

# Financial Statements and Related Financial Information





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# General Information

## **MAYOR**

Councillor SB Cele

## **DEPUTY MAYOR**

Councillor NR Bhengu

## **SPEAKER**

Councillor RR Pillay

## **MEMBERS OF THE EXECUTIVE COMMITTEE**

Mayor

Deputy Mayor

Speaker (Ex officio)

Councillors: MB Khawula

Y Nair

VL Ntanza

SG Nyawuza

## **GRADING OF THE LOCAL AUTHORITY**

Grade 5

## **AUDITORS**

Auditor-General

## **PRIMARY BANKER**

First National Bank (to 30/03/2007)

Absa Bank (as from 08/12/2006)

## **REGISTERED OFFICE**

Aqua House

28 Connor Street

Port Shepstone

PO Box 33

Port Shepstone

4240

Telephone: (039) 688 5700

Facsimile: (039) 682 4820

E-Mail: [ugu@venturenet.co.za](mailto:ugu@venturenet.co.za)

Website: [www.ugu.org.za](http://www.ugu.org.za)



## General Information (continued)

### MUNICIPAL MANAGER

KE Mpungose

### CHIEF FINANCIAL OFFICER

VH Hukum

### OTHER MANAGERS:

Deputy Municipal Manager

Manager: Internal Audit

Manager: Office of the Municipal Manager

Manager: Development Planning

Manager: Legal Services

Manager: Mayoralty & Communications

Manager: HIV/AIDS & The Rights of the Child

Manager: Youth Development

Manager: Sports Development

Manager: Special Projects

Manager: Grants & Expenditure

Manager: Equity & Accounts

Manager: Budget Control

General Manager: Corporate Services

Manager: Secretariat, ICT & Auxiliary Services

Manager: Job Evaluation Process

Manager: Human Resources

General Manager: Infrastructure & Economic Development

Manager: Tourism & Local Economic Development

Manager: Project Management Unit

Manager: IED Finance

Manager: Market

Manager: Disaster Management

Manager: Environmental Services

General Manager: Water Services

Senior Manager: Water Services Operations

Manager: Water Services Income

Manager: Sanitation & Purification

Manager: Water Reticulation

Manager: Mechanical & Electrical

Manager: Administration – Park Rynie

NT Ndelu

TS Masondo

SP Zuma

KJ Zulu

Vacant

BF Dube

M Mnguni

SZ Khuzwayo

Vacant

Vacant

T Vezi

SJ van Rooyen

Vacant

VJ Mbelani

Y Roboji

HEAM Wilcocks

MS Olivier (Acting)

MB Mnyandu

S Hlongwane

PS Watson

CT Wilcocks

T Khwela

APA Tanner

N Nkqeto

MN Pawandiwa

SA Hadebe

Z Mkhize

RM Msweli (Acting)

N Govender

PF Hart

DI MacIntosh



# Members of Council

## COUNCILLORS

SB Cele	ANC
Y Nair	ANC
NR Bhengu	ANC
RR Pillay	ANC
VL Ntanza	ANC
J van Vuuren	ANC
L Steyn	ANC
NF Shusha	ANC
CA Gamble	ANC
BT Lubanyana	ANC
E Moosa Bux	ANC
MG Sonwabo	ANC
NF Maphumulo	IFP
M Pillay	IFP
BO Ngcobo	IFP
MB Khawula	IFP
SG Nyawuza	IFP
SM Zuma	IFP
AC Human	DA
D Snashall	DA

## PROPORTIONAL COUNCILLORS

WM Memela	ANC
G M Mchunu	ANC
T Cele	ANC
BR Duma	ANC
NH Gumede	ANC
MA Lushaba	ANC
MR Ngcobo	ANC
ZJ Zwane	ANC
S Mohamed	ANC
NA Mhlongo	IFP
SD Njongo	IFP
RM Ramdial	IFP
FB Shezi	IFP
BN Shози	IFP



# Approval of Financial Statements

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 65 to 71, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003), and which I have signed on behalf of the municipality.

These Annual Financial Statements will be presented to the Council for information during September 2007.

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**KHAYO E MPUNGOSE**  
**MUNICIPAL MANAGER**  
31 August 2007

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**VED H HUKUM**  
**CHIEF FINANCIAL OFFICER**  
31 August 2007

COUNTERSIGNED



# Foreword

During the 2006/2007 financial year the municipality continued to work under immense pressure to ensure compliance to various changes in legislation. The municipality was able to meet the challenges set by a changing legislative environment.

The people of Ugu gave this Council, alongside our family of local municipalities, a clear mandate to deliver basic services, grow the economy, create jobs and help build a better life. This will be further enhanced during the 2008 financial year. It is therefore paramount that both the political leadership and the administration stand behind a common developmental agenda, to set the first example of a powerful partnership for growth and development.

The municipality has adopted the use of the five key performance areas designed by the national government, to plan and measure its work. These five areas are: infrastructure development and service delivery; local economic development; good governance and democracy; transformation and institutional development; and financial viability.

The financial administration of the district is in a healthy state. This has been due to prudent fiscal discipline and sound financial management. We are always mindful of the need to reduce the cost of doing our business while providing continuous service delivery.

Although capital projects were limited to those financed from external funds, grant funding and the Capital Replacement Reserve, the municipality has successfully finalised the projects identified in the medium term expenditure framework of the Integrated Development Plan (IDP). The Municipality will in the 2008 financial year again embark upon projects identified in the IDP.

Sustained and accelerated service delivery and the payment for services still remain a serious concern to all in local government. All role-players must ensure that they work together to overcome the legacy of the past and remain committed to the upliftment of the living conditions of those that were forgotten previously.

I hereby wish to thank the Councillors and staff for their commitment during the year under review, and trust that work will continue at an accelerated pace during the 2007/2008 year.

I thank you.

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**CLLR SB CELE**

**MAYOR**

31 August 2007



# Audit Report

## Report of the Auditor-General to the Municipal Council and KwaZulu-Natal Provincial Legislature on the Financial Statements and Performance Information of the Ugu District Municipality for the year ended 30 June 2007

### Report on the Financial Statements

#### Introduction

1. I have audited the accompanying financial statements of the Ugu District Municipality, which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 9 to 82.

#### Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error;

- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

#### Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's





preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

6. An audit also includes evaluating the:
  - appropriateness of accounting policies used
  - reasonableness of accounting estimates made by management
  - overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of financial statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by Ugu District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Basis of accounting

9. The municipality's policy is to prepare financial statements on the basis of accounting as determined by the National Treasury as set out in accounting policy note 1 to the financial statements.

### Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Ugu District Municipality as at 30 June 2007 and its financial performance results and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa as described in accounting policy note 1 to the financial statements, and in the manner required by the MFMA.

### Emphasis of matters

11. Without qualifying my audit opinion, I draw attention to the following matters:

### Significant uncertainty

#### Inter-municipal account balances

12. Included in the contingent liability note is an amount of R 7.9 million owing by the District Municipality. The amount is the net of the transfer of assets, liabilities, rights and obligations with respect to the transfer of the power and function aspects of water and sewerage to the District Municipality. At the 30 June 2007 the District Municipality was not in a position to take over these services and confirm the balance of R7.9 million.

#### Inadequate insurance cover

13. With reference to note 37 of the financial statements, a fire destroyed an administrative building of the municipality on the 29 June 2007. Assets with a book value of R14 million were lost. Due to the municipality not being adequately insured a claim of R12 million has been lodged. The municipality is still in negotiations with the claims assessor and the proceeds from the insurance claim are still uncertain.

## Other Matters

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

### Non-compliance with applicable legislation

#### Municipal Finance Management Act

14. The municipality has not complied with section 63(2)(c) of the MFMA whereby assets that were disposed of were not approved by the Council.
15. The municipality has not implemented a fraud prevention plan and risk management policy. The municipality has therefore not effectively managed its risks in accordance with section 62(1)(c)(i) of the MFMA.
16. The municipality has not implemented a skill retention policy to provide resources or opportunities for training of officials



and the retention of competent and skilled staff as required by section 83 of the MFMA.

17. There were instances of invoices being paid after a 30 day period, which could result in interest and late penalties. The municipality has therefore not effectively managed its expenditure in accordance with section 65(2)(e) of the MFMA.

### Value-for-money matters

18. The municipality has a high vacancy rate. Approximately 21% of the total funded posts for management are vacant and this could have a negative impact on service delivery.

### Internal control

19. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies exist in more than one internal control component.

Table 4.1

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
<b>Emphasis of matter</b>					
Inter-municipal account balances	✓				
Inadequate insurance cover		✓			
<b>Other matters</b>					
Non-compliance with applicable laws and regulations	✓		✓		
Value-for-money matters	✓				

### Unaudited supplementary schedules

20. The supplementary information set out on pages 83 to 89 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

## Other Reporting Responsibilities

### Reporting on performance information

21. I have audited the performance information.

### Responsibility of the accounting officer for the performance information

22. In terms of section 121(3) (c) of the MFMA, the annual report of a municipality must include the annual performance report of the Municipality prepared in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000).



## Responsibility of the Auditor-General

23. I conducted my engagement in accordance with section 13 of the PAA read with General Notice 646 of 2007, issued in Government Gazette No. 29919 of 25 May 2007 and section 45 of the MSA.
24. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## Audit findings (performance information) Non-compliance with regulatory requirements

26. The priorities, objectives and targets of the Integrated Development Plan were not aligned to the annual budget as required by regulation 6 of the Municipal Planning and Performance Management regulations.
27. A financial plan as required by section 26(h) of the Municipal Systems Act and Regulation 2(3) of the Municipal Planning and Performance Management Regulations was not reflected in the Integrated Development Plan.
28. The municipality has not included the key performance indicators in its Performance Management System as required by section 43 of the Municipal Systems Act and Regulation 10 of the Municipal Planning and Performance Management Regulations.
29. The municipality did not submit a copy of the Integrated Development Plan to the MEC for local government within 10 days after the adoption of the Integrated Development Plan by the Municipal Council as required by section 32 of the Municipal Systems Act.

30. The municipality did not involve the community in the review process of the development implementation and review of the Performance Management System as required by section 42 of the Municipal Systems Act and regulation 15 of the Municipal Planning and Performance Management Regulations.

## Late finalisation of the audit report

31. In terms of section 126(3)(b) of the MFMA, the Auditor-General is required to submit the audit report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of the audit report to the date reflected on the audit report.

## Appreciation

32. The assistance rendered by the staff of the Ugu District Municipality during the audit is sincerely appreciated.

*Auditor-General*

JABULANI NKOSI  
AUDITOR-GENERAL

Pietermaritzburg  
15 February 2008





# Report of the Chief Financial Officer

## 1. Introduction

It gives me great pleasure to present the financial position of Ugu District Municipality at 30 June 2007 and the results of its operations and cash flows for the year then ended.

The Statement of Financial Position at 30 June 2007 indicates an increase in Net Assets, in Non-current Liabilities and in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increased Government Grant Reserve and accumulated surplus. The increase in Non-current Liabilities is primarily as a result of additional long-term loans being taken up for infrastructure expansion and refurbishment.

## 2. Key Financial Indicators

The following indicators are self-explanatory. The percentages of expenditure categories are well within acceptable norms and indicate good governance of the funds of the municipality.

### Financial Statement Ratios:

Indicator	2007	2006
Surplus / (Deficit) before appropriations	79 538 636	39 841 688
Surplus / (Deficit) at the end of the year	31 980 815	(5 030 607)
<b>Expenditure Categories as a percentage of Total Expenses</b>		
Employee Related Costs	35.34%	25.03%
Remuneration of Councillors	1.71%	0.86%
Bad Debts	0.28%	9.62%
Collection Costs	0.04%	0.19%
Depreciation	7.72%	2.64%
Repairs and Maintenance	4.25%	3.14%
Interest Paid	1.82%	2.12%
Bulk Purchases	3.86%	2.71%
Contracted Services	2.46%	1.82%
Grants and Subsidies Paid	22.08%	39.82%
General Expenses	20.23%	11.82%
<b>Current Ratio:</b>		
Creditors Days	85	57
Debtors Days	112	140



### 3. Operating Results

Details of the operating results per segmental classification of expenditure are included in Appendix D, whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix E(1).

The services offered by Ugu District Municipality can generally be classified as General, Economic and Trading Services, and are discussed in more detail below.

The overall operating results for the year ended 30 June 2007 are as follows:

Details	Actual 2006/2007 R	Actual 2005/2006 R	Percentage Variance %	Budgeted 2006/2007 R	Variance actual/ budgeted %
<b>Income</b>					
Opening surplus / (deficit)	(5 030 607)	48 402 213	-110.39%	-	-
Operating income for the year	405 455 409	436 929 128	-7.20%	359 547 349	12.77%
Appropriations for the year	(42 527 214)	(85 646 320)	-50.35%	-	-
	<b>357 897 588</b>	<b>399 685 020</b>	<b>-10.46%</b>	<b>359 547 349</b>	<b>-0.46%</b>
<b>Expenditure</b>					
Operating expenditure for the year	325 916 773	397 087 440	-17.92%	359 547 352	-9.35%
Sundry transfers	-	7 628 187	-100.00%	-	-
Closing surplus / (deficit)	31 980 815	(5 030 607)	-735.72%	(3)	-
	<b>357 897 588</b>	<b>399 685 020</b>	<b>-10.46%</b>	<b>359 547 349</b>	<b>-0.46%</b>

#### 3.1 General Services

This entails the management of infrastructure and other grants, which are used primarily for infrastructure development, local economic development and tourism marketing and development.

Details	Actual 2006/2007 R	Actual 2005/2006 R	Percentage Variance %	Budgeted 2006/2007 R	Variance actual/ budgeted %
Income	196 152 909	226 315 647	-13.33%	142 089 776	38.05%
Expenditure	120 513 208	175 602 758	-31.37%	139 689 775	-13.73%
Surplus / (deficit)	<b>75 639 702</b>	<b>50 712 889</b>	<b>49.15%</b>	<b>2 400 001</b>	-
Surplus / (deficit) as % of total income	38.56%	22.41%		1.69%	

*Variance from 2005/2006 actual:*

The 13.33% decrease on last year's actual income is primarily as a result of reserves being released in the 2005/06 year. The 31.37% decrease on last year's actual expenditure is primarily as a result of less expenditure on projects, functions and tourism.

*Variance from 2006/2007 budget:*

The 38.05% increase on the reporting year's budget is primarily as a result of increased investment income and grants received that were not budgeted for. The 13.73% decrease on last year's actual expenditure is primarily as a result of grants being received in the third quarter of the financial year.



### 3.2 Economic Services

This essentially entails the construction, operation and maintenance of sanitation schemes within the jurisdiction of the municipality.

Details	Actual 2006/2007 R	Actual 2005/2006 R	Percentage Variance %	Budgeted 2006/2007 R	Variance actual/ budgeted %
Income	46 067 551	47 839 000	-3.70%	54 332 052	-15.21%
Expenditure	33 081 501	66 805 814	-50.48%	55 082 054	-39.94%
Surplus / (deficit)	<b>12 986 050</b>	<b>(18 966 814)</b>	<b>-168.47%</b>	<b>(750 002)</b>	<b>-</b>
Surplus / (deficit) as % of total income	28.19%	-39.65%		-1.38%	

*Variance from 2005/2006 actual:*

The 3.70% decrease on last year's actual income is primarily as a result of less consumption of water. The 50.48% decrease on last year's actual expenditure is primarily as a result of increased departmental chargeouts to other services.

*Variance from 2006/2007 budget:*

The 39.94% decrease on the reporting year's budget is primarily as a result of lower external interest being paid and depreciation charges being expensed, due to loans not being taken up. The 15.21% decrease on the reporting year's budget is primarily as a result of sanitation being subsidised out of prior years' surpluses.

### 3.3 Trading Services

This entails the construction, operation and maintenance of all water schemes located within the jurisdiction of the municipality.

Details	Actual 2006/2007 R	Actual 2005/2006 R	Percentage Variance %	Budgeted 2006/2007 R	Variance actual/ budgeted %
Income	163 234 949	162 774 481	0.28%	163 125 521	0.07%
Expenditure	172 322 064	154 678 868	11.41%	164 775 523	4.58%
Surplus / (deficit)	<b>(9 087 115)</b>	<b>8 095 613</b>	<b>-212.25%</b>	<b>(1 650 002)</b>	<b>-</b>
Surplus / (deficit) as % of total income	-5.57%	4.97%		-1.01%	

*Variance from 2005/2006 actual:*

The expenditure variance is primarily as a result of liabilities, provisions and impairment adjustments arising from GRAP/GAAP compliance initiatives and rebates and subsidies now classified under expenditure.

*Variance from 2006/2007 budget:*

The expenditure variance of 4.58% is primarily as a result of liabilities, provisions and impairment adjustments arising from GRAP/GAAP compliance initiatives.



#### 4. Financing of Capital Expenditure

The expenditure on Property, Plant and Equipment during the year amounted to R131 282 771 (2006: R89 154 465). Full details of Property, Plant and Equipment are disclosed in Note 9 and Appendices B, C and E(2) to the annual financial statements.

The capital expenditure of R131 282 771 was financed as follows:

Details	Actual 2006/2007 R	Actual 2005/2006 R	Percentage Variance %	Budgeted 2006/2007 R	Variance actual/ budgeted %
Capital Replacement Reserve	25 628 227	1 030 714	2386.45%	39 980 335	-35.90%
External Loans	24 709 630	7 549 590	-	73 893 000	-66.56%
Finance Leases	624 068	2 632 691	-76.30%	-	-
Capitalisation Reserve	-	17 449 881	-100.00%	-	-
Grants and Subsidies	80 320 846	60 418 735	-	131 305 890	-38.83%
Public Contributions	-	72 854	-100.00%	-	-
	<b>131 282 771</b>	<b>89 154 465</b>	<b>47.25%</b>	<b>245 179 225</b>	<b>-46.45%</b>

Source of funding as a percentage of Total Capital Expenditure:

Details	2007	2006
Capital Replacement Reserve	19.52%	1.16%
External Loans	18.82%	8.47%
Finance Leases	0.48%	2.95%
Capitalisation Reserve	-	19.57%
Grants and Subsidies	61.18%	67.77%
Public Contributions	-	0.08%

Property, Plant and Equipment is funded from grants and subsidies as the municipality does not have the financial resources to finance infrastructure capital expenditure from its own funds.



## 5. Reconciliation of Budget to Actual

### 5.1 Operating Budget

Details	2007 R	2006 R
<b>Variance per Category:</b>		
Budgeted surplus before appropriations	(3)	(9 999)
Revenue variances	45 908 060	1 327 610
Expenditure variances:		
Employee Related Costs	1 461 331	(4 957 196)
Remuneration of Councillors	(1 249 772)	(171 324)
Bad Debts	2 825 814	(35 207 307)
Collection Costs	(141 476)	(20 586)
Depreciation	365 717	3 595 891
Impairment losses	(342 008)	(882 857)
Repairs and Maintenance	1 420 099	(2 316 622)
Interest Paid	11 290 083	12 962 288
Bulk Purchases	55 965	(1 762 952)
Contracted Services	4 109 079	2 557 800
Grants and Subsidies Paid	17 359 056	47 295 855
General Expenses	(3 218 783)	17 431 085
Loss on Disposal of Property, Plant and Equipment	(304 526)	-
<b>Actual surplus before appropriations</b>	<b>79 538 636</b>	<b>39 841 688</b>

Details	2007 R	2006 R
<b>Variance per Service Segment:</b>		
Budgeted surplus before appropriations	(3)	(9 999)
Executive and Council	(4 720 102)	3 863 262
Finance and Administration	2 545 007	(1 267 584)
Planning and Development	68 665 493	48 117 209
Public Safety	1 010 195	-
Environmental Protection	290 628	-
Waste Water Management	13 736 052	(18 966 813)
Water	(7 437 113)	8 105 613
Other	5 448 480	-
<b>Actual surplus before appropriations</b>	<b>79 538 636</b>	<b>39 841 688</b>

Details of the operating results per segmental classification of expenditure are included in Appendix D, whilst operational results per category of expenditure, together with an explanation of significant variances of more than 10% from budget, are included in Appendix E(1).





## 5.2 Capital Budget

Details	Actual 2006/2007 R	Actual 2005/2006 R	Variance actual 2007/2006 R	Budgeted 2006/2007 R	Variance actual/ budgeted R
Executive and Council	119 201	393 251	(274 050)	561 856	(442 655)
Finance and Administration	66 962 236	67 960 760	(998 524)	13 951 432	53 010 804
Planning and Development	(87 274)	311 324	(398 598)	58 679 513	(58 766 787)
Public Safety	17 210	76 326	(59 116)	-	17 210
Sport and Recreation	3 355 520	-	3 355 520	-	3 355 520
Environmental Protection	52 516	-	52 516	-	52 516
Waste Water Management	32 113 881	10 247 500	21 866 381	100 025 488	(67 911 607)
Water	28 347 441	10 165 304	18 182 137	71 960 936	(43 613 495)
Other	402 042	-	402 042	-	402 042
	<b>131 282 771</b>	<b>89 154 465</b>	<b>42 128 306</b>	<b>245 179 225</b>	<b>(113 896 454)</b>

Details of the results per segmental classification of capital expenditure are included in Appendix C, together with an explanation of significant variances of more than 5% from budget, are included in Appendix E(2).

## 6. Capital Replacement Reserve

The balance of the Capital Replacement Reserve as at 30 June 2007 amounted to R109 323 511 (2006: R131 417 067).

The Capital Replacement Reserve replaces the previous statutory funds, like the Capital Development Fund, and is a cash-backed reserve established to enable the municipality to finance future capital expenditure. Cash contributions, depending on the availability of cash, is made annually to the Reserve.

The municipality, in conjunction with its own capital requirements and external funds (external loans and grants) is able to finance its annual infrastructure capital programme.

Refer to the Statement of Change in Net Assets for more detail.

## 7. Long-term Liabilities

The outstanding amount of Long-term Liabilities as at 30 June 2007 was R76 974 915 (2006: R59 540 887).

New loans to the amount of R22 462 185 (2006: R10 794 574) were taken up during the financial year to enable the municipality to finance part of its capital requirements for the year.

Refer to Note 1 and Appendix A for more detail.



## 8. Non-current Provisions

Non-current Provisions amounted R20 314 150 as at 30 June 2007 (2006: R12 077 979) and is made up as follows:

Provision for Long-term Service	3 566 064
Provision for Post-retirement Benefits	16 748 086
	<u>20 314 150</u>

These provisions are made in order to enable the municipality to be in a position to fulfil its known legal obligations when they become due and payable.

Refer to Note 2 for more detail.

## 9. Current Liabilities

Current Liabilities amounted R210 442 631 as at 30 June 2007 (2006: R159 046 166) and is made up as follows:

Consumer Deposits	Note 3	15 310 746
Provisions	Note 4	1 011 606
Creditors	Note 5	76 079 399
Unspent Conditional Grants and Receipts	Note 6	108 310 571
Bank Overdraft	Note 17	4 831 089
Current Portion of Long-term Liabilities	Note 1	4 899 219
		<u>210 442 631</u>

Current Liabilities are those liabilities of the municipality due and payable in the short-term (less than 12 months). There is no known reason as to why the municipality will not be able to meet its obligations.

Refer to the indicated Notes for more detail.

## 10. Property, Plant and Equipment

The net value of Property, Plant and Equipment was R383 516 654 as at 30 June 2007 (2006: R304 965 187).

Refer to Note 8 and Appendices B, C and E(2) for more detail.

## 11. Investment Property

The value of Investment Property amounts to R24 517 273 as at 30 June 2007 (2006: nil).

This property comprises the Ugu Fresh Produce Market and incorporates wholesalers, retailers and a banana ripening plant. At year-end rental agreements were yet to be finalised.

Refer to Note 9 for more detail.



## 12. Intangible Assets

The net value of Intangible Assets were R12 505 931 as at 30 June 2007 (2006: R385 448).

These are assets which cannot physically be identified and verified and are in respect of computer software and water rights/servitudes obtained by the municipality in order to be able to fulfil its duties as far as service delivery is concerned.

Refer to Note 10 for more detail.

## 13. Investments

The municipality held Investments to the value of R13 489 923 as at 30 June 2007 (2006: R12 817 734).

These investments are ring-fenced for purposes of the security for and repayment of Long-term Liabilities, with the result that no amounts are available for own purposes.

Refer to Note 11 for more detail.

## 14. Long-term Receivables

Long-term Receivables of R43 939 at 30 June 2007 (2006: R65 370) is made up as follows:

Officials: Relocation Loans		7 077
Officials: Sundry Loans		48 381
		<u>55 458</u>
Less: Short-term portion included in Current Assets		11 519
		<u><u>43 939</u></u>

Refer to Note 12 for more detail.

## 15. Current Assets

Current Assets amounted R314 267 814 as at 30 June 2007 (2006: R273 502 495) and is made up as follows:

Inventory	Note 13	4 418 732
Consumer Debtors	Note 14	47 754 741
Other Debtors	Note 15	22 809 780
Current Portion of Long-term Debtors	Note 12	11 519
Short-term Investment Deposits	Note 16	196 594 384
Bank Balances and Cash	Note 17	26 814 698
VAT	Note 7	15 863 961
		<u><u>314 267 814</u></u>

The Short-term Investment Deposits are ring-fenced for the purposes of the Capital Replacement Reserve, Unspent Conditional Grants and the repayment of the Current Portion of Long-term Liabilities and no funds are available for own purposes.

Refer to the indicated Notes for more detail.



## 16. Inter-governmental Grants

The municipality plays an important role in the upliftment of the poor and the sustaining and improving of infrastructure for all its citizens for which it uses grants received from Government and other organisations, and has a huge responsibility as custodian of these funds.

Refer to Notes 6 and 19, and Appendix F for more detail.

## 17. Events after the Reporting Date

Full details of all known events after the reporting date are disclosed in Note 40.

## 18. Generally Recognised Accounting Practice (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the annual financial statements have been converted to the new reporting (GRAP) format.

The unbundling process was carried out as at 30 June 2006 and the intention was to furnish as much information as possible to ascertain a transparent disclosure of the conversion process.

## 19. Expression of Appreciation

I am grateful to the Mayor, Deputy Mayor, members of the Executive Committee, Councillors, the Audit Committee, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff who assisted with the collation of year-end information, for without their assistance these annual financial statements would not have been possible.

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CHIEF FINANCIAL OFFICER

31 August 2007



# Statement of Financial Position at 30 June 2007

	Note	2007 R	2006 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>440 609 839</b>	<b>361 071 203</b>
Capital Replacement Reserve		109 323 511	131 417 067
Capitalisation Reserve		83 056 049	93 096 628
Government Grant Reserve		206 581 123	131 695 368
Donations and Public Contribution Reserves		9 668 340	9 892 747
Accumulated Surplus / (Deficit)		31 980 815	(5 030 607)
<b>Non-Current Liabilities</b>		<b>97 289 065</b>	<b>71 618 866</b>
Long-term Liabilities	1	76 974 915	59 540 887
Non-current Provisions	2	20 314 150	12 077 979
<b>Current Liabilities</b>		<b>210 442 631</b>	<b>159 046 166</b>
Consumer Deposits	3	15 310 746	13 423 837
Provisions	4	1 011 606	902 091
Creditors	5	76 079 399	62 344 333
Unspent Conditional Grants and Receipts	6	108 310 571	70 094 360
Bank Overdraft	17	4 831 089	-
Current Portion of Long-term Liabilities	1	4 899 219	12 281 545
<b>Total Net Assets and Liabilities</b>		<b>748 341 535</b>	<b>591 736 234</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>434 073 720</b>	<b>318 233 739</b>
Property, Plant and Equipment	8	383 516 654	304 965 187
Investment Property	9	24 517 273	-
Intangible Assets	10	12 505 931	385 448
Investments	11	13 489 923	12 817 734
Long-term Receivables	12	43 939	65 370
<b>Current Assets</b>		<b>314 267 814</b>	<b>273 502 495</b>
Inventory	13	4 418 732	3 446 233
Consumer Debtors	14	47 754 741	33 551 581
Other Debtors	15	22 809 780	16 380 922
Current Portion of Long-term Debtors	12	11 519	32 966
Short-term Investment Deposits	16	196 594 384	199 942 604
Bank Balances and Cash	17	26 814 698	12 273 250
VAT	7	15 863 961	7 874 939
<b>Total Assets</b>		<b>748 341 535</b>	<b>591 736 234</b>



# Statement of Financial Performance

## for the year ended 30 June 2007

Budget		
2006	2007	
R	R	
165 741 612	180 638 118	<b>REVENUE</b>
19 000 000	-	Service Charges
14 075 086	-	Regional Service Levies – Turnover
278 000	908 152	Regional Service Levies – Remuneration
6 961 621	6 400 000	Rental of Facilities and Equipment
362 482	842 205	Interest Earned – External Investments
200 399 185	142 451 106	Interest Earned – Outstanding Debtors
28 783 532	28 307 768	Government Grants and Subsidies
-	-	Other Income
-	-	Public Contributions and Donations
		Gains on Disposal of Property, Plant and Equipment
<b>435 601 518</b>	<b>359 547 349</b>	<b>Total Revenue</b>
94 440 478	116 653 302	<b>EXPENDITURE</b>
3 249 340	4 339 536	Employee Related Costs
3 000 000	3 750 000	Remuneration of Councillors
750 000	-	Bad Debts
14 090 076	25 518 241	Collection Costs
-	-	Depreciation
10 141 850	15 267 761	Impairment Losses
21 376 594	17 228 756	Repairs and Maintenance
9 000 000	12 634 739	Interest Paid
9 770 581	12 110 404	Bulk Purchases
205 426 853	89 334 209	Contracted Services
64 365 745	62 710 404	Grants and Subsidies Paid
-	-	General Expenses
		Loss on disposal of Property, Plant and Equipment
<b>435 611 517</b>	<b>359 547 352</b>	<b>Total Expenditure</b>
<b>(9 999)</b>	<b>(3)</b>	<b>SURPLUS / (DEFICIT) FOR THE YEAR</b>

Refer to Appendix E(1) for explanation of variances.



	Note	2007 R	Actual 2006 R
	18	181 727 152	182 934 973
		175 943	16 669 261
		2 760 242	11 171 736
		247 911	187 942
		17 922 583	13 334 711
		952 125	616 575
	19	178 450 687	185 743 805
	20	22 837 951	26 197 272
		-	72 854
		380 815	-
		<u>405 455 409</u>	<u>436 929 128</u>
	21	115 191 971	99 397 674
	22	5 589 308	3 420 664
		924 186	38 207 307
		141 476	770 586
		25 152 524	10 494 185
		342 008	882 857
		13 847 662	12 458 472
	23	5 938 673	8 414 306
	24	12 578 774	10 762 952
		8 001 325	7 212 781
	25	71 975 153	158 130 998
		65 929 187	46 934 660
		304 526	-
		<u>325 916 773</u>	<u>397 087 440</u>
		<u>79 538 636</u>	<u>39 841 688</u>



# Statement of Changes in Net Assets for the year ended 30 June 2007

Description	Pre-GAMAP Reserves and Funds R	Housing Development Fund R	Capital Replacement Reserve R	Capitalisation Reserve R
<b>30 June 2006</b>	-	-	(107 343 302)	(85 497 632)
Balance at 30 June 2005	-	-	107 343 302	85 497 632
Change in Accounting Policy (Note 27)	-	-	-	-
Correction of Error (Note 28)	-	-	-	-
<b>Restated Balance</b>	-	-	<b>107 343 302</b>	<b>85 497 632</b>
Surplus / (Deficit) for the year	-	-	-	-
Transfer to Housing Development Fund	-	-	-	-
Funds utilised to finance PPE	-	-	-	-
Transfer to CRR	-	-	15 000 000	-
Property, Plant and Equipment purchased	-	-	(1 073 568)	-
Contributions / Grants used to purchase PPE	-	-	-	17 449 881
Donated / Contributed PPE	-	-	-	-
Contribution to Insurance Reserve	-	-	-	-
Insurance claims processed	-	-	-	-
Interest received	-	-	10 147 332	-
Asset disposals	-	-	-	-
Offsetting of Depreciation	-	-	-	(9 850 885)
<b>Balance at 30 June 2006</b>	-	-	<b>131 417 067</b>	<b>93 096 628</b>
<b>30 June 2007</b>				
Change in Accounting Policy (Note 27)				
Correction of Error (Note 28)				
<b>Restated Balance</b>	-	-	<b>131 417 067</b>	<b>93 096 628</b>
Surplus / (Deficit) for the year	-	-	-	-
Transfer to Housing Development Fund	-	-	-	-
Funds utilised to finance PPE	-	-	-	-
Transfer to CRR	-	-	15 000 000	-
Property, Plant and Equipment purchased	-	-	(48 264 007)	-
Contributions / Grants used to purchase PPE	-	-	-	-
Donated / Contributed PPE	-	-	-	-
Contribution to Insurance Reserve	-	-	-	-
Insurance claims processed	-	-	-	-
Interest received	-	-	11 170 451	-
Asset disposals	-	-	-	-
Offsetting of Depreciation	-	-	-	(10 040 578)
<b>Balance at 30 June 2007</b>	-	-	<b>109 323 511</b>	<b>83 056 049</b>





Government Grant Reserve R	Donations and Public Contributions Reserve R	Self Insurance Reserve R	Revaluation Reserve R	Accumulated Surplus / (Deficit) R	Total R
(76 830 856)	(10 783 699)			(48 402 213)	
76 830 856	10 783 699	-	-	48 402 213	328 857 702
-	-	-	-	-	-
-	-	-	-	(7 628 187)	(7 628 187)
-	-	-	-	-	-
<b>76 830 856</b>	<b>10 783 699</b>	-	-	<b>40 774 025</b>	<b>321 229 515</b>
-	-	-	-	39 841 688	39 841 688
-	-	-	-	-	-
-	-	-	-	(15 000 000)	-
-	-	-	-	1 073 568	-
60 418 735	72 854	-	-	(77 941 470)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(10 147 332)	-
-	-	-	-	-	-
(5 554 224)	(963 805)	-	-	16 368 914	-
-	-	-	-	-	-
<b>131 695 368</b>	<b>9 892 747</b>	-	-	<b>(5 030 607)</b>	<b>361 071 203</b>
-	-	-	-	-	-
-	-	-	-	-	-
<b>131 695 368</b>	<b>9 892 747</b>	-	-	<b>(5 030 607)</b>	<b>361 071 203</b>
-	-	-	-	79 538 636	79 538 636
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(15 000 000)	-
-	-	-	-	48 264 007	-
74 579 400	-	-	-	(74 579 400)	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(11 170 451)	-
-	-	-	-	-	-
306 356	(224 407)	-	-	9 958 629	-
-	-	-	-	-	-
<b>206 581 123</b>	<b>9 668 340</b>	-	-	<b>31 980 815</b>	<b>440 609 839</b>



# Cash Flow Statement

## for the year ended 30 June 2007

	Note	2007 R	2006 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash receipts from ratepayers, Government and other		424 751 891	491 357 765
Cash paid to suppliers and employees		(298 996 315)	(376 045 785)
Cash generated from / (utilised in) operations	29	<u>125 755 576</u>	<u>115 311 980</u>
Dividends received		-	-
Interest received		18 874 708	13 951 286
Interest paid		(5 938 673)	(8 414 306)
<b>NET CASH FROM OPERATING ACTIVITIES</b>		<u>138 691 610</u>	<u>120 848 960</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in investment properties	9	(5 324 628)	-
Purchase of Intangible Assets	10	(8 074 125)	(42 854)
Purchase of Property, Plant and Equipment	8	(131 282 771)	(89 154 465)
Proceeds on disposal of Property, Plant and Equipment		1 042 750	-
(Increase) / decrease in Non-current Receivables	12	42 878	10 895
(Increase) / decrease in Non-current Investments	11	(672 189)	4 547 864
(Increase) / decrease in current investments	16	3 348 220	(22 560 341)
<b>NET CASH FROM INVESTING ACTIVITIES</b>		<u>(140 919 865)</u>	<u>(107 198 900)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
New loans raised / (repaid)	1	10 051 703	(12 863 278)
Increase / (decrease) in consumer deposits	3	1 886 910	999 944
<b>NET CASH FROM FINANCING ACTIVITIES</b>		<u>11 938 613</u>	<u>(11 863 335)</u>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	30	<u>9 710 359</u>	<u>1 786 725</u>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<u>12 273 250</u>	<u>10 486 525</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<u>21 983 609</u>	<u>12 273 250</u>



# Accounting Policies to the Annual Financial Statements for the year ended 30 June 2007

## 1. Basis of Presentation

The Annual Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of:

- General Notice 991 of 2005, issued in Government Gazette no. 28095 of 15 December 2005; and
- General Notice 992 of 2005, issued in Government Gazette no. 28095 of 7 December 2005.

The Standards are summarised as follows:

Standard No.	Standard Title
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changing in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets

GAMAP 6, 7 and 8 have been complied with to the extent that the requirements in these standards relate to the municipality's separate financial statements.

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices, including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General Notice 552 of 2007, exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the Annual Financial Statements.

Standard No.	Standard Title	GRAP, GAMAP and/or GAAP requirement(s), exempted in terms of General notice 552 of 2007, that have been early adopted
GAMAP 12	Inventories	<ul style="list-style-type: none"> <li>• The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17.</li> <li>• The entire standard as far as it relates to water stock that was not purchased by the municipality.</li> </ul>
GAMAP 17	Property, Plant and Equipment	<ul style="list-style-type: none"> <li>• Review of useful life of items of Property, Plant and Equipment recognised in the annual financial statements (GAMAP 17.69 – 61 and 77).</li> </ul>
IAS 17 (AC 105)	Leases	<ul style="list-style-type: none"> <li>• Recognising operating lease payments / receipts on a straight-line basis if the amounts are recognised on the basis of the cash flows in the lease agreement (IAS 17.33 – 34 and 50 – 51, SAICA circular 12/06.8 – 11).</li> </ul>
IAS 19 (AC 116)	Employee Benefits	<ul style="list-style-type: none"> <li>• Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and defined benefit obligation disclosed by narrative information (IAS 19.29, 48 – 119 and 120A(c) – (q)).</li> </ul>
IAS 38 (AC 129)	Intangible Assets	<ul style="list-style-type: none"> <li>• The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32) and all other costs are expensed.</li> </ul>
IAS 40 (AC 135)	Investment Property	<ul style="list-style-type: none"> <li>• The entire standard to the extent that the property is accounted for in terms of GAMAP 17.</li> </ul>



A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

## 2. Presentation Currency

These annual financial statements are presented in the South African Rand.

## 3. Going Concern Assumption

These Annual Financial Statements have been prepared on a going concern basis.

## 4. Offsetting

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP, GRAP or GAAP.

## 5. Reserves

### 5.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus / (deficit) to the CRR in terms of a Council resolution dated 30 August 2006. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the Municipality's need to finance future capital projects included in the Integrated Development Plan.

### 5.2 Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus / (deficit) in terms of a directive (budget circular) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this Reserve to the accumulated surplus / (deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus / (deficit).

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus / (deficit).

### 5.3 Government Grant Reserve

When items of property, plant and equipment are financed from Government grants, a transfer is made from the accumulated surplus / (deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus / (deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of Government Grant funded items of property, plant and equipment are offset by transfers from this Reserve to the accumulated surplus / (deficit).

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus / (deficit).

### 5.4 Donations and Public Contributions Reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus / (deficit) to the Donations and Public Contributions Reserve equal to the donations and public contributions



recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus / (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from donations and public contributions is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus / (deficit).

## 6. Property, Plant and Equipment

### 6.1 Fixed Assets

Property, plant and equipment is stated at cost, less accumulated depreciation.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed. Examples of subsequent expenditure which should be capitalised are the enhancement of an existing asset so that its use is expanded, or the further development of an asset so that its original life is extended.

The Municipality has adopted a capitalisation threshold whereby all expenditure below the threshold is expensed when incurred. The threshold will be determined annually during the budget process.

All assets of the Municipality are verified annually in terms of Council's Asset Management Policy to:

- Physically identify all assets.
- Determine assets to be written-off.
- Determine obsolete assets.
- Determine changes in the estimated useful lives of assets.
- Determine impairment losses on assets.

### 6.2 Depreciation

Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The depreciation rates are based on the following estimated useful lives:

Asset	Years	Asset	Years
<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist Vehicles	10
Electricity	20-30	Other Vehicles	5
Water	15-20	Office Equipment	3-7
Sewerage	15-20	Furniture and Fittings	7-10
Housing	30	Watercraft	15
		Bins and Containers	5
<b>Community</b>		Specialised Plant and Equipment	10-15
Improvements	30	Other Plant and Equipment	2-5
Recreational Facilities	20-30		
Security	5		

The estimated useful lives and the depreciation methods were not reviewed in the previous and current financial years as required by GAMAP 17 as these requirements have been exempted in terms of General Notice 552 of 2007.



#### 6.2.1 Land

Land is not depreciated as it is regarded as having an infinite life.

#### 6.2.2 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is commissioned into use.

#### 6.2.3 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding to their estimated useful lives.

### 6.3 Disposal of Property, Plant and Equipment

- The book values of assets are written off on disposal.
- The difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a gain or loss in the Statement of Financial Performance.

### 6.4 Impairment

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it should be written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance. The Municipality should assess at each reporting date whether there is any indication that any items of property, plant and equipment may be impaired by reviewing external and internal sources of information which indicates that impairments may have occurred. However, for the previous and current year under review, the municipality did not perform impairment testing on its assets as required by GAMAP 17 and IAS 36/AC128, as these requirements have been exempted in terms of General Notice 552 of 2007.

## 7. Intangible Assets

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged on a straight-line basis over their useful lives, which is estimated to be between three to five years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised. For example, servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period. Therefore servitudes are not amortised or impaired.

Intangible assets are annually tested for impairment.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation.

The estimated useful life and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

## 8. Investment Property

Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is 50 years.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

The gain or loss arising on the disposal of an investment property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.



## 9. Financial Instruments

The Municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

### 9.1 Financial Assets

A financial asset is any asset that is a cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Listed Investments (Shares)
- Unlisted Investments (Local Authority Stock)
- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash
- VAT

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows into the four categories allowed by this standard:

Type of Financial Asset	Classification in terms of IAS 39.09
	<b>Financial Assets</b>
Listed Investments	Held at fair value through profit or loss
Unlisted Investments	Held at fair value through profit or loss
Investments in Fixed Deposits	Held to maturity
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Short-term Investment Deposits	Held to maturity
Bank Balances and Cash	Available for sale
VAT	Loans and receivables

### 9.2 Financial Liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Provisions
- Creditors
- Bank Overdraft
- Current Portion of Long-term Liabilities
- Defined Benefit Obligations
- Consumer Deposits

There are two main categories of financial liabilities, and the classification is based on how they are measured. Financial liabilities may be measured at:

- Fair value through profit or loss; or
- Not at fair value through profit or loss ('other financial liabilities')

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives).



Any other financial liabilities should be classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the financial liabilities of the municipality are all classified as financial liabilities that are not measured at fair value through profit or loss.

#### Creditors

Creditors are stated at their nominal value.

### 9.3 Measurement

Financial instruments are in the current and prior years recognised and measured at cost. The requirements of IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 that financial instruments should initially be measured at fair value have been exempted in terms of General Notice 552 of 2007.

#### Financial Assets

Held-to-maturity investments and loans-and-receivables are initially measured at fair value and subsequently measured at amortised cost. Financial assets at fair value and available-for-sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

#### Financial Liabilities

Financial liabilities that are not held-for-trading are measured at amortised cost using the effective interest rate method.

### 9.4 Impairment of Financial Assets

At each balance sheet date an assessment is made whether there is any objective evidence of impairment of financial assets. If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

*Consumer Debtors* are stated at invoice value less a provision for bad debts. The provision is made for all debtors that are older than 90 days as all debtors are regarded as having similar credit risks. Debtors for Water Rates are excluded, since the property is attached to outstanding debt, securing the municipality's interest.

*Loans and Receivables* are non-derivative financial assets with fixed or determinable payments. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

## 10. Inventories

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water and purified effluent are valued at purified cost insofar as it is stored and controlled in reservoirs and distribution networks at year end.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Cost of inventory comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to its present location and condition.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

## 11. Revenue recognition

Revenue for the current and prior financial year was initially recognised at cost. The requirement of GAMAP 9.12 and SAICA circular 9/06 that the initial measurement of revenue be recognised at fair value through discounting all future receipts using an imputed rate of return have been exempted in terms of General Notice 552 of 2007.





## 11.1 Revenue from Exchange Transactions

### 11.1.1 Service Charges

Service charges relating to water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year end when estimates of consumption up to year end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges from sewerage and sanitation are based on tariffs approved by Council and are levied monthly.

### 11.1.2 Interest Earned

Interest and rentals are recognised on a time proportion basis.

### 11.1.3 Dividends

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement.

### 11.1.4 Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

### 11.1.5 Income from Agency Services

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

### 11.1.6 Sale of Goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 11.1.7 Government Grants and Public Contributions

Revenue from Government Grants and public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where government grants and public contributions have been received but the municipality has not met the condition, a liability is recognised. The requirements of IAS 20 (excluding paragraphs 24 and 26) have not been met in the current and prior financial years as these requirements have been exempted in terms of General Notice 552 of 2007.

A Government Grant related to a Non-current Asset with a useful life (e.g. property, plant and equipment, intangible assets, etc.), including non-monetary grants at fair value, are presented in the Statement of Financial Position as deferred income that is recognised as income on a systematic and rational basis over the useful life of the asset.

## 11.2 Revenue from Non-exchange Transactions

### 11.2.1 Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use.

Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use.



### 11.2.2 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised when the recovery thereof from the responsible Councillors or officials is virtually certain. Such revenue is based on legislated procedures.

## 12. Conditional Grants and Receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

## 13. Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting sheet date and adjusted to reflect the current best estimate. Non-current provisions are discounted to the present value using a discount rate based on the average cost of borrowing to the Municipality.

## 14. Post Retirement Benefits

### 14.1 General

The Municipality provides retirement benefits for its employees.

*A defined benefit plan* is a plan that defines an amount of benefit that an employee will receive on retirement. *A defined contribution plan* is a plan under which the municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

Contributions to defined contribution retirement benefit funds are recognised as an expense when employees have rendered employment service or served office entitling them to the contributions.

In the 2005/2006 Annual Financial Statements the defined benefit plans of the municipality was treated as a defined contribution plan, whereas in the 2006/2007 year the municipality adhered to the requirements of IAS19.

#### *Own administered defined benefit plan:*

The defined benefit obligation, the related current cost and where applicable, past-service cost, is determined by using the projected unit credit method. The last actuarial valuations for both the Long-service Bonus Liability and the Medical Aid Liability for current and continuation members of the municipality were performed as at 30 June 2007.

A portion of the actuarial gains and losses is recognised as revenue or expense, provided the net cumulative actuarial gains and losses at the end of the previous reporting period exceed the greater of:

- 10% of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value.

The portion of the actuarial gains and losses to be recognised is equal to the excess calculated, using the above limits and divided by the expected average remaining working lives of employees participating in the plan. Unvested past-service cost is recognised as an expense on the straight-line basis over the average period until the benefits become vested, while vested past-service costs are recognised as an expense in the Statement of Financial Performance.

#### *Provincially administered defined benefit plan:*

The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued triennially on the projected unit credit method. Deficits identified are recognised as a liability and are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.



## 14.2 Medical Aid: Continued Members

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the Munimed Medical Aid Fund, with which the Municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee. The other medical aid funds, with which the Municipality is associated, do not provide for continued membership.

## 15. Leases

### 15.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on the straight-line basis over the term of the relevant lease.

### 15.2 The Municipality as Lessor

Amounts due from lessees under finance leases or instalment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or instalment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or instalment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

## 16. Borrowing Costs

Borrowing costs are recognised as an expense in the Statement of Financial Performance.

## 17. Value Added Tax

The Municipality accounts for Value Added Tax on the cash basis.

## 18. Cash and Cash Equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

## 19. Unauthorised Expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.



## 20. Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## 21. Fruitless And Wasteful Expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## 22. Foreign Currencies

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

## 23. Comparative Information

### 23.1 Current year comparatives

Budgeted amounts have been included in the annual financial statements for the current financial year only.

### 23.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.



# Notes to the Financial Statements

## for the year ended 30 June 2007

	2007	2006
	R	R
<b>1 LONG-TERM LIABILITIES</b>		
Local Registered Stock	22 944 081	22 944 081
Annuity Loans	56 160 209	35 477 283
Capitalised Lease Liabilities	2 769 845	13 401 067
Sub-total	81 874 135	71 822 431
Less: Current Portion transferred to Current Liabilities	4 899 219	12 281 545
Local Registered Stock	2 644 081	-
Annuity Loans	1 188 339	1 308 417
Capitalised Lease Liabilities	1 066 800	10 973 128
<b>Total Long-term Liabilities</b>	<b>76 974 915</b>	<b>59 540 887</b>

(Refer to Appendix A for more detail on Long-term Liabilities.)

The Capitalised Lease Liabilities are in respect of infrastructure assets and vehicles. The liability for infrastructure is secured over the items of infrastructure leased.

R13 489 923 (2006: R22 912 069) has been invested specifically in a ring-fenced account for the repayment of long-term liabilities. See Note 31 for more detail.

<b>2 NON-CURRENT PROVISIONS</b>		
Provision for Long-term Service	3 566 064	2 584 038
Provision for Post-retirement Benefits	16 748 086	9 493 941
<b>Total Non-current Provisions</b>	<b>20 314 150</b>	<b>12 077 979</b>

Refer to Note 45 to the Financial Statements, "Other Defined Benefit Plan Information", for more information regarding the provisions for Post-retirement Health Care Benefits and Long-term Service Allowances.



## Notes to the Financial Statements for the year ended 30 June 2007

The movement in non-current provisions is reconciled as follows:

	Illegal Dumping	Alien Vegetation	Long-term Service	Post- retirement	Land-fill Sites
<b>30 June 2007</b>					
Balance at beginning of year	-	-	2 584 038	9 493 941	-
Contributions to provision	-	-	1 372 690	7 875 087	-
Transfer to current provisions	-	-	(390 664)	(620 942)	-
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>	<b>3 566 064</b>	<b>16 748 086</b>	<b>-</b>
<b>30 June 2006</b>					
Balance at beginning of year	-	-	-	-	-
Contributions to provision	-	-	3 056 841	9 923 229	-
Transfer to current provisions	-	-	(472 803)	(429 288)	-
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>	<b>2 584 038</b>	<b>9 493 941</b>	<b>-</b>

	2007 R	2006 R
<b>3 CONSUMER DEPOSITS</b>		
Water	15 310 746	13 423 837
<b>Total Consumer Deposits</b>	<b>15 310 746</b>	<b>13 423 837</b>
<b>Guarantees held in lieu of Water Deposits</b>	<b>522 113</b>	<b>554 463</b>
<b>4 PROVISIONS</b>		
Current Portion of Non-current Provisions (See Note 2):	1 011 606	902 091
Long-term Service	390 664	472 803
Post-retirement Benefits	620 942	429 288
<b>Total Provisions</b>	<b>1 011 606</b>	<b>902 091</b>

Refer to Note 45 to the Financial Statements, "Other Defined Benefit Plan Information", for more information regarding the provisions for Post-retirement Health Care Benefits and Long-term Service Allowances.

The movement in current provisions is reconciled as follows:

### Performance Bonus

Balance at beginning of year	-	332 806
Contributions to provision	-	234 894
Expenditure incurred	-	(567 700)
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>



## Notes to the Financial Statements for the year ended 30 June 2007

The movement in the current portion of non-current provision is reconciled as follows:

	Illegal Dumping	Alien Vegetation	Long-term Service	Post-retirement	Land-fill Sites
<b>30 June 2007</b>					
Balance at beginning of year	-	-	472 803	429 288	-
Transfer from non-current	-	-	390 664	620 942	-
Expenditure incurred	-	-	(472 803)	(429 288)	-
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>	<b>390 664</b>	<b>620 942</b>	<b>-</b>
<b>30 June 2006</b>					
Balance at beginning of year	-	-	-	-	-
Transfer from non-current	-	-	472 803	429 288	-
Expenditure incurred	-	-	-	-	-
<b>Balance at end of year</b>	<b>-</b>	<b>-</b>	<b>472 803</b>	<b>429 288</b>	<b>-</b>

	2007 R	2006 R
<b>5 CREDITORS</b>		
Trade Creditors	22 510 213	9 935 100
Payments received in Advance	15 058 418	8 122 349
Retentions	3 200 680	1 353 898
Staff Leave	4 731 584	3 890 300
Projects	8 879 788	25 955 927
Other Creditors	21 698 716	13 086 760
<b>Total Creditors</b>	<b>76 079 399</b>	<b>62 344 333</b>
<b>6 UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>		
<i>6.1 Conditional Grants from Other Spheres of Government</i>	84 335 577	64 031 753
National Government Grants	58 575 776	49 212 678
Provincial Government Grants	24 577 511	13 609 241
Other Sources	1 182 290	1 209 833
<i>6.2 Other Conditional Receipts</i>	23 974 994	6 062 607
Developers' Contributions	23 974 994	6 062 607
<b>Total Conditional Grants and Receipts</b>	<b>108 310 571</b>	<b>70 094 360</b>
See Note 19 for the reconciliation of grants from other spheres of government.		
The amount for unspent conditional grants and receipts are invested in ring-fenced investment accounts until utilised.		
<b>7 VAT</b>		
VAT Receivable / (Payable)	15 863 961	7 874 939

VAT is payable on the cash basis. Only once payment is received from debtors, is the VAT paid over to the South African Revenue Services (SARS).



Notes to the Financial Statements  
for the year ended 30 June 2007

**8 PROPERTY, PLANT AND EQUIPMENT**

The Municipality has taken advantage of the transitional provisions set out in GAMAP 17. The Municipality is in the process of itemising all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2008. At present, depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records.

**30 June 2007**

**Reconciliation of Carrying Value**

Description	Land and Buildings	Infrastructure	Community
	R	R	R
<b>Carrying values at 1 July 2006</b>	<b>14 775 663</b>	<b>243 000 219</b>	<b>21 691 164</b>
Cost	19 276 988	379 053 609	22 293 114
Correction of error (Note 33)	-	-	-
Revaluation	-	-	-
Impairment Losses	-	(30 683)	-
Accumulated Depreciation:	(4 501 325)	(136 022 707)	(601 950)
- Cost	(4 501 325)	(136 022 707)	(601 950)
- Revaluation	-	-	-
Acquisitions	4 582 632	110 898 781	-
Capital under Construction	-	-	-
Increases / Decreases in revaluation	-	-	-
Depreciation:	(570 667)	(18 596 845)	(111 057)
- based on cost	(570 667)	(18 596 845)	(111 057)
- based on revaluation	-	-	-
Carrying value of disposals:	(367 449)	(1 690)	(19 192 645)
Cost / Revaluation	(367 449)	(11 267)	(19 192 645)
Accumulated Impairment Losses	-	-	-
Accumulated Depreciation	-	9 578	-
Impaired Losses	(374 325)	5 461	-
Other Movements	-	-	-
<b>Carrying values at 30 June 2007</b>	<b>18 045 854</b>	<b>335 305 926</b>	<b>2 387 462</b>
Cost	23 492 171	489 941 122	3 100 469
Revaluation	-	-	-
Accumulated Impairment Losses	(374 325)	(25 222)	-
Accumulated Depreciation:	(5 071 992)	(154 609 974)	(713 007)
- Cost	(5 071 992)	(154 609 974)	(713 007)





	Heritage	Other	Housing Development Fund	Leased Infrastructure	Total
	R	R	R	R	R
	-	25 498 141	-	-	304 965 187
	-	58 095 633	-	-	478 719 344
	-	-	-	-	-
	-	-	-	-	-
	-	(852 174)	-	-	(882 857)
	-	(31 745 319)	-	-	(172 871 301)
	-	(31 745 319)	-	-	(172 871 301)
	-	-	-	-	-
	-	15 801 358	-	-	131 282 771
	-	-	-	-	-
	-	-	-	-	-
	-	(3 653 100)	-	-	(22 931 668)
	-	(3 653 100)	-	-	(22 931 668)
	-	-	-	-	-
	-	(9 895 844)	-	-	(29 457 629)
	-	(19 801 092)	-	-	(39 372 454)
	-	124 472	-	-	124 472
	-	9 780 775	-	-	9 790 353
	-	26 856	-	-	(342 008)
	-	-	-	-	-
	-	<b>27 777 411</b>	-	-	<b>383 516 654</b>
	-	54 095 900	-	-	570 629 662
	-	-	-	-	-
	-	(700 845)	-	-	(1 100 392)
	-	(25 617 643)	-	-	(186 012 616)
	-	(25 617 643)	-	-	(186 012 616)



Notes to the Financial Statements  
for the year ended 30 June 2007

30 June 2006

Reconciliation of Carrying Value

Description	Land and Buildings	Infrastructure	Community
	R	R	R
<b>Carrying values at 1 July 2005</b>	<b>14 972 677</b>	<b>184 592 897</b>	<b>9 451 153</b>
Cost	18 919 809	316 584 608	9 905 407
Revaluation	-	-	-
Impairment Losses	-	-	-
Accumulated Depreciation:	(3 947 132)	(131 991 711)	(454 255)
- Cost	(3 947 132)	(131 991 711)	(454 255)
- Revaluation	-	-	-
Acquisitions	357 179	62 469 001	12 387 707
Capital under Construction	-	-	-
Increases / Decreases in revaluation	-	-	-
Depreciation:	(554 193)	(4 030 995)	(147 696)
- based on cost	(554 193)	(4 030 995)	(147 696)
- based on revaluation	-	-	-
Carrying value of disposals:	-	-	-
Cost / Revaluation	-	-	-
Accumulated Depreciation	-	-	-
Impaired Losses	-	(30 683)	-
Other Movements	-	-	-
<b>Carrying values at 30 June 2006</b>	<b>14 775 663</b>	<b>243 000 219</b>	<b>21 691 164</b>
Cost	19 276 988	379 053 609	22 293 114
Correction of error (Note 33)	-	-	-
Revaluation	-	-	-
Accumulated Impairment Losses	-	(30 683)	-
Accumulated Depreciation:	(4 501 325)	(136 022 707)	(601 950)
- Cost	(4 501 325)	(136 022 707)	(601 950)
- Revaluation	-	-	-

(Refer to Appendices B, C and E (2) for more detail on Property, Plant and Equipment, including those in the course of construction.) The leased property, plant and equipment is secured as set out in Note 1.



Heritage	Other	Housing Development Fund	Leased Infrastructure	Total
R	R	R	R	R
-	18 171 038	-	-	227 187 764
-	44 155 055	-	-	389 564 880
-	-	-	-	-
-	-	-	-	-
-	(25 984 018)	-	-	(162 377 116)
-	<b>(25 984 018)</b>	-	-	<b>(162 377 116)</b>
-	-	-	-	-
-	13 940 577	-	-	89 154 465
-	-	-	-	-
-	-	-	-	-
-	(5 761 301)	-	-	(10 494 185)
-	<b>(5 761 301)</b>	-	-	<b>(10 494 185)</b>
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	(852 174)	-	-	(882 857)
-	-	-	-	-
-	<b>25 498 141</b>	-	-	<b>304 965 187</b>
-	58 095 633	-	-	478 719 344
-	-	-	-	-
-	-	-	-	-
-	(852 174)	-	-	(882 857)
-	(31 745 319)	-	-	(172 871 301)
-	<b>(31 745 319)</b>	-	-	<b>(172 871 301)</b>
-	-	-	-	-



## Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	R	R

### 8 PROPERTY, PLANT AND EQUIPMENT (Continued)

#### Impairment of Property, Plant and Equipment

Impairment losses on property, plant and equipment exist predominantly due to technological obsolescence of information technology equipment. The remainder of impaired items of property, plant and equipment have been physically damaged, stolen or have become redundant and idle.

The total amount of R342 008 (2006: R882 857) disclosed for impairment losses on property, plant and equipment includes an individual material amount of impairment losses applicable to a Water Services Department building damaged when a fire broke out. Cumulative impairment losses for the following significant account balances are included therein:

Land and Buildings	374 325	-
Infrastructure: Roads	10 423	-
Infrastructure: Sewerage	14 799	-
Infrastructure: Water	(30 683)	30 683
Other Assets: Emergency Equipment	1 810	-
Other Assets: Furniture and Fittings	27 767	-
Other Assets: Motor Vehicles	(3 913)	50 314
Other Assets: Office Equipment	(68 404)	723 404
Other Assets: Plant and Equipment	15 885	-
Other Assets: Other Items	-	78 456
<b>Total Impairment of Property, Plant and Equipment</b>	<b>342 008</b>	<b>882 857</b>

#### Change in Estimate – Useful Life of Property, Plant and Equipment reviewed

There was no change (2006: R11 934 656) in the estimated useful life of various assets of the municipality for the mentioned departments for the financial year 2006/2007:

Executive and Council	-	63 886
Finance and Administration	-	917 376
Planning and Development	-	105 634
Water	-	10 847 760
<b>Total Change in Estimate for Useful Life of Property, Plant and Equipment</b>	<b>-</b>	<b>11 934 656</b>



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>9 INVESTMENT PROPERTY</b>		
Carrying values as at 1 July 2006	-	-
Cost	-	-
Acquisitions during the year	5 324 628	-
Disposals / Transfers during the year: at Cost	19 192 645	-
Carrying values at 30 June 2007	<b>24 517 273</b>	-
Cost	24 517 273	-

(Refer to Appendix B for more detail on Investment Property.)

Revenue earned from Investment Property is disclosed in the Statement of Financial Performance.

<b>10 INTANGIBLE ASSETS</b>		
Carrying values at 1 July 2006	<b>385 448</b>	<b>342 595</b>
Cost	385 448	342 595
Accumulated Amortisation	-	-
Accumulated Impairment	-	-
Acquisitions during the year	8 074 125	42 854
Amortisation during the year	(2 220 855)	-
Impaired Losses during the year	-	-
Disposals / Transfers during the year:	6 267 213	-
At Cost	5 811 802	-
At Accumulated Amortisation	-	-
At Accumulated Impairment	455 412	-
Carrying values at 30 June 2007	<b>12 505 931</b>	<b>385 448</b>
Cost	14 271 375	385 448
Accumulated Amortisation	(2 220 855)	-
Accumulated Impairment	455 412	-

(Refer to Appendix B for more detail on Intangible Assets.)

<b>11 INVESTMENTS</b>		
<b>Financial Instruments</b>		
Fixed Deposits	13 489 923	12 817 734
<b>Total Investments</b>	<b>13 489 923</b>	<b>12 817 734</b>

Fixed Deposits of R13 489 923 (2006: R12 817 734) are ring-fenced for the purposes of repaying Long-term Liabilities as set out in Note 31.



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>12 LONG-TERM RECEIVABLES</b>		
Officials: Relocation Loans	7 077	43 955
Sundry Loans	48 381	54 381
	<u>55 458</u>	<u>98 336</u>
Less: Current Portion transferred to Current Receivables	11 519	32 966
Officials: Relocation Loans	5 519	26 966
Sundry Loans	6 000	6 000
	<u>43 939</u>	<u>65 370</u>
<b>Total Long-term Receivables</b>	<b>43 939</b>	<b>65 370</b>

*Relocation Loans*

Relocation Loans granted to officials are expensed after 36 months' service in the Municipality. A pro rata amount is recovered should an official leave the service of the Municipality within the 36 month period.

*Sundry Loans*

A Sundry Loan was granted to an official for damages caused to municipal property. The debt is repaid by monthly deductions of R500.

<b>13 INVENTORY</b>		
Maintenance materials – at cost	3 345 428	2 939 889
Water – at cost	826 560	506 344
Other Goods held for resale – at cost	246 744	-
	<u>4 418 732</u>	<u>3 446 233</u>
<b>Total Inventory</b>	<b>4 418 732</b>	<b>3 446 233</b>

	Gross Balances	Provision for Bad Debts	Net Balances
<b>14 CONSUMER DEBTORS</b>			
<b>30 June 2007</b>			
Service Debtors:	65 513 974	22 296 048	43 217 926
Sewerage	11 083 451	3 925 525	7 157 926
Water	54 430 523	18 370 523	36 060 000
Other Trade Debtors	4 536 815	-	4 536 815
	<u>70 050 789</u>	<u>22 296 048</u>	<u>47 754 741</u>
<b>Total Consumer Debtors</b>	<b>70 050 789</b>	<b>22 296 048</b>	<b>47 754 741</b>
<b>30 June 2006</b>			
Service Debtors:	55 594 815	22 043 233	33 551 581
Sewerage	7 399 417	2 764 632	4 634 785
Water	48 195 398	19 278 601	28 916 797
Other Trade Debtors	-	-	-
	<u>55 594 815</u>	<u>22 043 233</u>	<u>33 551 581</u>
<b>Total Consumer Debtors</b>	<b>55 594 815</b>	<b>22 043 233</b>	<b>33 551 581</b>



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
Current (0-30 days)	6 126 568	3 738 390
31-60 Days	595 437	576 874
61-90 Days	435 921	319 521
+ 90 Days	3 925 525	2 764 632
<b>Total</b>	<b>11 083 451</b>	<b>7 399 417</b>

### *Water: Ageing*

Current (0-30 days)	18 445 124	18 254 970
31-60 Days	2 371 550	2 128 925
61-90 Days	1 678 015	1 278 977
+ 90 Days	31 935 834	26 532 526
<b>Total</b>	<b>54 430 523</b>	<b>48 195 398</b>

### Summary of Debtors by Customer Classification

The Customer Classification cannot be provided as the computerised accounting system used by the municipality is not programmed to generate reports in this format.

### Reconciliation of Provision for Bad Debts

Balance at beginning of year	22 043 233	17 430 454
Contribution / (Reversal) to provision	924 186	4 596 712
Bad Debts recovered	32 654	16 068
Bad Debts written off	(704 024)	-
<b>Balance at end of year</b>	<b>22 296 048</b>	<b>22 043 233</b>

## 15 OTHER DEBTORS

Payments made in Advance	-	58 316
Short Term Loans	-	309 168
Sundry Deposits	386 440	313 586
Sundry Debtors	18 935 060	15 892 113
Government Subsidy Claims	35 133 772	33 418 334
	54 455 272	49 991 517
Less: Provision for Bad Debts	(31 645 492)	(33 610 595)
<b>Total Other Debtors</b>	<b>22 809 780</b>	<b>16 380 922</b>



## Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	R	R
<p>The provision for doubtful debts on other debtors (loans and receivables) exists due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.</p> <p>The total amount of the provision for doubtful debts created is R31 645 492 (2006: R33 610 595) and the following loans and receivables are included therein:</p>		
Government Subsidy Claims	26 876 385	26 876 385
Other	60 494	60 494
<b>Total Provision for Bad Debts on Other Debtors</b>	<b>31 645 492</b>	<b>33 610 595</b>
<b>Reconciliation of Provision for Bad Debts</b>		
Balance at beginning of year	33 610 595	-
Contribution / (Reversal) to provision	-	33 610 595
Bad Debts recovered	-	-
Bad Debts written off	(1 965 103)	-
<b>Balance at end of year</b>	<b>31 645 492</b>	<b>33 610 595</b>
<b>16 SHORT-TERM INVESTMENT DEPOSITS</b>		
Call Deposits	55 177 404	28 848 269
Notice Deposits	140 325 784	161 000 000
Short-term Portion of Investments	1 091 195	10 094 335
<b>Total Short-term Investment Deposits</b>	<b>196 594 384</b>	<b>199 942 604</b>

Deposits of R91 232 539 (2006: R70 094 360) are ring-fenced and attributable to Unspent Conditional Grants.

Deposits of R104 323 511 (2006: R105 466 406) are ring-fenced and attributable to the Capital Replacement Reserve.

R1 018 334 (2006: R10 094 335) has been invested specifically in a ring-fenced account for the repayment of long-term liabilities. See Note 31 for more detail.





## Notes to the Financial Statements

for the year ended 30 June 2007

	2007 R	2006 R
<b>17 BANK, CASH AND OVERDRAFT BALANCES</b>		
The Municipality has the following bank accounts:		
<b>Absa Bank – Port Shepstone</b>		
<i>Account Number 406 668 6529 (Primary Bank Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	186 423	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	186 423	-
<i>Account Number 406 668 6472 (General Bank Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	(4 815 248)	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	1 658 789	-
Cash book balance at beginning of year	-	-
Cash book balance at end of year	2 597 424	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	2 597 424	-
<i>Account Number 406 660 3763 (Salaries Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	(15 750)	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	29 055	-
<i>Account Number 406 757 0977 (Sanlam Group Life Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	(91)	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	(91)	-
<i>Account Number 406 668 6367 (MIG Project Account):</i>		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	17 078 032	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	19 699 104	-



## Notes to the Financial Statements

for the year ended 30 June 2007

	2007 R	2006 R
<b>First National Bank – Port Shepstone</b>		
<i>Account Number 534 8085 2369 (Primary Bank Account):</i>		
Cash book balance at beginning of year	1 485 564	2 806 143
Cash book balance at end of year	<u>2 864 731</u>	<u>1 485 564</u>
Bank statement balance at beginning of year	9 982 224	13 116 396
Bank statement balance at end of year	<u>2 957 045</u>	<u>9 982 224</u>
<i>Account Number 620 1194 3398 (ACB Deposits Account):</i>		
Cash book balance at beginning of year	471 936	440 556
Cash book balance at end of year	<u>1 093 479</u>	<u>471 936</u>
Bank statement balance at beginning of year	471 936	440 556
Bank statement balance at end of year	<u>1 093 479</u>	<u>471 936</u>
<i>Account Number 534 8801 7494 (Direct Deposits Account):</i>		
Cash book balance at beginning of year	673 225	150 600
Cash book balance at end of year	<u>730 150</u>	<u>673 225</u>
Bank statement balance at beginning of year	673 225	228 382
Bank statement balance at end of year	<u>730 150</u>	<u>673 225</u>
Cash book balance at beginning of year	470 965	46 762
Cash book balance at end of year	<u>-</u>	<u>470 965</u>
Bank statement balance at beginning of year	534 958	93 831
Bank statement balance at end of year	<u>-</u>	<u>534 958</u>
<i>Account Number 620 1101 7680 (Levy Deposits Account):</i>		
Cash book balance at beginning of year	432 660	377 817
Cash book balance at end of year	<u>-</u>	<u>432 660</u>
Bank statement balance at beginning of year	432 660	377 817
Bank statement balance at end of year	<u>-</u>	<u>432 660</u>
<i>Account Number 620 4701 3157 (CMIP Grant Account):</i>		
Cash book balance at beginning of year	-	1 040 464
Cash book balance at end of year	<u>-</u>	<u>-</u>
Bank statement balance at beginning of year	-	1 040 464
Bank statement balance at end of year	<u>-</u>	<u>-</u>



## Notes to the Financial Statements

for the year ended 30 June 2007

	2007 R	2006 R
Cash book balance at beginning of year	-	(25)
Cash book balance at end of year	-	-
Bank statement balance at beginning of year	-	(25)
Bank statement balance at end of year	-	-
<i>Account Number 534 8109 8673 (Ugu RDP DWAF Project Account):</i>		
Cash book balance at beginning of year	7 509 503	2 413 589
Cash book balance at end of year	-	7 509 503
Bank statement balance at beginning of year	9 836 165	2 413 589
Bank statement balance at end of year	9 836 165	9 836 165
<i>Account Number 620 5649 9653 (Afrisun Project Account):</i>		
Cash book balance at beginning of year	38 973	39 478
Cash book balance at end of year	-	38 973
Bank statement balance at beginning of year	38 973	39 478
Bank statement balance at end of year	-	38 973
<i>Account Number 620 3279 1289 (Ezinqolweni Taxi Disaster Account):</i>		
Cash book balance at beginning of year	6 991	7 321
Cash book balance at end of year	-	6 991
Bank statement balance at beginning of year	6 991	7 321
Bank statement balance at end of year	-	6 991
<b>Standard Bank – Port Shepstone Branch</b>		
<i>Account Number 05 330 000 9 (Direct Deposits Account):</i>		
Cash book balance at beginning of year	56 052	39 738
Cash book balance at end of year	11 420	56 052
Bank statement balance at beginning of year	56 052	39 738
Bank statement balance at end of year	11 420	56 052
<i>Account Number 05 330 662 7 (Group Life Scheme Account):</i>		
Cash book balance at beginning of year	884 377	2 994 724
Cash book balance at end of year	1 696 723	884 377
Bank statement balance at beginning of year	884 377	2 994 724
Bank statement balance at end of year	1 696 778	884 377
Bank statement balance at beginning of year	-	26 620
Bank statement balance at end of year	-	-



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
Cash Floats and Advances	556 315	243 004
Other Cash Equivalents	-	-
<b>Cash on hand in Cash Floats and Advances</b>	<b>556 315</b>	<b>243 004</b>
Total Bank and Cash	26 814 698	12 273 250
Total Overdraft	(4 831 089)	-
<b>Total Bank and Cash</b>	<b>21 983 609</b>	<b>12 273 250</b>

Bank Accounts of R62 429 361 (2006: R47 509 503) are ring-fenced and attributable to Unspent Conditional Grants.

Bank Accounts of R5 000 000 (2006: nil) are ring-fenced and attributable to the Capital Replacement Reserve.

### 18 SERVICE CHARGES

Sale of Water	142 660 848	150 173 559
Sewerage and Sanitation Charges	39 066 304	32 761 414
<b>Total Service Charges</b>	<b>181 727 152</b>	<b>182 934 973</b>



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>19 GOVERNMENT GRANTS AND SUBSIDIES</b>		
Provincial Equitable Share	49 836 440	55 580 925
Department of Local Government and Traditional Affairs	-	1 097 873
Department of Water and Forests	-	586 000
Levies Replacement	28 838 590	-
Municipal Infrastructure Unit	-	404 432
Other Grants Received	5 700 000	-
<b>Conditional Grants</b>	<b>94 075 657</b>	<b>128 074 575</b>
National: FMG Grant	178 434	262 312
National: DEAT Grant	630 167	-
National: MIG Grant	89 487 956	103 694 881
National: DWAF Grant	412 816	447 854
Provincial: Local Government Grants	578 516	3 364 087
Provincial: CMIP Grant	-	-
Provincial: Dept of Agriculture & Environmental Affairs Grant	-	8 000 000
Provincial: Dept of Arts & Culture Grant	-	387 563
Provincial: Dept of Public Works Grant	-	(25)
Provincial: Dept of Sport & Recreation Grant	659 127	2 001 514
Provincial: Dept of Transport Grant	297 000	1 488
Provincial: Dept of Local Government & Traditional Affairs Grant	1 709 972	9 496 655
Provincial: Dept of Tourism Grant	-	67 368
Other Spheres of Government Grants	121 669	350 877
<b>Total Government Grants and Subsidies</b>	<b>178 450 687</b>	<b>185 743 805</b>

**19.1 National: Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant. No funds were withheld.



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>19.2 National: Finance Management Grant (FMG)</b>		
Balance unspent at beginning of year	728 028	934 132
Current year receipts	579 979	56 208
Conditions met – transferred to revenue	(178 434)	(262 312)
Conditions still to be met – transferred to liabilities (see Note 6)	<u>1 129 573</u>	<u>728 028</u>

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns). No funds were withheld.

### 19.3 National: Economic Affairs and Tourism Grant (DEAT)

Balance unspent at beginning of year	-	-
Current year receipts	2 073 110	-
Conditions met – transferred to revenue	(630 167)	-
Conditions still to be met – transferred to liabilities (see Note 6)	<u>1 442 943</u>	<u>-</u>

The European Community represented by the Department of Economic Development (Gijima KZN) awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment". No funds were withheld.

### 19.4 Provincial: Local Government Grants

Balance unspent at beginning of year	5 359 226	7 150 286
Current year receipts	1 685 836	1 573 027
Conditions met – transferred to revenue	(578 516)	(3 364 087)
Conditions still to be met – transferred to liabilities (see Note 6)	<u>6 466 545</u>	<u>5 359 226</u>

Various grants are paid by Provincial Local Government help implement the IDP, PMS and financial reform initiatives as required by the Municipal Finance Management Act (MFMA), 2003 and the Municipal Systems Act (MSA), 2000. No funds have been withheld.



## Notes to the Financial Statements

for the year ended 30 June 2007

	2007	2006
	R	R
<b>19.5 National: Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	40 307 771	23 497 660
Current year receipts	96 104 044	120 504 992
Conditions met – transferred to revenue	<u>(89 487 956)</u>	<u>(103 694 881)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>46 923 860</u>	<u>40 307 771</u>

The MIG grant is aimed at supplementing municipal budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households and for the provision, rehabilitation and renewal of municipal infrastructure. No funds were withheld.

### 19.6 National: Dept of Water Affairs and Forestry Grant (DWAF)

Balance unspent at beginning of year	2 817 653	619 095
Current year receipts	208 018	2 646 412
Conditions met – transferred to revenue	<u>(412 816)</u>	<u>(447 854)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>2 612 855</u>	<u>2 817 653</u>

DWAF grants are aimed at supplementing municipal budgets to assist with the assessment of Water Service delivery mechanisms, water delivery planning and water services technical support. No funds were withheld.

### 19.7 Provincial: Dept of Agriculture and Environmental Affairs Grant

Balance unspent at beginning of year	-	-
Current year receipts	-	8 000 000
Conditions met – transferred to revenue	<u>-</u>	<u>(8 000 000)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>-</u>	<u>-</u>

The KZN Department of Agriculture and Environmental Affairs contributed towards the construction of certain facilities and services within the Ugu Fresh Produce Market by way of this grant. No funds were withheld.

### 19.8 Provincial: Dept of Arts and Culture Grant

Balance unspent at beginning of year	-	387 563
Current year receipts	-	-
Conditions met – transferred to revenue	<u>-</u>	<u>(387 563)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>-</u>	<u>-</u>

This funding was provided by the KZN Department of Arts, Culture and Tourism to assist the youth in hosting a HIV/AIDS Awareness Day and to commemorate the Day of Reconciliation as per the National Calendar. No funds were withheld.



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>19.9 Provincial: Dept of Public Works Grant</b>		
Balance unspent at beginning of year	2 002 201	7 525 051
Current year receipts	-	(5 522 875)
Conditions met – transferred to revenue	-	25
Conditions still to be met – transferred to liabilities (see Note 6)	<u>2 002 201</u>	<u>2 002 201</u>

Public Works Grants were utilised to construct or upgrade various infrastructure of informal settlement areas within the municipal district through utilising labour intensive construction methods in order to maximise job creation for local communities and opportunities for emerging contractors. No funds were withheld.

### 19.10 Provincial: Dept of Sport and Recreation Grant

Balance unspent at beginning of year	2 093 331	2 597 333
Current year receipts	7 477 334	1 497 513
Conditions met – transferred to revenue	(659 127)	(2 001 514)
Conditions still to be met – transferred to liabilities (see Note 6)	<u>8 911 538</u>	<u>2 093 331</u>

The purpose of the grant received from the Department of Sport and Recreation was to promote mass participation of a number of selected sport codes and related activities within disadvantaged communities in conjunction with other recreation federations, as well as to assist with the construction of the Ugu District Sports Complex. No funds were withheld.

### 19.11 Provincial: Dept of Transport Grant

Balance unspent at beginning of year	402 080	14 482
Current year receipts	9 089	389 087
Conditions met – transferred to revenue	(297 000)	(1 488)
Conditions still to be met – transferred to liabilities (see Note 6)	<u>114 170</u>	<u>402 080</u>

This funding was furnished by the KZN Department of Transport to assist with the preparation of a Public Transport Plan as required by the National Land Transport Transition Act, 2000. No funds were withheld.





## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>19.12 Provincial: Dept of Local Government and Traditional Affairs Grant</b>		
Balance unspent at beginning of year	8 468 552	4,940,821
Current year receipts	6 791 022	13 024 385
Conditions met – transferred to revenue	<u>(1 709 972)</u>	<u>(9 496 655)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>13 549 602</u>	<u>8 468 552</u>

Grants received from Department of Local Government and Traditional Affairs (DLGTA) are utilised to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required by the Municipal Structures Act. No funds were withheld.

### 19.13 Provincial: Dept of Tourism Grant

Balance unspent at beginning of year	643 077	70 226
Current year receipts	(643 077)	640 220
Conditions met – transferred to revenue	<u>-</u>	<u>(67 368)</u>
Conditions still to be met – transferred to liabilities (see Note 6)	<u>-</u>	<u>643 077</u>

The European Community, represented by the Department of Economic Development (Gijima KZN), awarded the grant for the implementation of the action entitled "Strengthening the LED Enabling Environment". No funds were withheld.

### 19.14 Other Government: DBSA

Balance unspent at beginning of year	1 209 833	1 320 155
Current year receipts	94 126	240 555
Conditions met - transferred to revenue	<u>(121 669)</u>	<u>(350 877)</u>
Conditions still to be met - transferred to liabilities (see note 6)	<u>1 182 290</u>	<u>1 209 833</u>

The purpose of this grant was to assist with the development of business plans for the seven flagship projects in the municipal area. The objectives of the projects are to enhance rural economic development and broad-based community information dissemination and empowerment. No funds were withheld.

### 19.15 Changes in Levels of Government Grants

Based on the allocations set out in the Division of Revenue Act, (2007), Government Grant funding is expected to increase over the two years 2007/2008 and 2008/2009.



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>20 OTHER INCOME</b>		
Sundry Services Rendered	3 946 439	(8 344 709)
Tender Deposits Forfeited	66 660	-
Other Income	18 824 852	34 541 981
<b>Total Other Income</b>	<b>22 837 951</b>	<b>26 197 272</b>
<b>21 EMPLOYEE RELATED COSTS</b>		
Employee Related Costs – Salaries and Wages	64 057 652	52 146 255
Employee Related Costs – Contributions for UIF, Pensions and Medical Aids	16 270 859	12 781 061
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	11 274 993	9 934 280
Housing Benefits and Allowances	981 694	680 306
Overtime Payments	13 089 459	10 516 771
Performance Bonuses	269 537	358 931
Defined Benefit Plan Expense:	9 247 777	12 980 070
Current Service Cost	778 976	-
Interest Cost	1 038 405	-
Net Actuarial (gains) / losses recognised	787 220	-
Vested Past Service Cost	6 643 176	12 980 070
<b>Total Employee Related Costs</b>	<b>115 191 971</b>	<b>99 397 674</b>
There were no advances to employees. Loans to employees are set out in Note 12.		
<b>Remuneration of the Municipal Manager</b>		
Annual Remuneration (includes leave encashed – 2007: R0 & 2006: R103 925)	505 274	631 595
Car Allowance	187 287	157 327
Performance Bonus	55 343	69 287
Company Contributions to UIF, Medical and Pension Funds	123 237	77 667
<b>Total</b>	<b>871 141</b>	<b>935 876</b>
<b>Remuneration of the Deputy Municipal Manager</b>		
Annual Remuneration (includes leave encashed – 2007: R78 291 & 2006: R37 761)	538 149	484 810
Car Allowance	142 663	122 931
Performance Bonus	43 878	43 554
Company Contributions to UIF, Medical and Pension Funds	66 679	66 820
<b>Total</b>	<b>791 369</b>	<b>718 116</b>
<b>Remuneration of the Chief Financial Officer</b>		
Annual Remuneration (includes leave encashed – 2007: R0 & 2006: R35 030)	421 557	459 484
Car Allowance	140 295	118 819
Performance Bonus	46 634	56 574
Company Contributions to UIF, Medical and Pension Funds	91 035	80 378
<b>Total</b>	<b>699 521</b>	<b>715 255</b>



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>Remuneration of the General Manager: Corporate Services</b>		
Annual Remuneration (includes leave encashed – 2007: R0 & 2006: R87 413)	48 849	447 365
Car Allowance	11 000	90 452
Performance Bonus	-	44 127
Company Contributions to UIF, Medical and Pension Funds	674	12 944
<b>Total</b>	<b>60 523</b>	<b>594 888</b>
<p>The post was vacant until 31 May 2007 at which date the new General Manager: Corporate Services joined the Municipality. The Deputy Municipal Manager acted in this position in the interim.</p>		
<b>Remuneration of the General Manager: Infrastructure and Economic Development</b>		
Annual Remuneration (includes leave encashed – 2007: R169 077 & 2006: R27 965)	683 388	399 330
Car Allowance	156 818	124 188
Performance Bonus	46 188	35 189
Company Contributions to UIF, Medical and Pension Funds	9 448	5 808
<b>Total</b>	<b>895 842</b>	<b>564 515</b>
<b>Remuneration of the General Manager: Water Services</b>		
Annual Remuneration (includes leave encashed – 2007: R118 060 & 2006: R34 512)	656 955	524 658
Car Allowance	145 767	127 380
Performance Bonus	46 676	44 114
Company Contributions to UIF, Medical and Pension Funds	7 593	6 365
<b>Total</b>	<b>856 991</b>	<b>702 516</b>
<b>Remuneration of the Special Advisor</b>		
Annual Remuneration	375 116	362 797
Car Allowance	122 938	109 489
Performance Bonus	30 818	-
Company Contributions to UIF, Medical and Pension Funds	6 404	5 441
<b>Total</b>	<b>535 276</b>	<b>477 727</b>
<p>An Acting Allowance (2007: R19 371 and 2006: R25 700) was paid to the Special Advisor for acting in the positions of Municipal Manager at a local Municipality and General Manager: Infrastructure and Economic Development Services respectively.</p> <p>The following compensation was payable to key management personnel in terms of IAS 19 as at 30 June 2007:</p>		
<b>Post Employment Benefits</b>		
Municipal Manager	-	-
Chief Financial Officer	23 261	11 939
<b>Total</b>	<b>23 261</b>	<b>11 939</b>
<b>Other Long-term Benefits</b>		
Municipal Manager	-	58 836
Deputy Municipal Manager	-	6 718
Chief Financial Officer	-	25 211
General Manager: Corporate Services	-	2 108
<b>Total</b>	<b>-</b>	<b>92 873</b>



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>22 REMUNERATION OF COUNCILLORS</b>		
Mayor	630 311	452 831
Deputy Mayor	490 079	379 604
Speaker	495 695	240 407
Executive Committee Members	1 725 117	863 939
Councillors	2 248 106	1 483 883
<b>Total Councillors' Remuneration</b>	<b>5 589 308</b>	<b>3 420 664</b>

### In-kind Benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and shared secretarial support at the cost of the Municipality. Councillors may utilise official Council transportation when engaged in official duties.

The Mayor has one full-time bodyguard and one full-time driver.

### Certification by the Municipal Manager

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Signed: Municipal Manager

<b>23 INTEREST PAID</b>		
Long-term Liabilities	5 793 993	8 345 869
Finance Leases	144 681	68 436
<b>Total Interest on External Borrowings</b>	<b>5 938 673</b>	<b>8 414 306</b>



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>24 BULK PURCHASES</b>		
Water	12 578 774	10 762 952
<b>Total Bulk Purchases</b>	<b>12 578 774</b>	<b>10 762 952</b>
<b>25 GRANTS AND SUBSIDIES PAID</b>		
Low Income Subsidy	19 676 404	23 208 128
Community Projects	44 917 852	129 746 338
Drought Relief	4 409 787	2 803 488
Other Benevolent Organisations and Grants-in-Aid	2 971 110	2 373 044
<b>Total Grants and Subsidies</b>	<b>71 975 153</b>	<b>158 130 998</b>
<b>26 GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Rentals: Operating Leases	<b>306 599</b>	<b>531 160</b>

Rentals paid in respect of operating leases are the minimum lease payments for the year under review for office equipment held under non-cancellable operating lease agreements. Also see Note 44 in this regard.

No other extraordinary expenses were incurred.

**27 CHANGE IN ACCOUNTING POLICY**

The municipality adopted the following International Accounting Standards for the first time during the financial year 2005/2006 in order to comply with the basis of preparation of the annual financial statements as disclosed in accounting policy 1:

- IAS 19 Employee Benefits
- IAS 32 Financial Instruments: Presentation
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<p>The transitional provisions of the above mentioned standards have not been adopted, with the exception of the transitional provisions of IAS 19. The transitional provisions of IAS 19 have been adopted as follows:</p>		
<p><b>IAS 19 – Employee Benefits, paragraph 155 (a):</b> The transitional defined benefit liabilities for Post-employment Health Care Benefits and Long Service Allowances have been recognised in the annual financial statements of the municipality as at 30 June 2006 in terms of IAS 19, 155(a). Thus the full net liabilities as at 30 June 2006 have been recognised immediately in the annual financial statements.</p>		
<p>The effect of the above-mentioned changes in accounting policies on the profit and loss is a decrease of R35,5 million for the financial year 2005/2006 and the nature of the changes in the accounting policies are as follows:</p>		
- IAS 19	Increase in expense for Employee Benefits	- 12 980 070
- IAS 32 & 39	Increase in expense for Provision for Bad Debts	- 33 610 595
- IAS 36	Increase in expenses for Impairment Losses on Assets	- 882 857
- IAS 38	Effect on Property, Plant and Equipment	- (385 448)
- IAS 38	Effect on Intangible Assets	- 385 448
<b>Total decrease in Surplus for the Year 2005/2006</b>		<b>- 47 473 522</b>
<p>The effect of the above-mentioned changes in accounting policies on the accumulated surplus as at 30 June 2006 is a decrease of R35,5 million, whilst the accumulated surplus of prior years was not affected.</p>		
<p>Corrections were made during the year and appropriated to the Accumulated Surplus Account.</p>		
<p>Details of the appropriations are as follows:</p>		
Corrections to Creditors		- (444 964)
Corrections to Debtors		- (632 075)
Corrections to Expenditure		- 3 725 267
Corrections to Income		- (237 512)
Adjustment of redemption of External Loan from previous Loan Redemption Fund		- (10 000 000)
Adjustment of Lease Payment on Vehicle for 2004/2005		- (38 905)
<b>Decrease in accumulated surplus</b>		<b>- (7 628 187)</b>



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>29 CASH GENERATED BY OPERATIONS</b>		
Surplus for the year	79 538 636	39 841 688
Adjustment for:		
Correction of prior year error	-	(7 628 187)
Change in Accounting Policy	-	-
Depreciation	25 152 524	10 494 185
Impairment Losses on Property, Plant and Equipment	342 008	882 857
Loss / (Gain) on Disposal of Property, Plant and Equipment	(76 289)	-
Assets below threshold previous years expensed	3 031 308	-
Contribution to Bad Debt Provision	924 186	38 207 306
Bad Debts Recovered	32 654	16 068
Bad Debts Written-off	(2 669 128)	-
Investment Income	(18 874 708)	(13 951 286)
Interest Paid	5 938 673	8 414 306
<b>Operating surplus before working capital changes</b>	<b>93 339 864</b>	<b>76 276 936</b>
(Increase) / Decrease in Inventories	(972 499)	69 353
(Increase) / Decrease in Debtors	(14 455 974)	(3 684 994)
(Increase) / Decrease in Other Debtors	(4 463 755)	33 735 536
(Increase) / Decrease in VAT	(7 989 022)	1 667 938
Increase / (Decrease) in Provisions	8 345 686	12 953 945
Increase / (Decrease) in Conditional Grants and Receipts	38 216 211	24 378 094
Increase/(Decrease) in Creditors	13 735 066	(30 084 829)
<b>Cash generated by / (utilised in) operations</b>	<b>125 755 576</b>	<b>115 311 980</b>
<b>30 CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position:		
Bank Balances and Cash	26 814 698	12 273 250
Bank Overdraft	(4 831 089)	-
<b>Total Cash and Cash Equivalents</b>	<b>21 983 609</b>	<b>12 273 250</b>



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>31 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>		
Long-term Liabilities (see Note 1)	81 874 135	71 822 431
Used to finance Property, Plant and Equipment – at cost	<u>81 874 135</u>	<u>71 822 431</u>
Sub total	-	-
Cash set aside for the Repayment of Long-term Liabilities (see Notes 1, 11 and 16)	14 581 118	10 094 335
<b>Cash invested for Repayment of Long-term Liabilities</b>	<u><b>14 581 118</b></u>	<u><b>10 094 335</b></u>

External loans have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that Long-term Liabilities can be repaid on redemption date.

## 32 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

### 32.1 Unauthorised Expenditure

Incident	Disciplinary Steps / Criminal Proceedings
<i>None</i>	<i>None</i>

### 32.2 Fruitless and Wasteful Expenditure

Incident	Disciplinary Steps / Criminal Proceedings
<i>None</i>	<i>None</i>

### 32.3 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	-	232 102
Irregular Expenditure current year	-	69 593
Recovered	-	<u>(301 695)</u>
Irregular Expenditure awaiting condonement	<u>-</u>	<u>-</u>

Incident	Disciplinary Steps / Criminal Proceedings
<i>None</i>	<i>None</i>





## Notes to the Financial Statements

### for the year ended 30 June 2007

	2007	2006
	R	R
<b>33 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b><u>33.1 Contributions to organised local government – SALGA</u></b>		
Opening Balance	-	-
Council Subscriptions	441 535	474 859
Amount Paid – current year	(441 535)	(474 859)
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>-</b>
<b><u>33.2 Audit Fees</u></b>		
Opening Balance	9 709	-
Current year Audit Fee	1 597 667	1 264 630
Amount Paid – current year	(1 597 667)	(1 254 921)
Amount Paid – previous years	(9 709)	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>9 709</b>
<p>The balance unpaid represents the audit fee for an interim audit conducted during May and June 2006 and is payable by 31 July 2006.</p>		
<b><u>33.3 VAT</u></b>		
<p>VAT inputs receivables and VAT outputs receivables are shown in Note 7. All VAT returns have been submitted by the due date throughout the year.</p>		
<b><u>33.4 PAYE and UIF</u></b>		
Opening Balance	172	-
Current year Payroll Deductions	18 545 892	13 357 267
Amount Paid – current year	(18 545 892)	(13 357 096)
Amount Paid – previous years	(172)	-
<b>Balance Unpaid (included in Creditors)</b>	<b>-</b>	<b>172</b>
<p>The balance represents PAYE and UIF deducted from the June 2006 payroll. These amounts were paid during July 2006.</p>		
<b><u>33.5 Pension and Medical Aid Deductions</u></b>		
Opening Balance	(16 061)	-
Current year Payroll Deductions and Council Contributions	22 373 756	16 529 628
Amount Paid – current year	(22 357 695)	(16 545 689)
<b>Balance Overpaid (included in Creditors)</b>	<b>-</b>	<b>(16 061)</b>
<p>The balance represents an overpayment of Pension and Medical Aid contributions deducted from employees and councillors in the June 2006 payroll, as well as the municipality's contributions to these funds. These amounts were corrected during July 2006.</p>		



## Notes to the Financial Statements for the year ended 30 June 2007

### 33.6 Councillors' arrear Consumer Accounts

The following Councillors had arrear accounts outstanding for more than 90 days:

	Total	Outstanding up to 90 days	Outstanding more than 90 days
<b>30 June 2007</b>			
None	-	-	-
<b>Total Councillor Arrear Consumer Accounts</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30 June 2006</b>			
Councillor BT Lubanyana	2 279	366	1 913
Councillor NH Gumede	849	810	39
Councillor SM Zuma	2 846	190	2 656
<b>Total Councillor Arrear Consumer Accounts</b>	<b>5 974</b>	<b>1 366</b>	<b>4 608</b>

During the year the following Councillors had arrear accounts outstanding for more than 90 days:

	Highest amount outstanding	Ageing
<b>30 June 2007</b>		
None	-	> 90 Days
<b>30 June 2006</b>		
Councillor SM Zuma	3 008	> 90 Days

### 33.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act

No known matters existed at reporting date.



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>34 CAPITAL COMMITMENTS</b>		
Commitments in respect of Capital Expenditure:		
- Approved and contracted for:-	<b>58 376 338</b>	<b>33 006 967</b>
<i>Infrastructure</i>	53 150 451	25 810 425
<i>Community</i>	2 008 155	1 396 039
<i>Other</i>	3 217 733	5 800 503
- Approved but not yet contracted for:-	<b>17 133 638</b>	<b>25 523 092</b>
<i>Infrastructure</i>	15 633 638	25 523 092
<i>Community</i>	-	-
<i>Other</i>	1 500 000	-
<b>Total Capital Commitments</b>	<b>75 509 976</b>	<b>58 530 059</b>
This expenditure will be financed from:		
External Loans	5 678 945	15 688 321
Government Grants	54 457 642	29 994 768
Own Resources	15 373 389	12 846 969
	<b>75 509 976</b>	<b>58 530 059</b>



## Notes to the Financial Statements for the year ended 30 June 2007

### 35 RETIREMENT BENEFIT INFORMATION

All full-time employees belong to the KwaZulu-Natal Joint Municipal Pension Fund, which are made up by the Retirement, Superannuation and Provident Funds. These multi-employer funds are subject to a triennial actuarial valuation.

The Retirement and Superannuation Funds are defined benefit plans, whereas the Provident Fund is a defined contribution plan. Sufficient information is not available to use defined benefit accounting for the Retirement and Superannuation Funds due to the following reasons:-

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers. One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer. Both the Superannuation and Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

**Retirement Fund:** The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R205 million, with a funding level of 83%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 – 14%
- From 1 July 2007 – 17%

The above-mentioned surcharge is payable until 1 July 2010. This position will be monitored on an annual basis.

**Superannuation Fund:** The last valuation performed for the period ended 31 March 2006 revealed that the fund had a shortfall of R93 million, with a funding level of 93%. This will be taken into account in determining future surcharges, to be met by increased employer contributions. These surcharges are as follows:

- From 1 July 2006 – 6%
- From 1 July 2007 – 6%

The above mentioned surcharge would probably come to an end on 1 July 2008. However, the position will be monitored at the next actuarial valuation of Superannuation Fund on 1 March 2007.

**Provident Fund:** The last valuation performed for the period ended 31 March 2005 indicated that the fund is in a sound financial position.

An amount of R8.5 million (2006: R8.3 million) was contributed by Council in respect of employees' retirement funding. These contributions have been expensed.



## Notes to the Financial Statements for the year ended 30 June 2007

### 36 CONTINGENT LIABILITIES

#### 36.1 Guarantee in favour of Hibiscus Coast Municipality

The municipality issued a bank guarantee in the amount of R10 000 in favour of Hibiscus Coast Municipality in lieu of a deposit on the electricity accounts of the municipality.

#### 36.2 Guarantee in favour of Eskom

The municipality issued a bank guarantee in the amount of R2 852 000 in favour of Eskom to cover deposits on the electricity accounts of the municipality.

#### 36.3 Guarantee in favour of McGarr Preston & Co Trust

The municipality issued a letter of undertaking to McGarr Preston & Co Trust for the purchase of Portion 7 and Portion 14 of Farm Lot RA No 5100 to the extent of 47.7 hectares. Currently, a private bond is being drawn to deal with the transfer.

#### 36.4 Powers and Functions

It has come to the attention of management that a local Municipality has indicated its intention of raising a claim against the district to recover expenses incurred in respect of the Environmental Health and Refuse Powers and Functions. Negotiations will be entered into in this regard between the municipalities, but currently management is of the opinion that there are no legal grounds to entertain the claim.

#### 36.5 Legal Cases

- i) Council is involved in a court case with an ex-employee, Mr TM Mabika, relating to unfair dismissal. At this stage it is not possible to quantify any possible losses to the municipality.
- ii) Council is involved in a dispute with Sublime Marketing (the applicant), where the applicant is claiming an amount of R227 412, with interest, in respect of functions performed on behalf of Eziqoleni Municipality / Horseshoe Farm. Council has filed a notice to defend the matter. The outcome of the legal processes is unknown at this stage.
- iii) Council is involved in a dispute with ARS Investment CC (the applicant), where the applicant is claiming that Council was negligent and caused flood damage estimated at R216 000. Council has handed the documents to its Insurer with a view to appoint an attorney to defend the matter. The outcome of the matter is unknown at this stage.
- iv) Council has been involved in a court case with ABCON / PILCON Projects into alleged fraud and/or fronting in terms of its Supply Chain Management Policy. Although judgement has been passed, an appeal has been lodged. The outcome is not known at this stage.
- v) Council is involved in a dispute with Errol Winston Farrel in respect of alleged damages of R19 533 caused by a burst water mains. The outcome of the legal processes is unknown at this stage.
- vi) Council is involved in a dispute with Thumb Print for breach of contract in respect of the 2004 Ugu Music Festival. The outcome of the legal processes is unknown at this stage.

### 37 CONTINGENT ASSET

Due to a fire that destroyed an administrative building of the municipality, an insurance claim to an estimated amount of R12 million will be lodged once all estimations have been obtained.

### 38 IN-KIND DONATIONS AND ASSISTANCE

No in-kind donations and assistance was received.

### 39 PRIVATE PUBLIC PARTNERSHIPS

The Municipality is in the process of setting up a municipal entity, a company not having share capital. The main business and objectives of the entity will be to market and develop tourism for the entire district. At year-end the entity was yet registered.



## Notes to the Financial Statements for the year ended 30 June 2007

### 40 EVENTS AFTER THE REPORTING DATE

At the time of finalisation of the annual financial statements for 2007, management was not aware of any events after reporting date that required disclosure.

### 41 COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted, is set out in Annexures E(1) and E(2).

### 42 RISK EXPOSURES

The municipality is at risk in the following areas:

- *Credit Risk*, which is defined as the risk that one party to a financial instrument will fail to honour its obligation, thus causing the other party to incur a financial loss.
- *Interest Rate Risk*, which is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of credit risk and interest rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the Municipality's Investment Policy. These limits are reviewed annually by the CFO and authorised by the Municipal Council.

Consumer debtors comprise a large number of ratepayers dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at the statement of financial position date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

	2007 R	2006 R
The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:		
Fixed Deposit Investments	13 489 923	12 817 734
Long-term Receivables	55 458	98 336
Consumer Debtors	47 754 741	33 551 581
Other Debtors	22 809 780	16 380 922
Short-term Investment Deposits	196 594 384	199 942 604
Bank and Cash Balances	21 983 609	12 273 250
<b>Maximum Credit and Interest Risk Exposure</b>	<b>302 687 894</b>	<b>275 064 427</b>



## Notes to the Financial Statements for the year ended 30 June 2007

### 43 FINANCIAL INSTRUMENTS

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows:

Financial Assets	Classification	2007 R	2006 R
<b>Investments</b>			
Fixed Deposits	Held to maturity	13 489 923	12 817 734
<b>Long-term Receivables</b>			
Officials: Relocation Loans	Loans and receivables	1 558	16 989
Sundry Loans	Loans and receivables	42 381	48 381
<b>Consumer Debtors</b>			
Sewerage	Loans and receivables	7 157 926	4 634 785
Water	Loans and receivables	36 060 000	28 916 797
<b>Other Debtors</b>			
Payments made in Advance	Loans and receivables	-	58 316
Short Term Loans	Loans and receivables	0	309 168
Sundry Deposits	Loans and receivables	386 440	313 586
Sundry Debtors	Loans and receivables	18 935 060	15 892 113
Government Subsidy Claims	Loans and receivables	35 133 772	33 418 334
<b>Current Portion of Long-term Receivables</b>			
Officials: Relocation Loans	Loans and receivables	5 519	26 966
Sundry Loans	Loans and receivables	6 000	6 000
<b>Short-term Investment Deposits</b>			
Call Deposits	Held to maturity	55 177 404	28 848 269
Notice Deposits	Held to maturity	140 325 784	161 000 000
Short-term Portion of Investments	Held to maturity	1 091 195	10 094 335
Bank Balances	Available for sale	26 258 383	12 030 246
Cash Floats and Advances	Available for sale	556 315	243 004
<b>VAT</b>	Loans and receivables	15 863 961	7 874 939



Notes to the Financial Statements  
for the year ended 30 June 2007

Summary of Financial Assets

Classification	Financial Assets	2007 R	2006 R
<b>Held to maturity</b>			
Investments	Fixed Deposits	13 489,923	12 817 734
Short-term Investment Deposits	Call Deposits	55 177 404	28 848 269
Short-term Investment Deposits	Notice Deposits	140 325 784	161 000 000
Short-term Investment Deposits	Short-term Portion of Investments	1 091 195	10 094 335
		<b>210 084 307</b>	<b>212 760 338</b>
<b>Loans and Receivables</b>			
Long-term Receivables	Officials: Relocation Loans	1 558	16 989
Long-term Receivables	Sundry Loans	42 381	48 381
Consumer Debtors	Sewerage	7 157 926	4 634 785
Consumer Debtors	Water	36 060 000	28 916 797
Other Debtors	Payments made in Advance	-	58 316
Other Debtors	Short-term Loans	-	309 168
Other Debtors	Sundry Deposits	386 440	313 586
Other Debtors	Sundry Debtors	18 935 060	15 892 113
Other Debtors	Government Subsidy Claims	35 133 772	33 418 334
Current Portion of Long-term Receivables	Officials: Relocation Loans	5 519	26 966
Current Portion of Long-term Receivables	Sundry Loans	6 000	6 000
VAT	VAT	15 863 961	7 874 939
		<b>113 592 617</b>	<b>91 516 373</b>
<b>Available for Sale</b>			
Bank Balances and Cash	Bank Balances	26 258 383	12 030 246
Bank Balances and Cash	Cash Floats and Advances	556 315	243 004
		<b>26 814 698</b>	<b>12 273 250</b>
<b>Total Financial Assets</b>		<b>350 491 621</b>	<b>316 549 961</b>





## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<b>The Municipality as Lessee</b>		
At the Statement of Financial Position date the municipality had outstanding commitments under non-cancellable operating leases, which fall due as follows:		
Up to 1 year	224 178	294 120
1 to 5 years	234 415	324 376
More than 5 years	-	-
<b>Total Operating Lease Arrangements</b>	<b>458 593</b>	<b>618 496</b>

### 45 OTHER DEFINED BENEFIT PLAN INFORMATION

#### 45.1 Provision for Post-employment Health Care Benefits

The Post-employment Health Care Benefit Plan is a defined benefit plan of which the members are made up as follows:

In-service Members (Employees)	227	145
Continuation Members (Retirees, widowers and orphans)	43	43
<b>Total Members</b>	<b>270</b>	<b>188</b>

The liability in respect of past service has been estimated as follows (R million):

In-service Members	7 557	4 209
Continuation Members	9 812	5 715
<b>Total Liability</b>	<b>17 369</b>	<b>9 923</b>

The Municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Global Health
- Hosmed
- LA Health
- Munimed
- Samwumed



## Notes to the Financial Statements for the year ended 30 June 2007

	2007 R	2006 R
<p>The Future-service Cost for the ensuing year is estimated to be R837 965, whereas the cost for the year after is estimated to be R1 389 522 (2006: R438 052 and R793 858 respectively).</p>		
Present value of fund obligations	-	-
Fair value of plan assets	-	-
	-	-
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	17 369 028	9 923 229
<b>Net Liability / (Asset)</b>	<b>17 369 028</b>	<b>9 923 229</b>
<p>The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155(a).</p>		
<b>Reconciliation of Present Value of Fund Obligation:</b>		
Present value of fund obligation at the beginning of the year	9 923 229	-
Current service costs	438 052	9 923 229
Benefits paid	(429 288)	-
Interest costs	793 858	-
Past service costs	-	-
Actuarial (gains) / losses	6 643 176	-
<b>Present Value of Fund Obligation at the end of the year</b>	<b>17 369 028</b>	<b>9 923 229</b>
<b>Reconciliation of Fair Value of Plan Assets</b>		
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employer	429 288	-
Contributions: Employee	-	-
Past-service costs	-	-
Actuarial (gains) / losses	-	-
Benefits paid	(429 288)	-
<b>Fair Value of Plan Assets at the end of the year</b>	<b>-</b>	<b>-</b>
<b>Key Assumptions Used</b>		
Discount rate	8.00%	8.00%
Health Care Cost Inflation Rate	6.50%	6.50%
Net Effective Discount Rate	1.41%	1.41%



Notes to the Financial Statements  
for the year ended 30 June 2007

	2007 R	2006 R
<b>45.2 Provision for Long-service Allowances</b>		
<p>The Long-service Allowance Plan is a defined benefit plan. At year end, 674 employees (2006: 635 employees) were eligible for long-services allowances.</p> <p>The Future-service Cost for the ensuing year is estimated to be R408 199, whereas the cost for the year after is estimated to be R316 538 (2006: R340 922 and R244 547 respectively).</p>		
Present value of fund obligations	-	-
Fair value of plan assets	-	-
	-	-
Unrecognised past-service cost	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	3 956 728	3 056 841
<b>Net Liability / (Asset)</b>	<b>3 956 728</b>	<b>3 056 841</b>
<p>The Municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).</p>		
<b>Reconciliation of Present Value of Fund Obligation</b>		
Present value of fund obligation at the beginning of the year	3 056 841	-
Current service costs	340 922	3 056 841
Benefits paid	(472 803)	-
Interest cost	244 547	-
Past service costs	-	-
Actuarial (gains) / losses	787 220	-
<b>Present Value of Fund Obligation at the end of the year</b>	<b>3 956 728</b>	<b>3 056 841</b>
<b>Reconciliation of Fair Value of Plan Assets</b>		
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employer	472 803	-
Contributions: Employee	-	-
Past-service costs	-	-
Actuarial (gains) / losses	-	-
Benefits paid	(472 803)	-
<b>Fair Value of Plan Assets at the end of the year</b>	<b>-</b>	<b>-</b>
<b>Key Assumptions Used</b>		
Discount rate	8.00%	8.00%
Health Care Cost Inflation Rate	6.00%	6.50%
Net Effective Discount Rate	1.89%	1.90%



## Notes to the Financial Statements for the year ended 30 June 2007

### 46 DISCONTINUED OPERATIONS

Regional Service Levies, both Remuneration and Turnover, were discontinued with effect from 1 July 2006 in terms of an announcement made by the Minister of Finance during the 2005 Budget Speech, and was replaced by a subsidy from National Government.

### 47 RELATED PARTY TRANSACTIONS

#### 47.1 Services rendered to Related Parties

	Sewerage Charges	Water Charges	Water Rates Charges	Outstanding Balances
<b>For the year ended 30 June 2007</b>				
Councillors	35 694	62 185	-	14 053
Municipal Manager and Section 57 Personnel	3 921	15 766	-	2 460
<b>Total Services</b>	<b>39 615</b>	<b>77 951</b>	<b>-</b>	<b>16 513</b>
<b>For the year ended 30 June 2006</b>				
Councillors	-	-	-	-
Municipal Manager and Section 57 Personnel	-	-	-	-
<b>Total Services</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No Bad Debts were written off or recognised in respect of amounts owed by Related Parties.

#### 47.2 Loans granted to Related Parties

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Loans, together with the conditions thereof, granted prior to this date are disclosed in Note 10 to the annual financial statements.

#### 47.3 Compensation of Related Parties

Compensation of key management personnel and councillors is set out in Notes 20 and 21 respectively, to the annual financial statements.



## Notes to the Financial Statements for the year ended 30 June 2007

### 47.4 Purchases from Related Parties

The Municipality bought goods from the following companies, which are considered to be Related Parties:

Company Name	Related Person	Company Capacity	Municipal Capacity	Purchases for the Year 2007	Purchases for the Year 2006
MB Electrical & Lighting			Councillor	54 807	-
AZ Cooling Services			Employee	25 700	-
<b>Total Purchases</b>				<b>80 507</b>	<b>-</b>

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length.

### 48 EXEMPTIONS FROM MUNICIPAL FINANCE MANAGEMENT ACT, 2003

The Minister of Finance has, in terms of General Notice 552 of 2007, exempted compliance with certain of the Standards and aspects or parts of these Standards listed in Accounting Policy Number 1. In the table set out below, the exemptions offered have been listed together with an indication of the process that the municipality will follow regarding plans to implement the exemptions. Furthermore, the extent to which information in the annual financial statements would need to be adjusted to achieve compliance with the exempted standards has also been stated in the table:



# Exemptions from the Municipal Finance Management Act for the year ended 30 June 2007

Std Nr	Standard title	GRAP, GAMAP and/or SA GAAP Requirement(s) exempted in terms of General Notice 552 of 2007	Exemption Adopted Y/N	
GRAP 03	Accounting policies, changes in accounting estimates and errors	<p>Identification and impact of GRAP standards that have been issued but are not yet effective (GRAP 3.30 – 31). A list of these standards is as follows:</p> <p>GRAP 4 The Effects of Changes in Foreign Exchange Rates            GRAP 5 Borrowing Costs            GRAP 6 Consolidated Annual Financial Statements            GRAP 7 Associates            GRAP 8 Joint Ventures            GRAP 9 Revenue            GRAP 10 Financial Reporting in Hyperinflationary Economies            GRAP 11 Construction Contracts            GRAP 12 Inventories            GRAP 13 Leases            GRAP 14 Events After the Reporting Date            GRAP 16 IP            GRAP 17 Property, Plant and Equipment            GRAP 18 Segment Reporting            GRAP 19 Provisions, Contingent Liabilities and Contingent Assets            GRAP 100 Non Current assets held for sale            GRAP 101 Agriculture            GRAP 102 Intangible Assets</p>	Y	
		Changes in accounting policies (GRAP 3.14, 19)		
GAMAP 09	Revenue	Initial measurement of fair value; discounting all future receipts using an imputed rate of return (GAMAP 9.12 and SAICA circular 9/06)	Y	



Description of implementation plans that still need to be implemented to achieve full compliance with exempted Standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted Standards
<p>The following GRAP standards have been issued but are not yet effective. The implementation plans that still need to be implemented to achieve full compliance with the standards are set out below:</p> <p>GRAP 4, 6, 7, 8, 9, 12, 17, 19.</p> <p>Currently the municipality adheres to the requirements of the comparable GAMAP standards. Determine the difference between the applicable accounting treatment and disclosure requirements of the GAMAP versus the GRAP standards and make any necessary adjustments to the AFS.</p>	<p>Highly likely that no adjustments to the AFS will be required as there are no fundamental differences between these GAMAP and GRAP standards.</p>
<p>GRAP 5, Borrowing Costs.</p> <p>Determine the applicable accounting treatment and disclosure requirements of GRAP 5 for the municipality.</p>	<p>A portion of interest cost on interest bearing borrowings, in respect of assets that take a substantial period of time for construction and before they are ready for use, may be capitalised to the relevant asset and will result in interest cost in the Statement of Financial Performance reducing and the cost of the asset increasing.</p>
<p>GRAP 10 and 11.</p> <p>The municipality does not have these types of transactions.</p>	<p>No adjustment required.</p>
<p>GRAP 13, 14, 16, 18, 100, 101 and 102.</p> <p>The municipality adheres to the requirements of the comparable GAAP standards except for the exemptions adopted as set out below per standard.</p>	<p>See adjustments required as per relevant sections of this document set out below.</p>
<p>No action plans are required. Where it is practicable to do so, all changes in accounting policy are dealt with by the municipality retrospectively and disclosed as such in accordance with the requirements of GRAP 3.</p>	<p>No adjustments to the annual financial statements are required.</p>
<p>In terms of GAMAP 9 revenue is measured at the fair value of the consideration received. In most cases the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. Where the inflow of cash or cash equivalents is deferred, for example where the entity provides an interest free credit period to the purchaser, the fair value of the revenue must then be determined by discounting all future receipts by using an imputed rate of interest.</p> <p>The municipality does not envisage entering into transactions where an interest free credit period is provided to the purchaser of services or goods from the municipality and therefore it is highly unlikely that the municipality will be faced with this type of transaction.</p>	<p>No adjustments to the annual financial statements are required.</p>



## Exemptions from the Municipal Finance Management Act for the year ended 30 June 2007

Std Nr	Standard title	GRAP, GAMAP and/or SA GAAP Requirement(s) exempted in terms of General Notice 552 of 2007	Exemption Adopted Y/N	
GAMAP 12	Inventories	The entire standard as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17.	N	
		The entire standard as far as it relates to water stock that was not purchased by the municipality.	Y	
GAMAP 17	Property, plant and equipment	Review of useful life of items of property, plant and equipment recognised in the annual financial statements (GAMAP 17.69 – 61, 77)	N	
		Review of depreciation method applied to property, plant and equipment recognised in the annual financial statements (GAMAP 17.62, 77)	Y	
		Impairment of non-cash generating assets (GAMAP 17.64 – 69, 75(e)(v)-(vi))	Y	





Description of implementation plans that still need to be implemented to achieve full compliance with exempted Standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted Standards
The municipality does not reflect land and buildings that will be sold within the next twelve months as inventories.	No adjustments to the annual financial statements are required.
The municipality discloses water stock as inventory.	No adjustments to annual financial statements are required.
The municipality reviewed the useful life of its items of property, plant and equipment recognised in the annual financial statements.	No adjustments are required.
<ul style="list-style-type: none"> <li>• CFO to issue a memo to all departmental managers at year end to request them to ensure that the depreciation method used to depreciate all items of property, plant and equipment as reflected as being under their control per the fixed asset register is realistic.</li> <li>• CFO to review the depreciation method used to depreciate different classes of assets annually to assess its applicability for each class of asset.</li> <li>• Departmental managers should inform the manager responsible for assets of items of property, plant and equipment with remaining useful lives shorter or longer than those reflected on the fixed asset register at year end.</li> <li>• Pass necessary accounting entries and also do necessary disclosure of the change in estimate.</li> </ul>	<p>The following adjustments will need to be made to the annual financial statements if the review of depreciation methods of property, plant and equipment results in a change in estimate.</p> <ul style="list-style-type: none"> <li>• The depreciation charge for the year in which the change in estimate takes place as well as for all other years of the remaining useful life of the asset will be adjusted. This change in accounting treatment will therefore take place prospectively.</li> <li>• A note on the change in estimate will be disclosed if the change in estimate is material.</li> </ul>
<ul style="list-style-type: none"> <li>• Identify items of property, plant and equipment that may have suffered impairment losses at year end by issuing a memo to all departments requesting them to identify assets that: <ul style="list-style-type: none"> <li>• Are in a state of permanent damage at year end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end);</li> <li>• Are stolen at year end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>• Are technologically obsolete at year end (this can be facilitated by supplying departments with a fixed asset register printout pertaining to major assets showing the remaining useful lives of assets – the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout);</li> <li>• Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.</li> <li>• Show that they are not performing according to their specifications or according to industry accepted norms.</li> </ul> </li> <li>• Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</li> </ul>	<p>The following adjustments will need to be made to the annual if impairment losses are calculated and disclosed for the first time:</p> <ul style="list-style-type: none"> <li>• The carrying amount of property, plant and equipment will be reduced.</li> <li>• The reconciliation between the opening and closing balance of the carrying amount of property, plant and equipment will have to reflect impairment losses.</li> <li>• The accounting policy relating to property, plant and equipment will have to be amended to indicate how the entity deals with and discloses impairment losses.</li> <li>• The impairment loss itself should be reflected in the notes to the Statement of Financial Performance, if material.</li> <li>• All disclosure requirements as required by IPSAS 21.</li> </ul>



## Exemptions from the Municipal Finance Management Act for the year ended 30 June 2007

Std Nr	Standard title	GRAP, GAMAP and/or SA GAAP Requirement(s) exempted in terms of General Notice 552 of 2007	Exemption Adopted Y/N	
GAMAP 17 (cont)	Property, plant and equipment	Impairment of cash generating assets (GAMAP 17.63, 75(e)(v)-(vi))	Y	
IAS 11 AC 109	Construction contracts	Entire standard	Y	
IAS 14 AC 115	Segment reporting	Entire standard	Y	



Description of implementation plans that still need to be implemented to achieve full compliance with exempted Standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted Standards
<ul style="list-style-type: none"> <li>Identify items of property, plant and equipment that may have suffered impairment losses at year end by issuing a memo to all departments requesting them to identify assets that:               <ul style="list-style-type: none"> <li>Are in a state of permanent damage at year end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end);</li> <li>Are stolen at year end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>Are technologically obsolete at year end (this can be facilitated by supplying departments with a fixed asset register printout pertaining to major assets showing the remaining useful lives of assets – the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout);</li> <li>Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.</li> <li>Show that they are not performing according to their specifications or according to industry accepted norms.</li> </ul> </li> <li>Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</li> </ul>	<p>The following adjustments will need to be made to the annual financial statements if impairment losses are calculated and disclosed for the first time:</p> <ul style="list-style-type: none"> <li>The carrying amount of property, plant and equipment will be reduced.</li> <li>The reconciliation between the opening and closing balance of the carrying amount of property, plant and equipment will have to reflect impairment losses.</li> <li>The accounting policy relating to property, plant and equipment will have to be amended to indicate how the entity deals with and discloses impairment losses.</li> <li>The impairment loss itself should be reflected in the notes to the Statement of Financial Performance, if material.</li> <li>All disclosure requirements as required by IAS 36.</li> </ul>
<p>The municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. Therefore it is estimated that the application of IAS 11 by the municipality will not be necessary, as the municipality does not enter into transactions accounted for in terms of IAS 11.</p>	<p>The municipality does not enter into construction contracts, where assets are constructed with the purpose of realising a profit on construction activities. Therefore it is estimated that the application of IAS 11 by the municipality will not be necessary, as the municipality does not enter into transactions accounted for in terms of IAS 11.</p>
<ul style="list-style-type: none"> <li>Obtain an understanding of the definitions of business segments and geographical segments as set out in IAS 14.</li> <li>Determine the business and geographical segments of the municipality.</li> <li>Decide on the primary and secondary reporting formats for the entity. Therefore a decision must be made whether business is primary and geographical secondary or vice versa.</li> <li>Change the chart of accounts and accounting software package to ensure that the segmental revenue, expenses, results, assets and liabilities can be accounted for and presented in the AFS according to the primary and secondary reporting formats.</li> </ul>	<p>The annual financial statements will have to be adjusted to ensure that the disclosure requirements of IAS 14.51 to .67 relating to segment information are met.</p> <p>The primary reporting format requires inter alia, disclosure of:</p> <ul style="list-style-type: none"> <li>Segment revenue for every reportable segment.</li> <li>Segment results for every reportable segment.</li> <li>Segment assets for every reportable segment.</li> <li>The total cost incurred during the period to acquire reportable segment long-term assets.</li> <li>A reconciliation between the information disclosed for reportable segments and the information in the entity's own financial statements.</li> </ul> <p>Based on the decision of the entity whether business or geographical segments are the primary reporting format, the secondary reporting format requirements as set out in IAS 14 will also need to be disclosed in the AFS.</p>



## Exemptions from the Municipal Finance Management Act for the year ended 30 June 2007

Std Nr	Standard title	GRAP, GAMAP and/or SA GAAP Requirement(s) exempted in terms of General Notice 552 of 2007	Exemption Adopted Y/N	
IAS17 AC 105	Leases	Recognising operating lease payments / receipts on a straight-line basis if the amounts are recognised on the basis of the cash flows in the lease agreement (IAS 17.33 – 34 and 50 – 51 and SAICA circular 12/06.8 – 11)	N	
IAS 19 (AC 116)	Employee benefits	Defined benefit accounting as far as it relates to defined benefit plans accounted for as defined contribution plans and defined benefit obligation disclosed by narrative information (IAS 19.29, 48 – 119 and 120A(c)-(q))	N	
IAS 20	Accounting for government grants	Entire standard excluding paragraphs 24 and 26, replaced by GAMAP 12.8, 17.25 and 9.42 – 46.	Y	



Description of implementation plans that still need to be implemented to achieve full compliance with exempted Standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted Standards
<p>Operating leases that have fluctuating payment arrangements have been identified and operating lease expenses that fall within this category have been straight-lined (smoothed).</p>	<p>No adjustments required to the annual financial statements.</p>
<p>The municipality accounts for its defined benefit plans in accordance with the accounting treatment and disclosure requirements for the accounting for defined benefit plans as set out in IAS 19.</p>	<p>No adjustments to the annual financial statements are required as the municipality already complies with the requirements of IAS 19.</p>
<ul style="list-style-type: none"> <li>• Currently all conditional capital grants received for the purchase of property, plant and equipment are accounted for in terms of the national treasury GRAP implementation guidelines dated June 2005 and also GAMAP 9.42 to 46.</li> <li>• On receipt of a conditional Capital Government Grant the amount is banked and reflected as a current liability called Unspent Conditional Grants and Receipts. Once the amount is spent in accordance with the grant conditions a transfer is made from the current liability to the Statement of Financial Performance equal to the amount that has been spent during the financial year in accordance with the grant conditions. Thereafter an equal amount is transferred from the Accumulated Surplus to the Government Grant Reserve (GGR) on the statement of Changes in Net Assets. Annually an amount is transferred from this reserve to accumulated surplus equal to the amount of depreciation on assets funded from Government grants. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of Government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus / (deficit).</li> <li>• On the implementation of IAS 20, unbundled the GGR by transferring the balance to a deferred income account.</li> <li>• For future depreciation charges in respect of assets that have a carrying amount equal to the deferred income account on the date of the unbundling of the GGR, ensure that an amount equal to the depreciation charge is transferred from deferred income to the Statement of Financial Performance.</li> </ul>	<ul style="list-style-type: none"> <li>• Unbundle the balance on the GGR and transfer it to a deferred income account.</li> <li>• Capital Grants utilised will no longer be transferred to a GGR via the Statement of Financial Performance and the Statement of Changes in Net Assets. Once an amount is utilised it will be transferred directly from the unspent capital conditional grants creditor to a creditor called deferred income. Therefore the GGR (Reserve) will be replaced by a creditor called deferred income.</li> <li>• In future a transfer will be made from the deferred income account to the Statement of Financial Performance to annually offset the amount of depreciation in respect of assets funded from Government grants. The GGR will no longer exist and therefore no transfer from the GGR to the accumulated surplus to offset depreciation will be made on the Statement of Changes in Net Assets.</li> </ul>



## Exemptions from the Municipal Finance Management Act for the year ended 30 June 2007

Std Nr	Standard title	GRAP, GAMAP and/or SA GAAP Requirement(s) exempted in terms of General Notice 552 of 2007	Exemption Adopted Y/N	
IAS 36 (AC 128)	Impairment of assets	Entire standard	Y	
IAS 38 (AC 129)	Intangible assets	The entire standard except for the recognition, measurement and disclosure of computer software and website costs (SIC 32) and all other costs are expensed	N	
IAS 39 (AC 133)	Financial instruments: recognition and measurement	Initially measuring financial assets and liabilities at fair value (IAS 39. 43, AG 79, AG 64 – AG 65 and SAICA circular 9/06)	Y	
IAS 40 (AC 135)	Investment property	The entire standard to the extent that the property is accounted for in terms of GAMAP 17	N	
IFRS 3 (AC 140)	Business combinations	Entire standard	N	
IFRS 5 (AC 142)	Non-current assets held for sale and discontinued operations	Classification, measurement and disclosure of non-current assets held for sale (IFRS 5.6 – 29 (in so far as it relates to non-current assets held for sale) and 38 – 42).	N	
IFRS 7 (AC 144)	Financial instruments: disclosures	Entire standard to be replaced by IAS 32 (AC 125) issued August 2006 and effective for financial statements covering periods beginning on or after 1 January 1998.	N	



Description of implementation plans that still need to be implemented to achieve full compliance with exempted Standards	Extent to which information in the AFS would need to be adjusted to achieve compliance with the exempted Standards
<ul style="list-style-type: none"> <li>Identify items of property, plant and equipment that may have suffered impairment losses at year end by issuing a memo to all departments requesting them to identify assets that:               <ul style="list-style-type: none"> <li>Are in a state of permanent damage at year end (no impairment losses will be recognised in respect of assets damaged that will be repaired after year end)</li> <li>Are stolen at year end (impairment loss is recorded equal to the carrying amount of stolen assets at the date of the theft);</li> <li>Are technologically obsolete at year end (this can be facilitated by supplying departments with a fixed asset register printout pertaining to major assets showing the remaining useful lives of assets – the departments can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout)</li> <li>Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.</li> <li>Show that they are not performing according to their specifications or according to industry accepted norms.</li> </ul> </li> <li>Calculate and record impairment losses by determining the difference between the asset's carrying amount and its recoverable (service) amount where the recoverable amount is less than the asset's carrying amount.</li> </ul>	<p>The following adjustments will need to be made to the annual financial statements if impairment losses are calculated and disclosed for the first time:</p> <ul style="list-style-type: none"> <li>The carrying amount of property, plant and equipment will be reduced.</li> <li>The reconciliation between the opening and closing balance of the carrying amount of property, plant and equipment will have to reflect impairment losses.</li> <li>The accounting policy relating to property, plant and equipment will have to be amended to indicate how the entity deals with and discloses impairment losses.</li> <li>The impairment loss itself should be reflected in the notes to the Statement of Financial Performance, if material.</li> <li>All disclosure requirements as required by IAS 36.</li> </ul>
<p>The municipality has identified and recorded its intangible assets in accordance with the requirements.</p>	<p>No adjustments to the annual financial statements required.</p>
<p>All the applicable sections regarding the accounting recognition and measurement requirements relating to Financial Instruments as set out in IAS 39 are adhered to by the municipality.</p>	<p>No adjustments will need to be made to the annual financial statements as the municipality already fully complies with the requirements of IAS 39.</p>
<p>The municipality has properly accounted for its Investment Properties.</p>	<p>No adjustments to the annual financial statements required.</p>
<ul style="list-style-type: none"> <li>It is highly likely that the most relevant section of IAS 40 to the municipality is the accounting treatment of goodwill.</li> <li>Goodwill is measured and accounted for by the municipality in accordance with the requirements of IFRS 3.</li> </ul>	<p>No adjustments will need to be made to the annual financial statements as the municipality already fully complies with the relevant requirements of IFRS 3.</p>
<p>The municipality measured and disclosed the non-current assets held for sale in accordance with IFRS 5 requirements where applicable.</p>	<p>No adjustments will be made to the annual financial statements as the municipality already fully complies with the relevant requirements of IFRS 5.</p>
<p>All the applicable sections regarding the disclosure requirements relating to Financial Instruments as set out in IFRS 7 are adhered to by the municipality.</p>	<p>No adjustments will need to be made to the annual financial statements as the municipality already fully complies with the relevant requirements of IFRS 7.</p>



# Schedule of External Loans

## for the year ended 30 June 2007

### APPENDIX A

Details	Original Loan Amount R	Interest Rate	Loan Number
<b>LOCAL REGISTERED STOCK</b>			
CMB Nominees	1 500 000	16.75%	37 & 40
Infrastructure Finance Corporation Limited	30 000	16.80%	A161
Infrastructure Finance Corporation Limited	18 500 000	16.80%	A162
Infrastructure Finance Corporation Limited	1 114 081	16.80%	94 & 95
Infrastructure Finance Corporation Limited	1 800 000	15.60%	91, 92 & 93
<b>Total Local Registered Stock</b>	<b>2 944 081</b>		
<b>ANNUITY LOANS</b>			
Development Bank of South Africa	3 194 261	10.00%	-
Development Bank of South Africa	5 000 000	2.65%	-
Development Bank of South Africa	25 000 000	5.00%	-
Development Bank of South Africa (Ex Hibiscus Coast)	18 573 441	Various	Various
Development Bank of South Africa (Ex Umdoni)	2 500 000	Various	Various
Development Bank of South Africa (Ex Umuziwabantu)	1 850 000	Various	Various
<b>Total Annuity Loans</b>	<b>56 117 702</b>		
<b>CAPITAL LEASE LIABILITIES</b>			
ABSA Corporate Bank	14 481 689	14.00%	LSC 3
Ex Hibiscus Coast	-	Fluctuate	-
Wesbank	438 782	Fluctuate	GMK00024L
Wesbank	438 782	Fluctuate	GMK00025K
Wesbank	438 782	Fluctuate	GMK00026J
Wesbank	438 782	Fluctuate	GMK00027H
Wesbank	438 782	Fluctuate	GMK00002A
Wesbank	438 782	Fluctuate	GMK00003X
Wesbank	483 598	Fluctuate	TYL45387W
<b>Total Capital Lease Liabilities</b>	<b>17 597 978</b>		
<b>TOTAL EXTERNAL LOANS</b>	<b>96 659 761</b>		





Redeemable	Balance at 30/06/2006 R	Received during the Period R	Redeemed/Written Off during Period R	Balance at 30/06/2007 R
31/12/2007	1 500 000	-	-	1 500 000
31/12/2007	30 000	-	-	30 000
30/06/2011	18 500 000	-	-	18 500 000
31/12/2007	1 114 081	-	-	1 114 081
30/06/2011	1 800 000	-	-	1 800 000
	<b>22 944 081</b>	<b>-</b>	<b>-</b>	<b>22 944 081</b>
31/03/2013	1 867 680	-	195 418	1 672 262
-	5 000 000	-	-	5 000 000
-	3 161 883	21 838 117	-	25 000 000
Various	21 837 656	-	616 605	21 221 051
Various	2 253 451	-	215 518	2,037 934
Various	1 356 613	-	127 651	1 228 962
	<b>35 477 283</b>	<b>21 838 117</b>	<b>1 155 192</b>	<b>56 160 209</b>
31/05/2007	10 094 335	-	10 094 335	-
2006	407 682	-	-	407 682
01/04/2009	417 758	-	133 057	284 701
01/04/2009	417 758	-	133 057	284 701
01/04/2009	417 758	-	133 057	284 701
01/04/2009	417 758	-	133 057	284 701
01/05/2009	428 278	-	131 930	296 347
01/05/2009	438 782	-	130 897	307 885
31/12/2009	360 957	624 068	365 898	619 127
	<b>13 401 067</b>	<b>624 068</b>	<b>1 255 290</b>	<b>2 769 845</b>
	<b>71 822 431</b>	<b>22 462 185</b>	<b>2 410 482</b>	<b>81 874 135</b>



# Analysis of Property, Plant and Equipment

## for the year ended 30 June 2007

### APPENDIX B

Description	Cost / Revaluation				
	Opening Balance R	Additions R	Under Construction R	Disposals / Transfers R	Closing Balance R
<b>Land and Buildings</b>					
Land	2 283 489	1 920 000	-	(367 449)	3 836 040
Office Buildings	13 532 641	2 569 677	-	-	16 102 317
Workshops and Depots	3 460 858	92 955	-	-	3 553 813
	<b>19 276 988</b>	<b>4 582 632</b>	<b>-</b>	<b>(367 449)</b>	<b>23 492 171</b>
<b>Infrastructure</b>					
<i>Roads:</i>					
Roads	-	686 617	-	-	686 617
<i>Security Measures:</i>					
Access Control	34 230	-	-	(11 046)	23 184
Fencing	124 104	104 608	-	-	228 713
Security Systems	112 005	-	-	-	112 005
<i>Sewerage:</i>					
Pumps	735 670	13 000	-	-	748 670
Purification Works	60 905 801	19 643 780	-	-	80 549 582
Sewers	27 954 282	3 384 777	-	-	31 339 059
<i>Water:</i>					
Mains	92 586 275	6 212 070	-	-	98 798 345
Meters	15 623 091	496 705	-	-	16 119 796
Reservoirs and Tanks	51 748 241	6 810 488	-	-	58 558 728
Supply and Reticulation	129 229 910	73 546 736	-	(221)	202 776 424
	<b>379 053 609</b>	<b>110 898 781</b>	<b>-</b>	<b>(11 267)</b>	<b>489 941 122</b>
<b>Community Assets</b>					
<i>Recreational Facilities:</i>					
Lakes and Dams	3 100 469	-	-	-	3 100 469
<i>Other Facilities:</i>					
Markets	19 192 645	-	-	(19 192 645)	-
	<b>22 293 114</b>	<b>-</b>	<b>-</b>	<b>(19 192 645)</b>	<b>3 100 469</b>



Accumulated Depreciation / Impairment				Carrying Value R	Budget Additions 2007 R
Opening Balance R	Additions R	Disposals / Transfers R	Closing Balance R		
-	-	-	-	3 836 040	-
2 922 558	828 875	-	3 751 433	12 350 885	64 535 513
1 578 767	116 117	-	1 694 884	1 858 930	-
<b>4 501 325</b>	<b>944 992</b>	<b>-</b>	<b>5 446 317</b>	<b>18 045 854</b>	<b>64 535 513</b>
-	-	-	-	686 617	-
30 364	(2)	9 389	20 973	2 211	-
119 269	18 348	-	137 618	91 095	500 000
101 548	(3 787)	-	97 760	14 244	-
219 636	41 819	-	261 455	487 215	-
38 276 769	237 087	-	38 513 856	42 035 726	7 411 936
4 650 122	1 231 161	-	5 881 282	25 457 776	931 000
45 116 477	5 322 308	-	50 438 785	48 359 560	7 078 463
4 207 633	1 933 054	-	6 140 687	9 979 110	950 000
20 758 013	4 026 362	-	24 784 375	33 774 353	10 625 537
22 573 560	5 774 610	189	28 347 981	174 428 442	59 796 346
<b>136 053 390</b>	<b>18 591 384</b>	<b>9 578</b>	<b>154 635 196</b>	<b>335 305 926</b>	<b>87 293 282</b>
601 950	111 057	-	713 007	2 387 462	-
-	-	-	-	-	-
<b>601 950</b>	<b>111 057</b>	<b>-</b>	<b>713 007</b>	<b>2 387 462</b>	<b>-</b>



# Analysis of Property, Plant and Equipment

## for the year ended 30 June 2007

### APPENDIX B

Description	Cost / Revaluation				
	Opening Balance R	Additions R	Under Construction R	Disposals / Transfers R	Closing Balance R
<b>Other Assets</b>					
<i>Furniture and Fittings:</i>					
Cabinets and Cupboards	577 019	111 404	-	(536 266)	152 157
Chairs	659 490	6 875	-	(654 348)	12 017
Other Furniture	1 051 744	106 120	-	(635 693)	522 171
Tables and Desks	518 113	40 304	-	(432 782)	125 636
<i>Motor Vehicles:</i>					
Motor Cars	1 653 426	1 446 628	-	(442 551)	2 657 503
Motor Cycles	145 041	-	-	(21 012)	124 029
Trucks and Bakkies	26 419 206	4 895 116	-	(5 551 608)	25 762 714
<i>Office Equipment:</i>					
Air Conditioners	577 018	39 046	-	(318 224)	297 841
Computer Hardware	8 585 605	1 554 817	-	(2 213 621)	7 926 801
Computer Software	6 079 861	-	-	(6 079 861)	-
Office Machines	207 816	148 564	-	(171 552)	184 828
<i>Plant and Equipment:</i>					
Compressors	107 171	-	-	(19 384)	87 787
Graders	528 708	-	-	-	528 708
Laboratory Equipment	310 546	69 342	-	(57 003)	322 885
Lawnmowers	392 053	-	-	(198 194)	193 858
Other Plant and Equipment	8 602 418	6 961 355	-	(1 545 397)	14 018 375
Radio Equipment	842 293	(0)	-	(771 959)	70 335
Telecommunication Equipment	36 872	5 889	-	(10 927)	31 834
Tractors	708 456	415 900	-	(140 471)	983 885
<i>Watercraft:</i>					
Watercraft	22 141	-	-	(240)	21 901
<i>Other Assets:</i>					
Laboratories	70 635	-	-	-	70 635
	<b>58 095 633</b>	<b>15 801 358</b>	<b>-</b>	<b>(19 801 092)</b>	<b>54 095 900</b>
<b>Total</b>	<b>478 719 344</b>	<b>131 282 771</b>	<b>-</b>	<b>(39 372 454)</b>	<b>570 629 662</b>



Accumulated Depreciation / Impairment				Carrying Value R	Budget Additions 2007 R
Opening Balance R	Additions R	Disposals / Transfers R	Closing Balance R		
315 472	5 793	274 283	46 983	105 174	-
315 849	1 878	291 285	26 441	(14 425)	-
735 671	(63 471)	290 385	381 815	140 355	2 053 056
291 955	(3 745)	260 113	28 098	97 538	-
1 412 434	147 493	406 582	1 153 344	1 504 158	-
144 841	(1 944)	18 868	124 029	-	-
15 365 788	3 224 296	4 742 423	13 847 661	11 915 053	11 018 000
384 584	(3 487)	166 546	214 550	83 291	300 000
4 265 883	978 256	1 501 326	3 742 814	4 183 987	9 374 932
1 463 311	(1 463 311)	-	-	-	-
175 711	21 667	106 910	90 468	94 361	2 232 000
95 082	(5 274)	10 921	78 887	8 900	-
384 927	17 847	-	402 773	125 935	-
215 824	22 747	32 084	206 488	116 398	124 000
382 859	(51 488)	137 514	193 858	-	-
5 676 024	747 299	1 088 813	5 334 511	8 683 864	66 531 442
632 824	(55 344)	512 763	64 717	5 618	360 000
35 226	(3 477)	7 320	24 429	7 406	1 357 000
296 564	104 884	56 873	344 574	639 311	-
1 451	1 460	239	2 672	19 229	-
5 212	2 354	-	7 567	63 068	-
<b>32 597 492</b>	<b>3 626 243</b>	<b>9 905 247</b>	<b>26 318 488</b>	<b>27 777 411</b>	<b>93 350 430</b>
<b>173 754 157</b>	<b>23 273 676</b>	<b>9 914 825</b>	<b>187 113 008</b>	<b>383 516 654</b>	<b>245 179 225</b>



# Analysis of Property, Plant and Equipment

## for the year ended 30 June 2007

### APPENDIX B

#### Analysis of Investment properties at 30 June 2007

Description	Cost / Revaluation				
	Opening Balance R	Additions R	Under Construction R	Disposals / Transfers R	Closing Balance R
<b>Investment Properties</b>					
Buildings: Market	-	5 324 628	-	19 192 645	24 517 273
<b>Total Investment Properties</b>	<b>-</b>	<b>5 324 628</b>	<b>-</b>	<b>19 192 645</b>	<b>24 517 273</b>

#### Analysis of Intangible Assets at 30 June 2007

Description	Cost / Revaluation				
	Opening Balance R	Additions R	Under Construction R	Disposals / Transfers R	Closing Balance R
<b>Intangible Assets</b>					
Servitudes	385 448	-	-	367 449	752 897
Computer Software	-	8 074 125	-	5 444 353	13 518 478
<b>Total Intangible Assets</b>	<b>385 448</b>	<b>8 074 125</b>	<b>-</b>	<b>5 811 802</b>	<b>14 271 375</b>



Accumulated Depreciation / Impairment				Carrying Value	Budget Additions 2007
Opening Balance R	Additions R	Disposals / Transfers R	Closing Balance R		
-	-	-	-	24 517 273	-
-	-	-	-	24 517 273	-

Accumulated Depreciation / Impairment				Carrying Value	Budget Additions 2007
Opening Balance R	Additions R	Disposals / Transfers R	Closing Balance R		
-	-	-	-	752 897	-
-	2 220 855	455 412	1 765 444	11 753 034	-
-	2 220 855	455 412	1 765 444	12 505 931	-



# Segmental Analysis of Property, Plant and Equipment for the year ended 30 June 2007

## APPENDIX C

Description	Cost / Revaluation				
	Opening Balance R	Additions R	Under Construction R	Disposals / Transfers R	Closing Balance R
Executive and Council	3 843 280	119 201	-	(438 100)	3 524 381
Finance and Administration	91 221 485	66 962 236	-	(29 105 188)	129 078 532
Planning and Development	747 962	(87 274)	-	(225 812)	434 876
Public Safety	151 017	17 210	-	(91 779)	76 447
Waste Management	100 908 869	32 113 881	-	(701 043)	132 321 707
Water	281 846 731	28 347 441	-	(8 779 999)	301 414 173
<b>Total</b>	<b>478 719 344</b>	<b>131 282 771</b>	<b>-</b>	<b>(39 372 454)</b>	<b>570 629 662</b>





Accumulated Depreciation / Impairment				Carrying Value
Opening Balance R	Additions R	Disposals / Transfers R	Closing Balance R	
1 593 890	102 440	(204 040)	1 492 290	2 032 091
9 845 325	278 332	(2 167 756)	7 955 901	121 122 631
370 348	(50 193)	(136 718)	183 438	251 438
51 703	7 444	(29 367)	29 780	46 668
48 243 980	2 803 308	(401 632)	50 645 656	81 676 051
113 648 911	20 109 543	(6 970 556)	126 787 898	174 626 275
<u>173 754 157</u>	<u>23 273 676</u>	<u>(9 914 825)</u>	<u>187 113 008</u>	<u>383 516 654</u>



# Segmental Statement of Financial Performance

## for the year ended 30 June 2007

### APPENDIX D

2006 Actual Income R	2006 Actual Expenditure R	2006 Surplus/ (Deficit) R	Description
31 355 629	27 492 363	3 863 266	Executive and Council
-	1 267 585	(1 267 585)	Finance and Administration
194 960 018	146 842 810	48 117 208	Planning and Development
-	-	-	Public Safety
-	-	-	Environmental Protection
47 839 000	66 805 814	(18 966 814)	Waste Water Management
162 774 481	154 678 868	8 095 613	Water
-	-	-	Other
<b>436 929 128</b>	<b>397 087 440</b>	<b>39 841 688</b>	<b>Subtotal</b>
-	-	-	Less: Inter-departmental Charges
<b>436 929 128</b>	<b>397 087 440</b>	<b>39 841 688</b>	<b>Total</b>



	2007 Actual Income R	2007 Actual Expenditure R	2007 Surplus/ (Deficit) R
	12 326 987	18 489 005	(6 162 018)
	63 666 072	56 127 655	7 538 417
	109 141 339	41 627 339	67 514 000
	326 009	1 315 813	(989 805)
	-	209 372	(209 372)
	46 067 551	33 081 501	12 986 050
	163 234 949	172 322 064	(9 087 115)
	10 692 504	2 744 024	7 948 480
	<u>405 455 409</u>	<u>325 916 773</u>	<u>79 538 636</u>
	-	-	-
	<u>405 455 409</u>	<u>325 916 773</u>	<u>79 538 636</u>



# Actual Verses Budget (Revenue and Expenditure)

## for the year ended 30 June 2007

### APPENDIX E(1)

Description	2006/2007 Actual R	2006/2007 Budget R	2006/2007 Variance R	2006/2007 Variance %
<b>REVENUE</b>				
Service Charges	181 727 152	180 638 118	1 089 034	0.60
Regional Service Levies – Turnover	175 943	-	175 943	100
Regional Service Levies – Remuneration	2 760 242	-	2 760 242	100
Rental of Facilities and Equipment	247 911	908 152	(660 241)	(266.32)
Interest Earned – External investments	17 922 583	6 400 000	11 522 583	64.29
Interest Earned – Outstanding debtors	952 125	842 205	109 920	11.54
Government Grants and Subsidies	178 450 687	142 451 106	35 999 581	20.17
Other Income	22 837 951	28 307 768	(5 469 817)	(23.95)
Gains on Disposal of Property, Plant and Equipment	380 815	-	380 815	-
<b>Total Revenue</b>	<b>405 455 409</b>	<b>359 547 349</b>	<b>45 908 060</b>	<b>12.77</b>
<b>EXPENDITURE</b>				
Employee Related Costs	115 191 971	116 653 302	(1 461 331)	(1.27)
Remuneration of Councillors	5 589 308	4 339 536	1 249 772	22.36
Bad Debts	924 186	3 750 000	(2 825 814)	(305.76)
Collection Costs	141 476	-	141 476	100
Depreciation	25 152 524	25 518 241	(365 717)	(1.45)
Impairment Losses	342 008	-	342 008	100
Repairs and Maintenance	13 847 662	15 267 761	(1 420 099)	(10.26)
Interest Paid	5 938 673	17 228 756	(11 290 083)	(190.11)
Bulk Purchases	12 578 774	12 634 739	(55 965)	(0.44)
Contracted Services	8 001 325	12 110 404	(4 109 079)	(51.35)
Grants and Subsidies Paid	71 975 153	89 334 209	(17 359 056)	(24.12)
General Expenses	65 929 187	62 710 404	3 218 783	4.88
Loss on disposal of Property, Plant and Equipment	304 526	-	304 526	100
<b>Total Expenditure</b>	<b>325 916 773</b>	<b>359 547 352</b>	<b>(33 630 579)</b>	<b>(9.35)</b>
<b>NET SURPLUS / (DEFICIT) FOR THE YEAR</b>	<b>79 538 636</b>	<b>(3)</b>	<b>79 538 639</b>	



### Explanation of Significant Variances Greater than 10% versus Budget

Levy income realised from handed-over businesses  
Levy income realised from handed-over businesses  
Over budgeted for rental income from cell phone operators  
Under budgeted for interest income  
Penalty tariffs were introduced during the drought period  
Additional grant monies received that were not budgeted for  
Budget comprises reserves unlocked from previous years  
Property, plant and equipment auctioned during year and not budgeted for

New upper limits gazetted for Councillors  
Budget included provision as well as collection costs in respect of Water Services  
Included in budget for Bad Debts

Impairment now to be calculated in terms of GRAP  
Budget allocation was adjusted  
Internal interest now has to be excluded from the performance statement

Reduced dependence on contracted services  
Grants received during third quarter of financial year

Property, plant and equipment auctioned during year and not budgeted for



# Actual Versus Budget (Acquisition of Property, Plant & for the year ended 30 June 2007

## APPENDIX E(2)

Description	2006/2007 Actual	2006/2007 Under Construction	2006/2007 Total Additions	2006/2007 Budget
	R	R	R	R
Infrastructure				
Executive and Council	119 201	-	119 201	561 856
Finance and Administration	66 962 236	-	66 962 236	13 951 432
Planning and Development	(87 274)	-	(87 274)	58 679 513
Public Safety	17 210	-	17 210	-
Sport and Recreation	3 355 520	-	3 355 520	-
Environmental Protection	52 516	-	52 516	-
Waste Management	32 113 881	-	32 113 881	100 025 488
Water	28 347 441	-	28 347 441	71 960 936
Other	402 042	-	402 042	-
<b>Total</b>	<b>131 282 771</b>	<b>-</b>	<b>131 282 771</b>	<b>245 179 225</b>



## Equipment)

2006/2007 Variance	2006/2007 Variance	Explanation of Significant Variances greater than 5% versus Budget
R	%	
(442 655)	(78.78)	Property, plant and equipment purchased less than anticipated
53 010 804	379.97	MIG projects not included in budget
(58 766 787)	(100.15)	Actual expenditure included under Finance and Administration
17 210	-	Budget included under Planning and Development
3 355 520	-	Budget included under Planning and Development
52 516	-	Budget included under Planning and Development
(67 911 607)	(67.89)	Projects budgeted for not completed in financial year
(43 613 495)	(60.61)	Projects budgeted for not completed in financial year
402 042	-	Budget included under Planning and Development
<b>(113 896 454)</b>	<b>(46.45)</b>	



# Disclosure of Grants and Subsidies in terms of the for the year ended 30 June 2007

## APPENDIX F

### Grants and Subsidies Received

Name of Grant	Name of Organ of State or Municipal Entity	Quarterly Receipts				
		June	Sept	Dec	March	June
FMG	National Treasury	-	-	500 000	-	-
Equitable Share	National Treasury	-	30 179 845	22 630 357	37 711 228	-
Sports and Recreation	Dept Sport & Rec	-	-	-	-	150 000
Ugu Agricultural Market	Dept Agriculture	-	-	-	-	-
Gijima	DEAT	616 098	-	-	-	1 331 631
Various Provincial	DLGTA	2 460 274	56 405	1 205 575	700 000	11 506 437
Various National	DPLG	31 731 630	26 255 700	13 930 000	29 443 103	25 960 522
DWAF	DWAF	2 360 000	-	-	-	-
<b>Total Grants and Subsidies Received</b>		<b>37 168 002</b>	<b>56 491 950</b>	<b>38 265 932</b>	<b>67 854 331</b>	<b>38 948 590</b>





# Municipal Finance Management Act

Quarterly Expenditure					Grants and Subsidies Delayed / Withheld					Reason for Delay / Withholding of Funds	Compliance with the Revenue Act Yes / No	Reason for Non-compliance
June	Sept	Dec	March	June	June	Sept	Dec	March	June			
65 578	81 341	71 544	66 891	83 639	-	-	-	-	-	N/A	Yes	-
	15 962 774	16 306 332	15 282 509	15 396 555	-	-	-	-	-	N/A	Yes	-
911 198	-	-	58 440	-	-	-	-	-	-	N/A	Yes	-
1 724 606	-	-	-	-	-	-	-	-	-	N/A	Yes	-
67 368	-	269 337	135 666	225 163	-	-	-	-	-	N/A	Yes	-
3 223 818	198 479	108 860	828 089	1 509 793	-	-	-	-	-	N/A	Yes	-
46 616 389	17 977 441	26 140 703	40 419 926	7 010 922	-	-	-	-	-	N/A	Yes	-
-	-	-	-	-	-	-	-	-	-	N/A	Yes	-
<u>52 608 957</u>	<u>34 220 035</u>	<u>42 896 775</u>	<u>56 791 521</u>	<u>24 226 073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>			



## Management Action Plans to the audit findings raised for the year ended 30 June 2007

Impact on Audit Report	Audit Finding Number	Findings	
Emphasis of Matter	1	<b>Purchases and Payables</b> Inter Municipal Account Balances do not agree	
	2	<b>Inventory and Asset Management</b> Inadequate Insurance Cover	
Other Matters	3	<b>Inventory and Asset Management</b> No authorisation for disposals and write offs	
	4	<b>Control Environment</b> No documented and approved fraud prevention plan	
	5	<b>Employee Costs</b> No documented and approved skills retention policy.	
	6	<b>Purchases and Payables</b> Payment made after 30 days	
	7	<b>Value for Money</b> Employee Costs – High vacancy rate	



## by the Auditor General in the Audit Report

Action Plan	Responsible General Manager/Senior Manager/ Manager	When will action be accomplished (Date)
To meet with the affected local municipalities in order to finalise on balances and the legal form of transactions.	General Manager: Treasury	30 June 2008
Insurance cover was increased from R385 million to R950 million, during the renewal for the 2008/09 financial year and will be adjusted each year to their replacement values, to keep up with inflationary increases and additions to assets.	Manager: Grants and Expenditure	Ongoing – Annual increase for inflation and additions
<ul style="list-style-type: none"> <li>Departments to forward a duly signed list of all redundant equipment to Treasury by end February 2008.</li> <li>To review list of assets to be auctioned and furnish same to Council by end of April 2008 for approval.</li> <li>Disposal in terms of adopted Supply Chain Management Policy to be finalised by end of May 2008.</li> </ul>	Manager: Equity and Accounts	31 May 2008
<ul style="list-style-type: none"> <li>The Fraud Prevention Plan will be discussed with Exco to seek approval.</li> <li>Upon approval, a copy of the plan will be posted on the website amongst other approved policies.</li> <li>A copy of the approved plan will be made available to the GM: Corporate Services to include as part of the induction and orientation pack for new employees.</li> </ul>	Manager: Internal Audit	31 March 2008
The draft Retention Policy has been tabled at the Extended Top Management meeting.	General Manager: Corporate Services (HR)	30 April 2008
Folders are to be created for each of the managers authorised to approve invoices for payment. Invoices received for payment by the Creditors Section will be placed in these folders, after which managers would be required to liaise with the Creditors Section in order to authorise invoices for payment. This new procedure is to be communicated to Extended Top Management in March 2008. This procedure has been agreed to by Top Management due to invoices being mislaid through the internal mail system or awaiting the managers attention for an extraordinarily long time.	General Manager: Treasury	31 March 2008
A recruitment turnaround cycle was adopted by the Executive Committee recently. A recruitment tracking system has been put in place incorporating the recruitment progress and a comprehensive action plan, incorporating with time frames.	General Manager: Corporate Services (HR)	Ongoing



## Management Action Plans to the audit findings raised for the year ended 30 June 2007

Impact On Audit Report	Audit Finding Number	Findings	
Other Reporting Responsibilities	8	<b>Performance Information</b> Financial plan not reflected in the IDP	
	9	<b>Performance Information</b> General KPI's not included in the PMS	
	10	<b>Performance Information</b> Priorities, objectives and targets per IDP not aligned with the annual budget	
	11	<b>Performance Information</b> No evidence of submission of IDP could be obtained.	
	12	<b>Performance Information</b> The community is not involved in the review process	



## by the Auditor General in the Audit Report

Action Plan	Responsible General Manager/Senior Manager/ Manager	When will action be accomplished (Date)
A detailed financial plan was prepared and incorporated in the the IDP 2008-2012. This financial plan is reviewed annually during the IDP, Budget and PMS process.	Office of the Municipal Manager Corporate Strategy and Shared Services (PMS)	31 May 2008
The General KPIs relevant to the District Municipality will be included in the 2008/2009 PMS and SDBIP.	Office of the Municipal Manager Corporate Strategy and Shared Services (PMS)	30 June 2008
The 2008/2009 budget process will ensure this alignment.	Office of the Municipal Manager Corporate Strategy and Shared Services (PMS)	31 May 2008
A letter from the MEC as proof of submission of the 2007/2008 IDP has been obtained.	Office of the Municipal Manager Corporate Strategy and Shared Services (PMS)	
The PMS and SDBIP process plan for 2008/2009 will include the aspect of community participation.	Office of the Municipal Manager Corporate Strategy and Shared Services (PMS)	31 May 2008

