 241,974
License Fees	R 29,452,395	R 31,098,468

8. BUSINESS RISK

In the past financial year, the business risks of Council were assessed holistically in order that appropriate attention can be given to areas in minimising Council risks. This was done through the internal audit function that put together the risk profile of Council and how those risks can be mitigated. To further minimize the risk of fraud and corruption, the supply chain procedures as regulated by national treasury was adopted by council

In the current financial year the council has appointed member from public, who are professionals in various field, to form part of the audit committee. The audit committee reviews reports submitted by the internal auditors and gives recommendations to council on the improvement of internal controls.

8.1. RISK MANAGEMENT STRATEGY

Sedibeng District Municipality embarked on a risk identification review in the current financial year. The revised risk management strategy was approved by Council during 2005/2006.

8.2. OWNERSHIP OF IMMOVABLE ASSETS

The district continues to work with Emfuleni Local Municipality to finalise the ownership and transfer of immovable assets.

8.3 SECTION 21 COMPANIES

The council is in the process of finalizing the legal status of Vereeniging Theatre and Gauteng chemical incubator (SEDICHEM). The financials of the companies are attached under separate cover.

8.3.1 Vereeniging Theatre

The Vereeniging Theatre is responsible for the marketing, promoting and staging of the performing arts in the Sedibeng District. The main source of revenue consists of attendance fees from various stage productions performed during the year. During the year, the council managed to compile all outstanding financial statements up to March 2006 and arrange for their auditing. This will enable us to wind up the section 21 company in the next financial year as per council resolution. The expenditure incurred on behalf of Vereeniging Theatre for the financial year 2005/2006 by Sedibeng District Municipality amounted to R1,136,756.

The board of directors as at 30 June 2006 is as follows:

- Dr. A Milani (Chairperson)-(retired Councillor)
- Mr. N.S.Mofokeng (Employee of Council)
- Mr. D. Nakana (Employee of Council)
- Ms. M.Hoogenhout -(retired Councillor)
- Clr. S.Khumalo (Member of Mayoral committee)
- Clr. K.Mogotsi Speaker (Emfuleni)
- Mr. A.J.Venter (Ex Councillor)

8.3.2 SEDICHEM

Sedichem is a business and chemical technology incubator which supports entrepreneurs in starting and growing chemical related businesses. The company is a registered section 21 company born out of the effort of the provincial government and District municipality to stimulate local economic development. Focus is on the provision of start up support, infrastructure, as well as commercial and strategic services to develop sustainable small and medium size enterprises.

The board of directors as at 30 June 2006 is as follows:

De Klerk, Stanley
 Xaba, Sibusiso
 Marais Stephanus Francois
 Kruger, Johannes Stephanus
 Allworth, Mthimkulu Sipamla
 Mofokeng Mahole Simon
 Sekoto Herman Lephatsi
 Plaatjie Duma Jerimiah
 Uys, Adelle
 Gouws, Christian

Executive Director

Makunike, Lovemore Tafirenyika

The financial statements of Sedichem for the period ended 31 March 2006 are presented separately and audited by Douglas Velcich incl. The reason for this is that the entity was not established according to the MFMA requirements and the council is currently rectifying this oversight.

9. **POST BALANCE SHEET EVENTS**

As of 30 June 2006 a balance of R15,524,827 was still owing to the Provincial Government for license fees. Subsequently the provincial government has taken a decision to write off this amount and refund all the payments made since February 2006. The outstanding balance was therefore written back and a debtor created for the amount of R3,400,000 now payable by the provincial department of Public Transport, Roads and Works.

Regional Services Levies Act has been repealed as of 1 July 2006 and in the interim is being replaced by an equitable share receivable from national treasury.

10. **EXPRESSION OF APPRECIATION**

We are grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, Municipal Manager, Executive Managers, members of the Section 80 Finance Committee and Mr. Dion De Beer from SAICA for the support they giving us during the financial year under review. More importantly we would like to extend our sincere gratitude to each one of our staff for their hard work in making work easier in managing the department and producing financial statements.

KR NETSHIVHALE
ACTING CHIEF FINANCIAL OFFICER
SEDIBENG DISTRICT MUNICIPALITY
29 August 2006

BALANCE SHEET AT 30 JUNE 2006

	NOTE	2005-2006 R	2004-2005 R
CAPITAL EMPLOYED			
RETAINED SURPLUS/(RETAINED DEFICIT)	1	10 582 040	(3 456 833)
		10 582 040	(3 456 833)
LONG TERM LIABILITIES		40 589 634	59 890 489
External Loans	2	40 589 634	44 365 662
Creditors	2	-	15 524 827
		51 171 674	56 433 656

EMPLOYMENT OF CAPITAL

FIXED ASSETS	3	12 182 755	39 845 299
LONG TERM INVESTMENTS	4	-	-
LONG-TERM DEBTORS	5	-	273 208
		12 182 755	40 118 507
NET CURRENT ASSETS		38 988 919	16 315 149
CURRENT ASSETS		101 307 762	123 291 975
Short term investments	4	5 722 500	35 987 246
Inventory	6	-	-
Debtors	7	32 086 028	9 184 472
Cash at bank and on hand	18	63 499 234	78 120 257
CURRENT LIABILITIES		62 318 843	106 976 826
Provisions and Reserves	8	31 559 892	6 883 239
Short term portion of long term liability	2	3 774 155	38 390 584
Creditors	9	26 984 796	61 703 003
		51 171 674	56 433 656

L SEFTEL
MUNICIPAL MANAGER

CERTIFIED AS CORRECT
KR NETSHIVHALE
ACTING CHIEF FINANCIAL OFFICER

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

2004-2005 Actual Income	2004-2005 Actual Expenditure	2004-2005 Surplus/ (Deficit)		2005-2006 Actual Income	2005-2006 Actual Expenditure	2005-2006 Surplus/ (Deficit)	2005-2006 Budget Surplus/ (Deficit)
R	R	R		R	R	R	R
170 046 696	190 685 403	-20 638 707	Administration	161 529 061	141 641 064	19 887 997	10 927 313
53 364 560	44 749 761	8 614 799	Provincial Functions	54 244 538	52 615 831	1 628 707	-2 210 623
5 282 520	11 475 198	-6 192 678	Regional Functions	6 099 979	12 354 437	-6 254 458	-8 711 240
228 693 776	246 910 362	-18 216 586	TOTAL	221 873 578	206 611 332	15 262 246	5 450
		<u>14 360 339</u>	Appropriations, for the year (REFER TO NOTE 11)			<u>(1 223 373)</u>	
		(3 856 247)	(Deficit)/Surplus for the year			14 038 873	
		<u>399 414</u>	Accumulated deficit beginning of the year			<u>(3 456 833)</u>	
		<u>(3 456 833)</u>	ACCUMULATED SURPLUS/(DEFICIT) AT END OF THE YEAR			<u>10 582 040</u>	

(Refer to appendices D and E for more detail)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2005-2006 R	2004-2005 R
CASH (UTILISED IN)/RETAINED FROM OPERATING ACTIVITIES :		24 281 827	23 161 846
Cash generated /(required) by operations	14	53 481 795	12 275 562
Investment income		11 346 394	13 579 091
Decrease /(increase) in working capital	15	(28 883 733)	9 451 049
		35 944 456	35 305 702
Less: External Interest Paid		(11 662 629)	(12 143 856)
CASH UTILISED IN INVESTING ACTIVITIES			
Investment in fixed assets		(15 250 312)	(18 783 238)
NET CASH FLOW		9 031 515	4 378 608
CASH EFFECTS OF FINANCING ACTIVITIES			
(Decrease)/Increase in long term creditors	2	(15 524 827)	(8 204 700)
(Decrease) / Increase in Long Term Loans (External)	16	(38 392 457)	(3 140 860)
(Increase)/Decrease in cash investments	4	30 264 746	(3 800 333)
Decrease / (Increase) in cash	18	14 621 023	10 767 285
NET CASH UTILISED / (GENERATED)		(9 031 515)	(4 378 608)

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 Financial Officers in its Code of Practice (1997) and Report of Published Annual Financial Statements (2nd Edition - 1996).
- 1.2 The financial statements are prepared on the historical cost basis. The accounting policies are consistent with those applied in the previous year.
- 1.3 The financial statements are prepared on the accrual basis:
- Interest and sundry income are accrued when collectable and measurable.
 - Levy income is recorded on the actual cash received basis.
 - Expenditure is accrued in the year it is incurred.
 - Regional function income and expenditure are accrued when the services are rendered.

2. Fixed assets

- 2.1 Fixed Assets are stated:
- At historical cost, or
 - At valuation (based on the market price at date of acquisition), where assets have been acquired by grant or donation.

While they are in existence and fit for use, except in the case of bulk assets which are written off at the end of their estimated life determined by the Chief Financial Officer.

2.2 Depreciation

The balance shown against the heading "Loans Redeemed and 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 grants, assets may also be acquired through.

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

3. Levies

RSC Levies are recognised when RSC levy payers declare both establishment and services levies. The only debtors that are accounted for in the financial statements are those levy payers that have declared their RSC levies but have not yet paid them up to and including 30 June each year.

4. Creditors

Creditors include all known and likely liabilities as at 30 June each year and provisions for committed expenditure which include unspent grants from National and Provincial Governments.

5. Retirement benefits

The Sedibeng District Municipality and its employees contribute to one of the following pension funds, Municipal Employees Pension fund, Municipal Employees Retirement Fund, Municipal Employees Gratuity Fund, SALA Pension Fund, IMATU Pension Fund or SAMWU Pension fund and National Fund for Municipal Workers. Councillors contribute towards the Municipal Councillors Pension Fund. All the above funds provide retirement benefits to such employees and councillors and are managed independently from Council. They are retirement contribution funds in which case Council carries no liability.

The retirement benefit plan is subject to the Pension Fund Act, 1956, with pensions being calculated on the final pensionable remuneration paid.

6. Investments

Investments are shown at market value and amounts are invested as per Circular number 26 of 1991, issued by the Provincial Administration, Community Development branch. Interest earned on all investments will be treated as operating income.

7. Inventory

Inventory (Fuel) is valued at the lower of cost, determined on the first in first out (FIFO) basis and net realisable value.

8. Projects

Projects undertaken on behalf of Local Municipalities through provincial grants or counter funding, are expensed in the books of the Sedibeng District Council until they are finalised, after which they will be transferred to the Local Municipalities. Assets acquired by means of a loan will remain the assets of the District Council until such loans are redeemed in full, after which they will then be transferred to Local Municipalities. Unspent grants funds are disclosed as creditors at year end.

9. Surpluses and Deficits

The Fresh Produce Market forms part of Sedibeng District Municipality and any surplus or deficit experienced by this unit will be absorbed by the district.

10. Leased Assets

Fixed assets held under finance leases are capitalised. Such assets are effectively amortised over the term of the lease agreement. Lease finance charges are allocated to accounting periods over the duration of the leases, by the effective interest rate method, which reflects the extent and cost of the lease finance utilised in each accounting period.

All other leases are treated as Operating Leases and the relevant rentals are charged to General Expenses related to the period of use of the assets concerned.

11. Provision and Reserves

Provision for leave days will be made on the credit balance of all employees at the end of each financial year. Provision for bonuses will be made for all section 57 contract employees as well as employees who qualify for retirement. Provision for bad debts will be provided for in order to make the debtors balance in the financial statement to be more realistic.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006

	2005-2006 R	2004-2005 R
1 RETAINED SURPLUS/(DEFICIT)		
RETAINED (DEFICIT) / SURPLUS	10 582 040	(3 456 833)
	<u>10 582 040</u>	<u>(3 456 833)</u>

2 EXTERNAL LOANS / LONG TERM LIABILITIES

2.1 Long term liability	44 363 789	82 756 246
Annuity Loans	43 421 789	81 571 020
Lease Liability	942 000	1 185 226
Less : Current portion transferred to Current Liabilities	3 774 155	38 390 584
Annuity Loans	3 529 589	38 149 270
Lease Liability	244 566	241 314
External Loans / Long Term Liabilities	<u>40 589 634</u>	<u>44 365 662</u>

An external loan to the amount of thirty five million rand (R 35 000 000) was obtained from I.N.C.A. in 1997 at an interest rate of 16.35% per annum. This loan was redeemed in full at the end of the term(30 June 2006).

An additional loan to the amount of fifty million rand (R50,000,000) was obtained from ABSA in 2004 at an interest rate of 12.75% and is secured by the municipality's right to proceeds of some RSC Levies which have been ceded to the bank but limited to the capital balance outstanding & six months interest in arrears. Interest is payable bi-annually on 31 March and 30 September at an amount of R4,494,859 respectively.

Interest on loans for the financial year under review amounted to R 11,662,629.

Lease Liability

Council has entered into two finance leases redeemable at respectively July 2009 and Sept 2009 to a total initial value of R1,360,600;payable monthly at a variable interest rate of prime -1(minus one)(SEE APPENDIX B for detail)

2.2 Long term creditors	-	23 684 827
Less : Current portion transferred to Current Liabilities	-	8 160 000
Long term creditors	<u>-</u>	<u>15 524 827</u>

The long term creditors consist of Natis fees owed to the Gauteng department of transport. The erstwhile Lekoa-Vaal Metro didn't pay over the fees to the department of transport and Sedibeng inherited the liability. An agreement was signed in 2001 whereby Sedibeng undertook to repay the outstanding balance over a period of five years at zero interest rate from signature date of the agreement. The department of transport has written off the debt therefore the creditor has been recognized as income.

3 FIXED ASSETS

Fixed assets at the beginning of the year	66 894 644	48 782 873
Capital expenditure during the year	15 250 312	18 783 238
Less: Assets written off, transferred or disposed of during the year	(324 305)	(671 467)
Total fixed assets	81 820 651	66 894 644
Less : Loans redeemed and Capital receipts	(69 637 896)	(27 049 345)
Net fixed assets	<u>12 182 755</u>	<u>39 845 299</u>

(Refer to appendix C and section 2 of the Treasurer's Report for more details on fixed assets)

4 INVESTMENTS

Unlisted

Long term deposits	0	0
Short term deposits	5 722 500	35 987 246
Call deposits	-	0
Total investments	<u>5 722 500</u>	<u>35 987 246</u>

As per MFMA requirements S13(1)b, all municipalities must invest funds not immediately required. Short term deposits consisted of cash of R 5,722,500, invested on ABSA Trust at a 7% average gross rate of return on investment.

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2005-2006 R	2004-2005 R
5 LONG TERM DEBTORS		
Motor vehicle loans	0	79 163
Hau Wei	0	147 045
Study loans - Children	110 373	128 123
Computer Loans	0	4 918
Santam	0	25 590
M&F - K Mogotsi	5 305	5 305
Midvaal Adhoc Claims	23 058	23 058
Bursaries	0	5 112
Emfuleni Local Municipality	0	26 502 520
Salary claim	5 603	
Deposits paid	47 000	47 000
	<u>191 339</u>	<u>26 967 834</u>
Less: Provision for Bad debts	<u>(191 339)</u>	<u>(26 694 626)</u>
	<u>-</u>	<u>273 208</u>

6 INVENTORY

Inventory represents fuel stores, namely diesel & petrol	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

7 SHORT TERM DEBTORS

Accounts receivable	<u>32 903 078</u>	<u>14 878 701</u>
Less: Provision for Bad debts	<u>(1 452 930)</u>	<u>(5 790 597)</u>
	31 450 148	9 088 104
Intercouncil indebtedness Current year	635 880	96 368
Vereeniging Airport Debtors	-	-
VAT	-	-
	<u>32 086 028</u>	<u>9 184 472</u>

8 PROVISIONS AND RESERVES

Bonus provision	<u>1 852 900</u>	<u>2 461 628</u>
Leave provision	<u>5 362 125</u>	<u>5 796 795</u>
Total Provisions	<u>7 215 025</u>	<u>8 258 423</u>
Capital Reserve fund	20 667 159	21 590 206
Conditional Grant Reserve fund	3 677 708	6 872 616
Total Reserves	<u>24 344 867</u>	<u>28 462 822</u>

(Refer to appendix A for more detail)

9 CREDITORS

Trade creditors	<u>9 880 208</u>	<u>25 080 181</u>
Gauteng Roads, Transport and Public Works	8 062 471	8 160 000
Health & EMS subsidies in advance	9 042 117	
Capital creditors	0	
Total creditors	<u>26 984 796</u>	<u>33 240 181</u>

The Creditor, Gauteng Roads, Transport and Public Works (R8,062,471) consists of Natis fees owed to Gauteng department of transport in July 2006.

10 COUNCILLORS' REMUNERATION

Mayoral allowance	<u>409 790</u>	<u>388 007</u>
Chairpersons' / Speakers' allowance	338 019	319 646
Executive committee members allowances	3 103 867	2 229 546
Councillors' allowances	1 106 678	1 586 652
Medical aid contributions	72 099	105 067
Councils' pension contributions	489 886	539 295
	<u>5 520 339</u>	<u>5 168 213</u>

11 AUDITORS' REMUNERATION

External Audit	<u>1 039 113</u>	<u>500 000</u>
	<u>1 039 113</u>	<u>500 000</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2005-2006 R	2004-2005 R
12 FINANCE TRANSACTIONS		
External Interest Paid	10 364 754	10 737 242
Interest Accrued	<u>1 297 875</u>	<u>1 406 614</u>
Total external interest paid	<u>11 662 629</u>	<u>12 143 856</u>
Total external interest earned	<u>11 346 394</u>	<u>13 579 091</u>
Capital Charges debited to operating account		
Interest		
External	<u>11 662 629</u>	<u>12 143 856</u>
Redemption		
External	<u>8 191 335</u>	<u>4 501 460</u>
	<u>19 853 964</u>	<u>16 645 316</u>
13 APPROPRIATIONS		
Appropriation account		
Accumulated deficit at the beginning of the year	(3 456 833)	399 414
Operating (deficit)/surplus for the year	15 262 246	(18 216 586)
Appropriations for the year :	(1 223 373)	14 360 339
Prior year adjustments	<u>(1 223 373)</u>	<u>14 360 339</u>
Accumulated (deficit)/surplus at end of the year	<u>10 582 040</u>	<u>(3 456 833)</u>
Operating account		
Capital expenditure	<u>1 221 902</u>	<u>1 507 353</u>
Contributions to :		
Audit fees	1 039 113	500 000
Leave provision	2 150 473	2 691 552
Bonus Provision	22 836	631 564
Bad debts	-	19 997 805
Support Grants	<u>23 115 543</u>	<u>58 347 528</u>
	<u>27 549 867</u>	<u>83 675 802</u>
Prior Year Adjustments		
Previous year operating (expenditure)/income	(1 223 373)	14 360 339
RSC Levies	<u>18 924 827</u>	<u>15 450 091</u>
Licence creditor written back		-
Adjustment of Gauteng Debt		44 700
Creditors recog income(journal 208)		344 197
Health Subsidy(jnl a0230 and 168)		(4 064 958)
Correction - Cnlls pension fund)		(32 298)
Interest(jnl ao233 and 198)		32 629
Bad debt overprovide previous year	5 410 196	-
Legal fees recovered on RSC previous year	263 519	-
Emfuleni creditor recognise as income		22 005 745
Sanlam - Cape Trust Group scheme		(812 406)
Intercouncil indebttness	(1 395 877)	(18 610 432)
Redemption of loan & reduction in assets	(25 052 881)	-
Audit fees - creditor reverse	618 547	
Sundries	<u>8 296</u>	<u>3 071</u>
	<u>(1 223 373)</u>	<u>14 360 339</u>

** See treasurers report for explanation on prior year adjustments

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006(continued)

	2005-2006 R	2004-2005 R
14 CASH GENERATED / (REQUIRED) BY OPERATIONS		
Surplus / (Deficit) for the year	15 262 246	(18 216 586)
Adjustments in respect of :		
Previous years' operating transactions	(1 223 373)	14 360 339
Capital charges		
. Redemption external loan	33 244 215	4 501 460
Appropriations charged against income:	60 975 067	15 013 516
. Development Fund	-	-
. Provisions and Reserves	51 306 426	3 323 116
. Fixed assets	9 668 641	11 690 400
Investment income (operating account)	(11 346 394)	(13 579 091)
External Interest Paid	11 662 629	12 143 856
. Expenditure charged against funds, provisions and reserves	(55 092 595)	(1 947 932)
	<u>53 481 795</u>	<u>12 275 562</u>
15 (INCREASE)/DECREASE IN WORKING CAPITAL		
Decrease in stock	-	6 555
Decrease in long term debtors	273 208	84 806
(Increase) Decrease in debtors	(22 901 556)	8 124 479
Increase / (Decrease) in creditors	(6 255 385)	1 235 209
	<u>(28 883 733)</u>	<u>9 451 049</u>
16 INCREASE/ (DECREASE) IN LONG-TERM LOANS (EXTERNAL) / FINANCE LIABILITIES		
Loans raised	-	1 360 600
Loans repaid	(38 392 457)	(4 501 460)
	<u>(38 392 457)</u>	<u>(3 140 860)</u>
17 DECREASE / (INCREASE) IN EXTERNAL CASH INVESTMENT		
Investment realised	30 264 746	-
Investments made	-	(8 543 608)
	<u>30 264 746</u>	<u>(8 543 608)</u>
18 DECREASE / (INCREASE) IN CASH ON HAND		
Cash balance at the beginning of the year	78 120 257	88 887 542
Less: Cash balance at the end of the year	63 499 234	78 120 257
	<u>14 621 023</u>	<u>10 767 285</u>

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2005-2006 R	2004-2005 R
19 RETIREMENT BENEFITS		
	Defined Contribution Funds	Defined Contribution Funds
Name of the Pension Fund		
Municipal Gratuity Fund	8 129 633	10 433 135
SAMWU Provident Fund	543 708	683 302
SALA Pension Fund	687 607	977 638
Municipal Councillors Pension Fund	489 886	1 045 264
National Fund for Municipal Workers	705 887	771 306
Total Contribution	10 556 721	13 910 645
	Defined Benefit Funds	Defined Benefit Funds
Municipal Employees Pension Fund	952 951	1 014 823
Joint Municipal Pension Fund	155 798	203 761
Total Contribution	1 108 749	1 218 584

Council will have no obligation against the Defined Contribution Funds other than the normal monthly contributions payable. The Municipal Employee Pension Fund actuarial valuation is done every three years while the last valuation was done in 2005. The actuarial valuation is positive and indicate that there will be no liability for Council. The next valuation will be performed in 2008. The joint Municipal pension fund actuarial valuation was done for 2006 where only 4 (four) employees belong to this fund. No liability has been raised although the current ratio is indicated at 97.7% due to the fact that only four

20 CONTINGENT LIABILITIES

The following contingent liabilities were discovered at year end:

Case	Description	Amount Claimed	Possible liability
HB Lourens vs Sedibeng District Municipality and Black Top Surfaces	HP Lourens incurred damages to his vehicle as a result of insufficient road signs to indicate that road works were in progress and as a result of the above, he is now suing the council as well as Black Top Surfaces for the damages he has suffered.	R 146 943	
United Taxi Association	The Taxi Association lodged an application to the High court for an order compelling Sedibeng to issue a letter of recommendation that will enable a Provincial government to grant them a licence to operate. The case has been abandoned for the past two years. It is unknown whether it will be reinstated.		R 15,000
Light House Advertising (Pty) Ltd	Sedibeng entered into a contract with Light House for them to advertise on the roads that belong to the provincial council. Such advertisements are prohibited from the provincial roads. Case put on hold.	Consequential Damages	
Vanippa CC	Sedibeng entered into a contract with Vanippa for them to administer the running of the airport and Sedibeng was to ensure that the airport is kept running. Houses were built in the area surrounding the airport which made the airport to be closed and now Vanippa is suing for the lost of revenue as a result of Sedibeng. The parties being sued are both Sedibeng and Emfuleni.	Consequential damages	1 000 000
I-Control	Sedibeng entered into a contract with I-Control for them to enhance revenue on RSC Levies. A legal dispute on the terms and status of the contract is still pending.	R 1 170 961	R 934 513

NOTES TO THE FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

21 UNSOLICITED BIDS

As per the requirements under S113 of the MFMA, no unsolicited bids occurred for the financial period under review.

22 AWARDS TO CLOSE FAMILY MEMBERS OF PERSONS IN THE SERVICE OF THE STATE

As per the Municipal Supply Chain Management Regulations Notice of 2005/05, the following needs to be disclosed:

Employee Name	Employee Position	Company Name	Amount
Stephan Heunes	Account: Expenditure	Panorama Bloemiste	R 28 835
Wycliff Ramotsedisi	Manager: Human Resources	Midnight Spark Trading CC	R 21 751
Nozipho Maseko	Senior Technical Admin	Mtunga Quality Supplier	R 28 925

23 BANK AND CASH SCHEDULE

INSTITUTION	BANK ACCOUNT NUMBER	DESCRIPTION	2005 -2006 BALANCE	2004 - 2005 BALANCE
ABSA BANK	04 808 633 80	PRIMARY BANK ACCOUNT	321 642	408 923
ABSA BANK	4 060 083 735	RSC LEVY BANK ACCOUNT	236 871	1 765 847
ABSA BANK	4 057 956 448	LICENCE BANK ACCOUNT	8 756 148	7 394 572
ABSA BANK	908 579 6427	CALL ACCOUNT	836 165	789 518
ABSA BANK	906 542 7399	CALL ACCOUNT	5 181 425	12 431 210
ABSA BANK	00 1423 100	CEDED SHORT TERM INVESTMEN	5 722 500	5 722 500
ABSA BANK	206 295 8586	SHORT TERM INVESTMENT	48 038 812	54 743 275
ABSA BANK	LEK 002	CEDED INVESTMENT	0	30 264 746
NEDBANK	1729 424 759	AIRPORT FUEL LEVY ACCOUNT	104 995.65	99 742.90
TOTAL BANK AND CASH			69 198 559	113 620 333

24 GRANTS AND SUBSIDIES RECEIVED FROM ORGANS OF STATE

INSTITUTION	GRANT/SUBSIDY DESCRIPTION	2005 -2006 AMOUNT
GAUTENG PROVINCE - HEALTH	AMBULANCE SUBSIDY	23 996 000
NATIONAL TREASURY	MUNICIPAL SYSTEMS IMPROVEMENT GRANT	1 000 000
NATIONAL TREASURY	EQUITABLE SHARE	999 981
NATIONAL TREASURY	MUNICIPAL INFRASTRUCTURE GRANT	9 800 000
DEPT. OF WATER AFFAIRS AND FORESTRY	WATER SERVICE PLAN	300 000
LOTTO	GREENING PROJECT	771 500
DEPT. OF TRANSPORT	CONSTRUCTION OF ROADS INFRASTRUCTURE	3 833 441
GAUTENG PROVINCE - ARTS & CULTURE	MPHATALATSANE THEATRE	1 000 000
GAUTENG PROVINCE - ARTS & CULTURE	SHARPEVILLE EXIBITION CERNTRE	1 000 000
TOTAL	TOTAL GRANTS AND SUBSIDIES	42 700 922

APPENDIX A

PROVISIONS AND RESERVES

	Balance at 30/6/2005	Contributions during the year	Expenditure during the year	Balance at 30/6/2006
	R	R	R	R
PROVISIONS				
Bonus	1 830 064	22 836	-	1 852 900
Leave provision	5 053 175	2 150 474	1 841 524	5 362 125
	<u>6 883 239</u>	<u>2 173 310</u>	<u>1 841 524</u>	<u>7 215 025</u>
RESERVES				
Capital Reserve fund	21 590 206	47 933 591	48 856 638	20 667 159
Conditional Grant fund	6 872 616	1 199 525	4 394 433	3 677 708
	<u>28 462 822</u>	<u>49 133 116</u>	<u>53 251 071</u>	<u>24 344 867</u>

APPENDIX B

EXTERNAL LOANS

				Balance at 30/6/2005	Received during the year	Redeemed or written off during the year	Balance at 30/6/2006
				R	R	R	R
EXTERNAL LOANS							
ISSUED		LOAN NO.	REDEEMABLE				
1997 @ 16.35%		1	June 2006	35 000 000	-	35 000 000	-
2004 @ 12.75%		3	March 2014	46 571 020		3 149 231	43 421 789
				81 571 020	-	38 149 231	43 421 789
FINANCE LEASE							
ISSUED		LEASE NO.	REDEEMABLE				
2004 @ Variable rate(Prime -1%)		1	July 2009	569 631		119 830	449 801
2004 @ Variable rate(Prime-1%)		2	Sept. 2009	615 595		123 396	492 199
				1 185 226	-	243 226	942 000

APPENDIX C

ANALYSIS OF FIXED ASSETS

Expenditure 30/6/2005 R	SERVICE	Budget 2005-2006 R	Balance at 30/6/2005 R	Expenditure 2005-2006 R	Written off transferred redeemed or disposed of during the year R	Balance at 30/6/2006 R
General Services						
4 803 708	Administration	4 600 000	14 206 283	2 176 524	324 305	16 058 502
10 475 706	Other Services	8 470 000	19 700 283	11 220 801	-	30 921 084
			-		-	-
Housing Services						
	Social Housing		-		-	-
			-		-	-
Trading Services						
	Electricity		-		-	-
1 317 552	Fresh Produce Market	2 000 000	3 890 512	1 548 865		5 439 377
1 645 204	Water	2 000 000	2 892 947	259 122	-	3 152 069
541 068	Public Transport		26 204 619	45 000	-	26 249 619
18 783 238	TOTAL FIXED ASSETS	17 070 000	66 894 644	15 250 312	324 305	81 820 651
LESS:						
CAPITAL RECEIPTS -						
(4 501 460)	Loans redeemed		(7 704 706)	(33 244 215)	-	(40 948 921)
(7 198 454)	Contributions from operating income		(8 062 303)	(6 606 973)	(324 305)	(14 344 971)
(4 491 946)	Contributions from grants		(11 282 336)	(3 061 668)		(14 344 004)
-	Contributions from development fund		-	-		-
(16 191 860)	SUB-TOTAL (Capital receipts)		(27 049 345)	(42 912 856)	(324 305)	(69 637 896)
2 591 378	NET FIXED ASSETS		39 845 299	(27 662 544)	-	12 182 755

APPENDIX D

ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2006

Actual 2004-2005 R		Actual 2005-2006 R	Budget 2005-2006 R
INCOME			
96 932 029	Government and Provincial grants and subsidies	72 949 460	1 242 898
131 761 747	Income from levies, fuctions, interest and sundries	148 924 118	186 837 805
228 693 776		221 873 578	188 080 703
EXPENDITURE			
90 525 589	Salaries, wages and allowances	95 436 317	99 033 278
34 660 532	General expenses	40 471 693	47 372 700
19 997 805	Bad Debts	-	300 000
631 564	Bonus	22 836	-
500 000	Audit Fees	1 039 113	500 000
2 691 552	Leave provision	2 150 473	1 703 604
2 494 676	Repairs and maintenance	2 167 343	3 697 251
20 415 799	Contributions to fixed assets	22 354 050	22 141 318
-	Contributions	-	1 296 396
16 645 316	Capital cost	19 853 964	12 030 706
58 347 528	Support grants	23 115 543	-
246 910 362		206 611 332	188 075 253

APPENDIX E

DETAILED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

Actual 2004-2005		Actual 2005-2006	Budget 2005-2006
R		R	R
INCOME			
109 923 584	Levies	129 760 711	120 000 000
13 579 091	Interest	11 346 394	5 035 064
5 282 520	Regional functions	6 099 979	5 420 121
4 851 573	Market	5 639 205	4 950 000
41 734	Airport	17 782	42 251
16 093	Technorama	3 399	13 604
373 120	Theatre /Town Hall	439 593	414 266
53 364 560	Provincial Functions	54 244 538	54 138 300
22 024 118	Ambulance	24 792 143	23 907 000
241 974	Health	-	-
31 098 468	Licence Fees	29 452 395	30 231 300
-	Subsidies	-	-
42 590 348	Support Grants	17 704 941	-
	Intergovernmental grants		
977 121	Equitable Share	999 981	1 242 898
1 944 704	Charged Sub Structure	459 835	359 111
1 031 848	Sundry	1 257 199	1 885 209
228 693 776		221 873 578	188 080 703
EXPENDITURE			
90 525 589	Salaries, wages and allowances	95 436 317	99 033 278
34 660 532	General expenses	40 471 693	47 372 700
2 494 676	Repairs and maintenance	2 167 343	3 697 251
1 507 353	Contributions: Fixed assets	1 221 902	1 945 154
	Contributions:		
500 000	Audit fees	1 039 113	800 000
2 691 552	Leave provision	2 150 473	2 000 000
19 997 805	Bad debts	-	1 000 000
631 564	Bonus	22 836	-
18 908 446	Capital Projects	21 132 148	20 196 164
58 347 528	Support Grants	23 115 543	-
	Capital Costs		
12 143 856	Interest	11 662 629	12 030 706
4 501 460	Redemption	8 191 335	-
-	Charged to Substructure	-	-
246 910 362		206 611 332	188 075 253
(18 216 586)	Surplus/(Deficit) to appropriation statement	15 262 246	5 450
228 693 776		221 873 578	188 080 703

APPENDIX E (continued)

APPROPRIATION STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

INCOME	2005-2006	2004-2005
	R	R
Deficit brought forward from previous year	(3 456 833)	399 414
Surplus for the year from Detailed Income Statement	15 262 246	(18 216 586)
Adjustments in respect of previous year	(1 223 373)	14 360 339
	<u>10 582 040</u>	<u>(3 456 833)</u>
 EXPENDITURE		
Contribution to Local Bodies in terms of section 12(6)(b)		
Sundry		
Surplus to Balance Sheet	<u>10 582 040</u>	<u>(3 456 833)</u>
	<u>10 582 040</u>	<u>(3 456 833)</u>