



Annual Report 2006 - 2008

Final Draft

January 2009

Our Vision

is for Metsimaholo to be a leading Municipality
in delivering effective, affordable and sustainable quality services
to its communities.

We will achieve our vision by:

- Promoting proper planning and implementation of projects and programmes
- Setting standards
- Being accountable
- Communication
- Capacity building of staff and communities
- Having proper systems and processes
- Ensuring a sustainable, affordable and effective service delivery

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CHAPTER 1

INTRODUCTION AND OVERVIEW

Foreword by the Executive Mayor

I am delighted to publicly present the Municipality's Annual Report for 2006 - 2008. This report outlines our achievements for the past financial years, reflecting concrete steps taken to realise our vision and plans for our community's future. The intention of this report, which covers the two past financial years, is to provide an easily readable and summarised statement of Metsimaholo's progress towards the targets set in its Integrated Development Plan.

The financial years, 2006 – 2008, have been of extraordinary change, as we continued to grow and develop at unprecedented levels. The achievements of service delivery targets and deliverables are obviously also required to be viewed together with the municipality's financial performance and our compliance with the whole suite of municipal legislation. This Report is therefore intended to attest to the collective efforts of the municipal administration and the executive to progressively address the expectations of our people.

We have endeavoured in our operations to address the expectations of communities expressed in the Mayoral Imbizo as well as our annual consultative meetings with communities, where there is always a very strong emphasis on infrastructure – roads, housing, water and sanitation and electricity. Of course, these expectations also need to be balanced with the obligations of responsible governance that leave us little discretion in making the necessary provision for facilities like cemeteries, or addressing the cross-cutting challenge of HIV and AIDS as well. Notwithstanding the fact that our successes are real and measurable and that our achievements are a source of pride to us, it will of course remain true for some time to come that the challenges of poverty, underdevelopment and the historical legacy of neglect will remain with us beyond the term of office of any elected office-bearer or management official.

We believe that the 2006 – 2008 Annual Report highlights a large number of the positives that exist in Metsimaholo, that viewed collectively, should give our people a sense of hope and optimism that we are serious about achieving our vision, sooner rather than later. The Municipality has been

persistent in its efforts to garner support from other levels of Government; we have continued to invest in the infrastructure needed to ensure Metsimaholo continues to provide appropriate services, facilities, business and employment opportunities to meet the growing needs of our community.

Metsimaholo Local Municipality has focused its energy and delivered on sustainability through a range of initiatives in water and sewer networks, houses, eradication of the bucket system, health, education, roads and electricity. Metsimaholo has also established partnership agreements with the business community and private sector, such as Sasol and Anglo Coal, and always work together.

The municipality has done a lot, but we still acknowledge that much more needs to be done. If we continue to work together, and learn from our past experiences we can move even faster to realize the goal of a better life for all.

At this time in the history of Metsimaholo Local Municipality, I am confident that we are capable of addressing the existing challenges by creating a strong, supportive, planned and sustainable future for the people of our municipal area. This report shows our commitment in action and we look forward to continuing to work with our strong and diverse communities to ensure that the residents of our area have every opportunity to grow and develop to their highest potential.

CLR F NGUBENTOMBI
EXECUTIVE MAYOR

Executive Review by the Municipal Manager

Before reviewing our performance for the periods 2006/07 and 2007/08, let us first take a glimpse of the road we have travelled and to briefly allude to our vision and mission. Metsimaholo Local Municipality (MLM), as a municipality, is charged with the task of, *inter alia*, delivering proper services and being responsive to the needs of our communities i.e. customers. In line with the spirit and purport of our vision and mission, we have refined the values that underpin the constitutional obligations that are generally incurred by government at a local sphere of government.

We record that between 1 July 2006 and 30 June 2008 we appointed new Section 57 officials (including the Municipal Manager) and are fast proving to be a committed team to take MLM out of poor financial health and quagmire of poor governance to sustain the institution into the future. During the second stanza of the 2007/08 financial year, we established the Senior Management Committee with the view of ensuring that we continue to build on the successes of the implementation of the strategies to transform MLM into a financially viable institution. The establishment of the said committee was informed by the need to maintain our focus on operations and implementing our Integrated Developmental Plan (IDP) efficiently and effectively, the need to build quality relationships with our clients, customers, service providers and other stakeholders. This committee has also assisted and continues to assist in driving cohesion which is important for delivering integrated services to our customers or communities and to ensure that MLM was increasingly offering more synergistic services to our customers. To this end, we re-oriented our departments towards customers and strengthened the resilience of our departments to withstand critical challenges.

We further record that we made significant strides, *inter alia*, in that financial turnaround is well under way and succeeding and operational turnaround is also progressing and sustainable. As a government, we are charged with the responsibility of ensuring that external services are procured properly by giving effect to the Broad Based Black Economic Empowerment Act 53 of 2003, the Preferential Procurement Policy Framework Act (and subsequently amplified in various codes of good practice of BEE and our Supply Chain Management Policy).

The advent of the Municipal Finance Management Act (MFMA) and other local government legislation ushered in a new regulatory regime in local governments. Thus, we operate in a highly regulated environment. Pursuant thereto, we established the Internal Audit Unit in the office of the

Municipal Manager in compliance with the legislation and to ensure adherence and submission to the demands of good governance as well as setting out a straightforward approach to risk management. It is also borne in mind that a fight against fraud and corruption cannot be won by strict enforcement of our policies and plans alone. It requires a partnership approach. We need to encourage our service providers and other stakeholders to uphold integrity at all times and to report any misconduct by any of our officials.

Furthermore, the overall labour relations climate improved tremendously and is now significantly more engaging, positive and productive. We enjoy a sound relationship with organised trade unions in our workplace. There are regular meetings of the Local Labour Forum, decline in industrial actions and referrals of disputes to the Bargaining Council, introduction of new Human Resources policies and revision of existing ones, etc.

We also made great strides in the provision of service delivery, for instance, sanitation, electrification of new housing settlements, refuse removal, labour-intensive projects, infrastructural developments, etc. However, service delivery has not been without challenges. We experienced shortage of personnel which led to excessive overtime and the subsequent need to strike a balance between service delivery and compliance with the Basic Conditions of Employment Act. There was another issue of critical positions not budgeted for on the one hand and filling of clerical positions instead of key positions for service delivery, on the other hand.

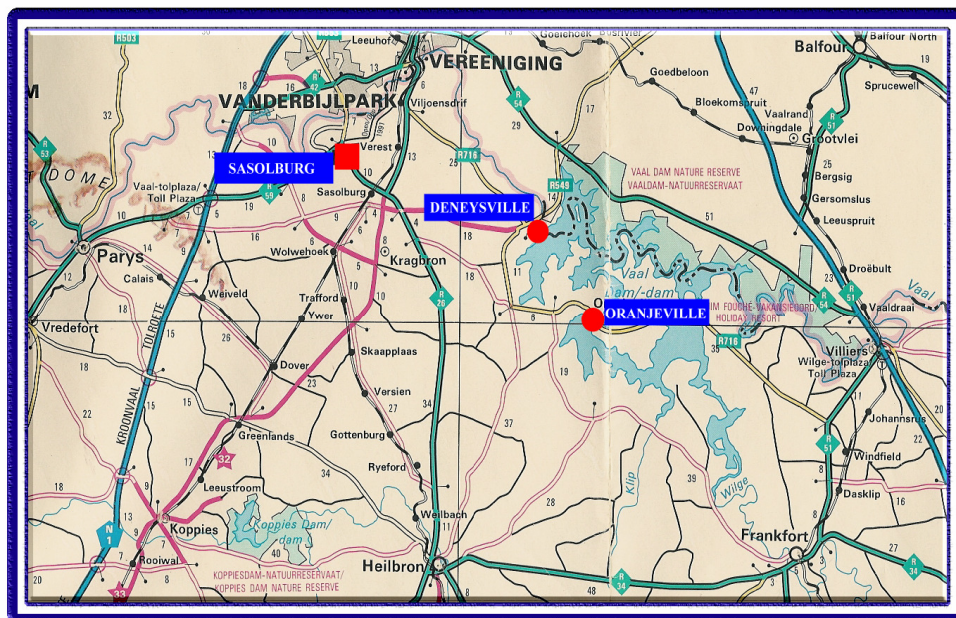
Lastly, we continue to perform relatively well and are poised for further improvement in the future. There are prospects of success in generating revenue sufficient to cover the costs of capital to pursue the objects of the municipality as envisaged by the Constitution of the country.

M TSHABALALA
MUNICIPAL MANAGER

Overview of the Municipality

The Local Municipality of Metsimaholo is situated in the northernmost corner of the Free State Province, which forms part of the Vaal Triangle [Vanderbijlpark, Vereeniging and Sasolburg region(s)]. The Local Municipality of Metsimaholo lies at an altitude of approximately 1500 meters above sea level. The average annual rainfall is 638 mm while the average maximum summer temperature is 26.9°C and the average minimum winter temperature is 1.6°C;

The Metsimaholo Local Municipality covers an area of 1 739 square kilometres and includes Deneysville, Metsimaholo, Oranjeville, Refengkgotso, Sasolburg, Vaalpark and Zamdela. It is inhabited by approximately 116 000 people with more than 90% living in the urban areas of the municipal region.



A large percentage of houses in Deneysville are holiday homes, which implies that the actual permanent inhabitants of the community may be less than estimated. The majority of the rural population is active in the agricultural sector and a total of 1 753 farms are located within the Metsimaholo municipal area.

The population and household statistics of the Metsimaholo Municipality according to *Statistics South Africa* are shown in the table below.

	Census 2001	Community Survey (CS) 2007
Population	115 955	154 658
Households	32 260	37 320

The tables below (*taken from the Stats SA Community Survey 2007*) show that the municipality has made notable strides in increasing the access by residents to basic municipal services.

Percentage distribution of households by water source

	Census 2001	CS 2007
Piped water		
inside the dwelling	41,7	73,0
inside the yard	39,3	16,3
from access point outside the yard	17,8	10,5
Borehole	0,2	-
Other	0,9	0,2
Total	100,0	100,0

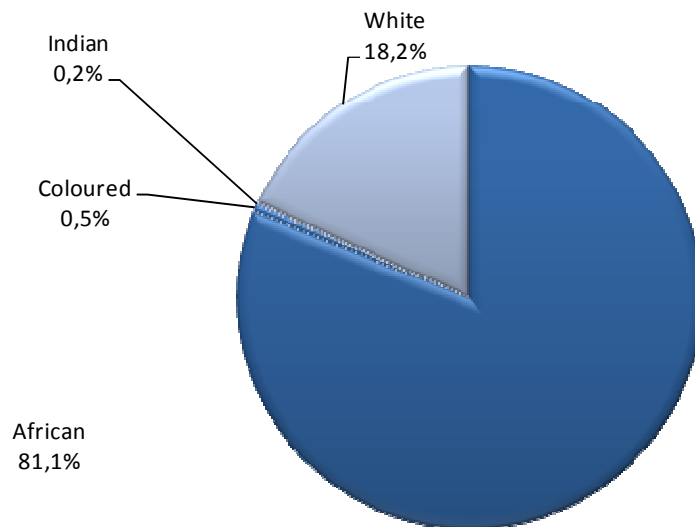
Percentage distribution of households by type of toilet facilities (sanitation)

	Census 2001	CS 2007
Flush toilet (connected to sewerage system)	68,1	87,5
Flush toilet (with septic tank)	1,8	0,7
Dry toilet facility	-	0,9
Chemical toilet	0,1	0,3
Pit latrine with ventilation (VIP)	1,5	8,7
Pit latrine without ventilation	13,5	-
Bucket latrine	4,7	1,4
None	10,4	0,5
Total	100,0	100,0

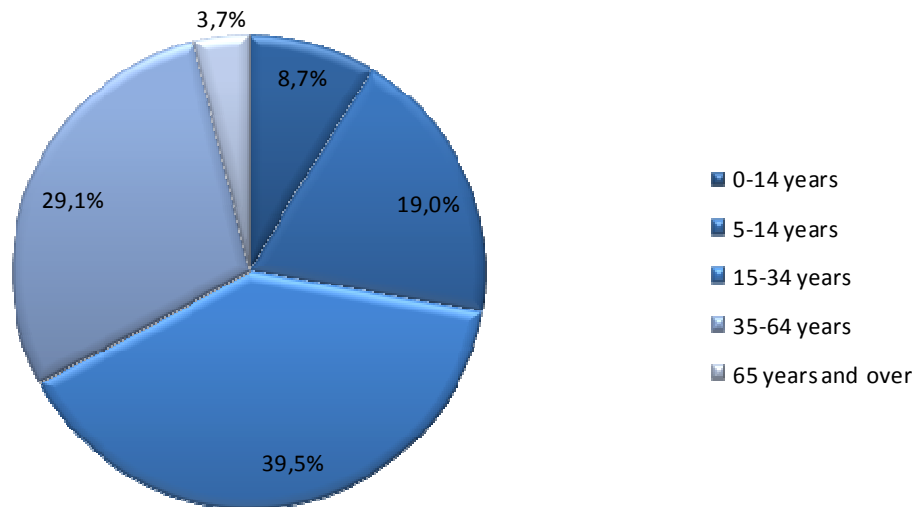
Percentage distribution of households by type of refuse removal

	Census 2001	CS 2007
Removed by local authority/private company		
at least once a week	60,2	94,5
less often	2,5	1,3
Communal refuse dump	9,8	0,3
On refuse dump	22,1	1,8
No rubbish disposal	5,4	2,1
Other	-	-
Total	100,0	100,0

According to the 2001 national census information the gender distribution is almost equal with 51,1% male and 48,9% female. The breakdown in terms of population groups is indicated below.



The age distribution of the population in the municipal area is as follows (Census 2001):



Labour force (Census 2001)

Employed	31 486
Unemployed	18 512
Not economically active	29 971
Total labour force	49 998

According to the 2001 census, individual monthly income statistics were as follows:

Monthly income	Number of people	%
None	75 318	64,94
R1 – R400	7 789	6,71
R401 – R800	10 228	8,81
R801 – R1 600	7 164	6,17
R1 601 – R3 200	6 201	5,34
R3 201 – R6 400	5 085	4,38
R6 401 – R12 800	2 961	2,55
R12 801 – R25 600	861	0,74
R25 601 – R51 200	201	0,17
R51 201 – R102 400	90	0,07
R102 401 – R204 800	63	0,05
Over R204 801	17	0,01
Total	115 978	100,00

CHAPTER 2

PERFORMANCE HIGHLIGHTS

Departmental highlights

Finance

- Upgrading of pay points and pre-paid vending machines
- Continued implementation of the Municipal Finance Management Act (MFMA) and financial management reforms
- Approval of a more comprehensive and improved debt collection and credit control policy
- Improved billing through repairs of meters and leaks
- Succeeded in turning around the municipal cash flow from a bank overdraft to a favourable bank balance
- Financial Management Grant utilised to appoint interns in Financial Services (2) and Internal Audit (2)

Organisational Development and Corporate Services

- Finalisation of individual performance management system
- Investment in the municipality's human capital through granting of bursaries and training of the workforce
- Implementation of a job evaluation system
- Finalisation of all grievance and disciplinary cases internally within 90 days
- Implementation of a logging and tracking system for council resolutions

Social Services

- Upgrading of recreation facilities
- Identification of new and upgrading of existing burial sites and cemeteries
- Improvement and extension of public safety services
- Conducting of awareness programmes on illegal dumping and pollution

Technical and Infrastructural Services

- Construction of bulk storm water culverts in Zamdela
- Construction of water network in Metsimaholo Ext 6
- Construction of water network in Amelia (Phase 2)
- Construction of main sewer line in Gortin (Phase 2)
- Electrification of 4 000 stands in Gortin (funded by DME)

Economic Development and Planning

- Promotion of broad-based black economic empowerment
- Development of small scale farming
- Spatial Development Framework review
- Development of the Land use management scheme for Metsimaholo
- Planning of a further 3500 erven

KEY PERFORMANCE INFORMATION

Free Basic Services

The municipality continues to provide free water of 6 kilolitres per household per month (*indigent households receive 10 kilolitres*) and 50 kilowatt of free electricity per household per month in terms of national government's policy directives and to address poverty in the municipal area.

	2006/07	2007/08
Free water:		
- all residents	6kℓ	6kℓ
- indigent residents	6kℓ	10kℓ
Free Electricity:		
- all residents	50 kWh	50 kWh
- non Municipal supply	Subsidy of 50 kWh	Subsidy of 50 kWh
Basic Electricity	Free	Free
Sewerage Basic	Free	Free
Refuse removal - indigents	-	Free
Indigent subsidy (property rates)	R60.00	R60.00
Income level for registration of indigents	R1 100 per month	R1 800 per month
Number of registered indigents	3 000	6 997

The number of indigents increased from 3 000 in the 2006/07 financial year to 6 997 in 2007/08. The income level for registration increased from R1 100 to R1 800 per month. The re-registration process for indigent persons and households longer than 3 years on the register was started in this financial year.

Basic services rendered

	2006/07	2007/08
Number of new houses built in municipal areas	1 900	2 600
Number of households provided with water	1 800	1 840
Number of households provided with electricity	4 320	3 240
Number of households provided with sanitation	375	Phase 2 outfall sewer

Service delivery backlogs

Water	2006/07	2007/08
Number of households	37 320	40 120
Minimum standard of service*	6kl	6kl
Number of households not receiving the minimum standard of service at the beginning of the financial year	3 673	4 340#
Number of households provided with minimum standard of service during the financial year	1 800	1 840
Number of households not receiving the minimum standard of service at end of the financial year	1 873	2 500

*The minimum standard of service for metered households is 6 kilolitres per household per month and in un-metered areas it is the provision of a communal standpipe within 200 meters from dwelling.

#This include new developed area at Mooiplaats 2 467 stands

In Amelia 1 833 stands are still to be supplied with water. This project is depending on the availability of MIG funds. It will continue in the 2008/2009 financial year.

Electricity	2006/07	2007/08
Number of households	37 320	40 120
Minimum standard of service*	50kWh	50kWhh
Number of households not receiving the minimum standard of service at the beginning of the financial year	10 080	8 560
Number of households provided with minimum standard of service during the financial year	4 320	3 240
Number of households not receiving the minimum standard of service at end of the financial year	5 760	5 320

*The minimum standard of service for metered households is 50 kilowatt hours per household per month.

Sanitation	2006/07	2007/08
Number of households	37 320	40 120
Minimum standard of service*	VIP	VIP
Number of households not receiving the minimum standard of service at the beginning of the financial year	11 154	13 579
Number of households provided with minimum standard of service during the financial year	375	Phase 2 outfall sewer
Number of households not receiving the minimum standard of service at end of the financial year	10 779	13 579

*The minimum standard in urban areas is a flush toilet and for non-urban areas is a ventilated improved pit latrine (VIP).

In Gortin 2 614 households are using the VIP system

In Amelia 3 333 households are using the VIP system

In Metsimaholo Ext. 6 340 households are using the VIP system

In Mooiplaats 2 467 households are using the deep-drop system

Housing	2006/07	2007/08
Number of households	36 714	39 181
Minimum standard of service*	40m ²	40m ²
Number of households not receiving the minimum standard of service at the beginning of the financial year	9 100	7 200
Number of households provided with minimum standard of service during the financial year	1 900	2 600
Number of households not receiving the minimum standard of service at end of the financial year	7 200	4 600

*The minimum standard of service for housing is a RDP house of 40m².

APPROVAL OF ZONING AND BUILDING PLAN APPLICATIONS

2006/07

Applications Outstanding on 1 July 2006	Category	Number of new applications received during 2006/07	Total value of new applications received	Number of applications outstanding on 30 June 2007
-	Residential new	174	R 108,965,400	-
-	Residential additions	1 291	R 221,278,772	-
-	Commercial	91	R 196,043,807	-
-	Industrial			-
-	Other (specify)	94 (Swimming pools)	R 6,097,299	-

2007/08

Applications Outstanding on 1 July 2007	Category	Number of new applications received during 2007/08	Total value of new applications received	Number of applications outstanding on 30 June 2008
-	Residential new	69	R 136,608,480	-
-	Residential additions	192	R 52,531,300	-
-	Commercial	6	R 12,410,000	-
-	Industrial	18	R 85,534,400	-
-	Other (specify)	60 (Swimming pools, Mast & Advertising boards)	R 2,102,500	-

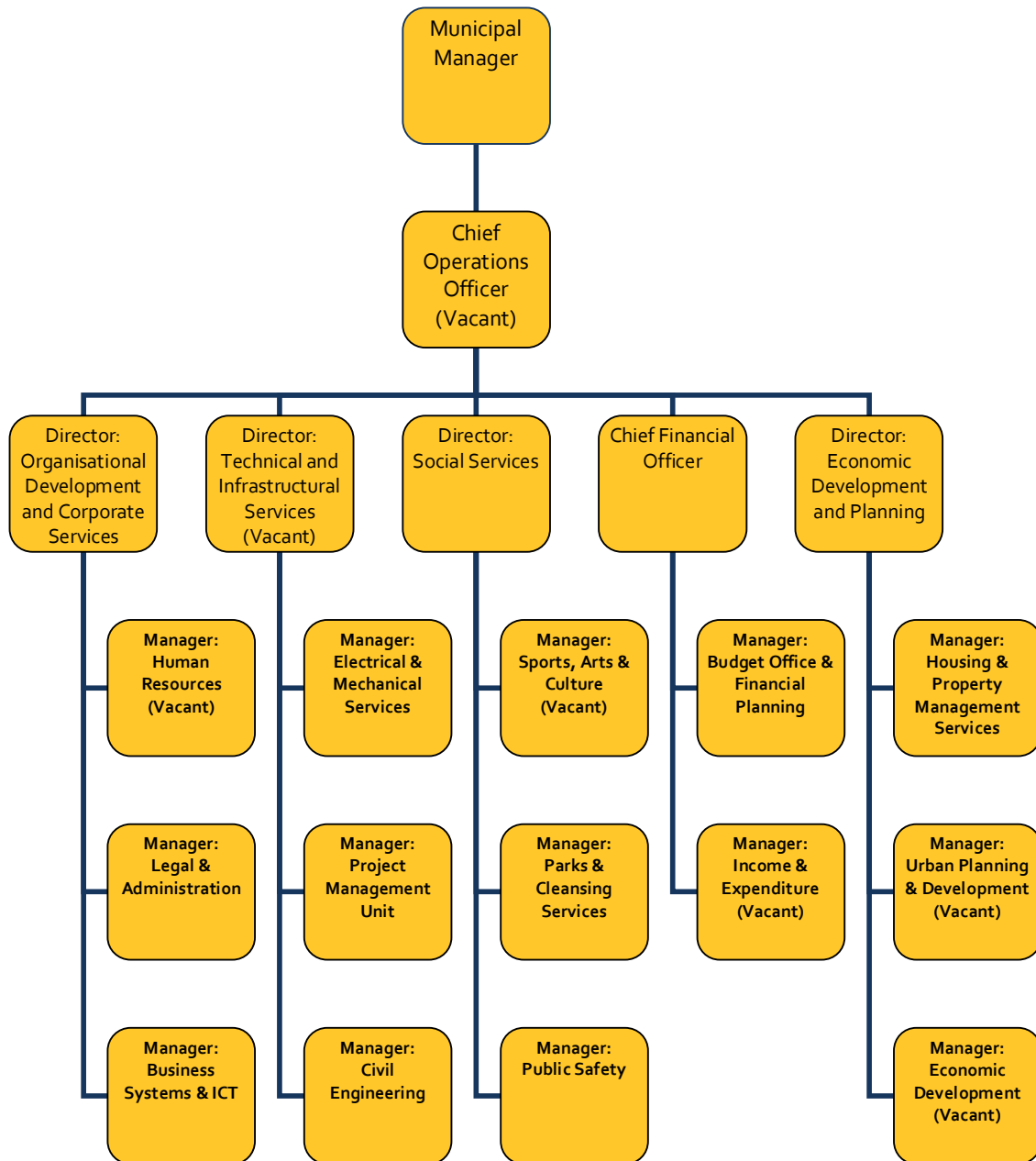
Notes:

- All building plan applications are processed and approved by the municipality
- Applications in relation to zoning, re-zoning and sub-divisions are approved by the provincial government.

CHAPTER 3

HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

Executive Organisational Structure



STAFFING INFORMATION

The table below indicates the total number of posts per function as per the approved organisational structure as well as the number of posts filled and the vacancies per function as at the end the financial years.

Staff establishment as at 30 June 2007

Function	Total no. of approved posts	No. of filled posts	Vacancies	
			Number	%
Office of the Executive Mayor	9	4	5	56%
Office of the Municipal Manager	7	4	3	43%
Financial Services	51	31	20	39%
Organisational Development and Corporate Services	64	41	23	36%
Economic Development and Planning	36	21	15	42%
Social Services	509	231	278	55%
Technical and Infrastructural Services	344	226	118	34%
Total	1020	558	462	45%

Staff establishment as at 30 June 2008

Function	Total no. of approved posts	No. of filled posts	Vacancies	
			Number	%
Office of the Executive Mayor	9	5	4	44%
Office of the Municipal Manager	7	4	3	43%
Financial Services	51	31	20	39%
Organisational Development and Corporate Services	64	38	26	41%
Economic Development and Planning	36	22	14	39%
Social Services	509	298	211	41%
Technical and Infrastructural Services	344	234	110	32%
Total	1020	632	388	38%

Note: The number of filled posts excludes 34 Councillors and any new appointments made after 30 June 2008. It should also be noted that approved posts can only be filled if it is funded or budgeted.

Employment equity statistics

Workforce profile as at 30 June 2007

Occupational category	Male				Female				Total
	A	C	I	W	A	C	I	W	
Legislators, senior officials and managers	36			13	15	1		3	68
Professionals	1			1	3			4	9
Technicians and associate professionals	6			7	1				14
Clerks	45			6	51		1	18	121
Service and sales workers	32			6	14			16	68
Skilled agricultural and fishery workers	0								58
Craft and related trade workers	43			14	1				
Plant and machine operators and assemblers	58								58
Elementary occupations	261	1			53				315
TOTAL	482	1		47	138	1	1	41	711

Workforce profile as at 30 June 2008

Occupational category	Male				Female				Total
	A	C	I	W	A	C	I	W	
Legislators, senior officials and managers	35	1		12	15	1		3	57
Professionals	2			9	3			3	17
Technicians and associate professionals	6			2	1			0	9
Clerks	88			5	60			27	180
Service and sales workers	39			5	7			5	56
Skilled agricultural and fishery workers	0			8	0			0	8
Craft and related trade workers	67				0			0	67
Plant and machine operators and assemblers	56	1			0			0	57
Elementary occupations	226				64			0	290
TOTAL	519	1			150	1		38	741

A = African
 C = Coloured
 I = Indian
 W = White

Note: The above totals include part-time and non-permanent staff.

Skills development programmes

2006/07 financial year

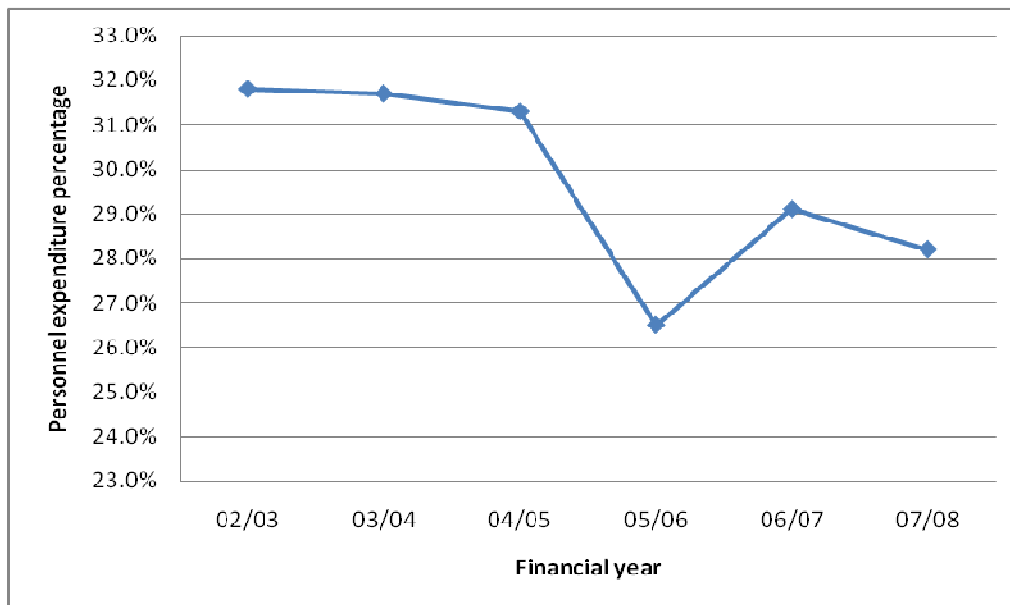
Training and skills development interventions	Skills priority no.	No. of staff trained	Cost in rand R
Client service	2	-	-
Telephone etiquette	3	-	-
Information technology	3	-	-
Administration	12	30	52 500
Financial	4	-	-
Teambuilding	9	-	-
Management/leadership	7	4	42 240
Health and safety	11	22	41 382
Specialist technical	11	40	201 468
Corporate, legal and support	10	-	-
Training skills	6	3	12 542
Policy development	8	-	-
Stress and conflict management	1	148	126 060
Project management and planning	5	1	-
TOTAL		248	R476 192

2007/08 financial year

Training and skills development interventions	Skills priority no.	No. of staff trained	Cost in rand R
Client service	9	25	45 040
Telephone etiquette	9	-	-
Information technology	3	2	-
Administration	12	41	86 580
Financial	4	-	-
Teambuilding	2	-	-
Management/leadership	6	43	272 640
Health and safety	12	-	-
Specialist technical	5	53	189 175
Corporate, legal and support	7	43	104 367
Training skills	11	2	10 000
Policy development	10	-	-
Stress and conflict management	1	-	-
Project management and planning	8	-	-
TOTAL		209	R707 802

Personnel expenditure trends

Financial year	R'000 (Audited actual)	% of total expenditure
2002/03	56 452	31,8%
2003/04	61 464	31,7%
2004/05	71 149	31,3%
2005/06	74 355	26,5%
2006/07	92 711	29.1%
2007/08	100 965	28.2%



The personnel expenditure as a total of the municipality's total operating expenditure has shown a steady decline over the past 5 financial years and has been below 30% in the previous 3 financial years.

Pension and medical aid funds

Pension and provident funds

Name of fund	Number of members	
	30 June 2007	30 June 2008
Vrystaat Pensioen Fonds	51	48
Free State Provident Fund	93	83
SALA Pension fund	17	16
SAMWU Provident fund	475	496
Pension Funds For Councillors	29	32
TOTAL	665	675

The municipality's actual expenditure for the 2006/07 and 2007/08 financial years in respect of employer's contributions amounted to R 12 713 970 and R 14 162 115 respectively.

Medical aid funds

Name of fund	Number of members	
	30 June 2007	30 June 2008
MUNIMED	112	103
BONITAS	96	125
L A HEALTH	38	40
SAMWUMED	65	82
HOSMED	39	34
TOTAL	350	384

The municipality's actual expenditure for the 2006/07 and 2007/08 financial years in respect of employer's contributions amounted to R 4 099 720 and R 4 601 830 respectively.

Salary disclosures

(as per note 21 to the Annual Financial Statements)

Councillors Actual (Remuneration of Public Office Bearers Act)

	2006/07	2007/08
	R	R
Executive Mayor	319 276	304 786
Speaker	251 827	229 724
Mayoral Committee Members (10)	1 588 234	1 533 688
Councillors (24)	2 746 539	2 454 610
Councillors' pension contributions	583 375	642 004
Councillors' medical contributions	146 664	117 573
Telephone allowances	313 940	380 359
Travelling allowances	2 088 657	1 965 230
	8 038 512	7 627 974

Senior Management (Section 57 employees)

Designation	Remuneration package per annum 2006/07 R	Remuneration package per annum 2007/08 R
Municipal Manager	675 580	766 489
Chief Financial Officer	588 780	876 466
Director: Corporate and Transformation Services	631 977	674 811
Director: Social Services	454 433	633 843
Director: Economic Development and Planning	618 004	308 494
Director: Technical and Infrastructural Services	591 588	409 579

Note:

The total remuneration package amounts for the 2007/08 financial year were affected by the resignation of some of the section 57 managers during the financial year.

CHAPTER 4

AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

Report of the Chief Financial Officer

The past two financial years has been challenging for the municipality as a result of continued pressures experienced on its cash flow position, which was mainly caused by under-collection of revenue from water and sanitation services and assessment rates. This had a negative impact on the ability of the municipality to adequately fund its service delivery programmes particularly capital projects linked to basic services.

The municipality has also made significant strides with the implementation of major pieces of legislation impacting on its finances and financial management in general such as the Municipal Finance Management Act (MFMA) and the Municipal Property Rates Act. Financial management reforms monitored through the National Treasury tools such as the MFMA implementation plan, checklist for implementation priorities show that the municipality is on the right track.

Challenges also still remain in regard to the full implementation of the new accounting standards (GRAP and IAS), which in part has resulted in the municipality's receiving a qualified opinion and disclaimer from the Auditor-General in the last two financial years.

A summary of the operating results for the two financial years are provided below.

Operating results

The actual revenue R367,7 million compared to budget R375,8 million for 2007/08 was 97, 8%. Actual expenditure R365,9 as a percentage of the budget R385,7 relates to 94,9%. The municipality showed a surplus of R1, 84 million in the statement of financial performance for 2007/08.

The table shows the actual revenue compared to the budget and indicates that significant improvements have been achieved in raising the revenue collection levels of the municipality.

Actual revenue as a percentage of budgeted revenue		
	2006/07	2007/08
Total revenue	69,9%	97,8%
Service charges	79,3%	92,6%
Property rates	89,3%	99,1%
Government grants	36,8%	98,4%

Operating revenue by source

Property rates contributed 21, 3% to total actual revenue for the 2007/08 financial year. Electricity revenue constituted 27, 5% of total revenue and 35% of revenue from service charges in 2007/08. Revenue from water remains the major source at 41, 8 per cent of total revenue and 53, 2 per cent of revenue from service charges.

The table below shows a further breakdown of service charges in terms actual levies compared to the budget. It clearly reflects that the municipality faced some challenges in relation to its billing and collection systems in spite of the significant improvements compared to the 2006/07 financial year.

Service charges	Budget R'ooo	Levies R'ooo	Variance %
Assessment rates	57 437	56 917	0,9% (under)
Electricity	68 771	73 402	6,74% (over)
Water	136 791	111 731	18,3% (under)
Sewerage/sanitation	8 064	12 544	55,56% (over)
Refuse/waste	11 712	12 324	5,23% (over)

Operating expenditure

The table shows the actual revenue compared to the budget and indicates that significant improvements have been achieved in raising the revenue collection levels of the municipality.

Actual operating expenditure as a percentage of budget	2006/07	2007/08
Total expenditure	96,1%	94,9%
Employee-related costs	92,5%	92,2%
Bulk purchases	76,2%	76,4%
General expenses	77,3%	67,9%
Repairs and maintenance	88,1%	48,9%

Personnel expenditure as a percentage of total actual expenditure showed a decrease from 26, 6 per cent in 2006/07 to 25, 6 per cent in 2007/08. Bulk purchases of water and electricity decreased as a share of total operating expenditure from 28, 0 per cent in 2006/07 to 25, 4 per cent in 2007/08.

M E MOKOENA

CHIEF FINANCIAL OFFICER



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF METSIMAHOLO LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Metsimaholo Local 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 43 to 79.

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 as 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
 - 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) and section 126 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 the Metsimaholo Local 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 determined by the National Treasury, as set out in accounting policy note 1.

Basis for qualified opinion

Consumer and other debtors

10. Proof could not be submitted that consumer and other receivables have been impaired in accordance with the requirements of IAS 39 as the municipality only made a general provision for doubtful receivables. Provision for doubtful debts, as disclosed in note 14 to the financial statements and the related expense account, is understated by R17 828 546 (2006: R19 969 658) according to our calculations.
11. The rights, valuation and existence of debtors totalling R13 157 373 (2006: R9 203 407) could not be confirmed as no payments were received after year-end and no proof could be provided by the municipality.
12. Accounts receivable are overstated by R2 224 502 due to incorrect levies being charged to debtor accounts. This was only corrected after year-end.
13. The existence, valuation, rights and obligations of sundry debtors of R1 088 344 could not be verified due to lack of supporting documents.
14. Accounts receivable are understated by R174 528 (2006: R9 252 499) at year-end due to the duplication of credit journals.

Property, plant and equipment

15. The existence of assets of R19 452 711 in the asset register could not be verified to the physical assets. There were no alternative procedures that I could perform to obtain reasonable assurance that these assets existed. Consequently, I was unable to satisfy myself as to the accuracy of the accounting records relating to assets.
16. Health services assets of R1 078 590 were not transferred to the Free State Department of Health, as required in the department's letter dated 24 November 2005. Property, plant and

equipment are therefore overstated and the related expenditure account understated by R1 078 590 at year-end.

Value-Added Tax (VAT)

17. No supporting documents could be found for credit journals and credit reconciling items on VAT reconciliations totalling R19 186 063. We were therefore not able to verify the rights and obligations of this amount. There were no alternative procedures that I could perform to obtain reasonable assurance that these transactions were valid and accurate. Consequently, I was unable to satisfy myself as to the accuracy of the VAT reconciliations.

Expenditure

18. With reference to sections 1, 32 and 62(1) of the MFMA, my audit revealed the following irregular, fruitless and wasteful expenditure for the 2006-07 financial year which was incurred due to proper tender/procurement procedures not being followed or projects being stopped without the desired end-result being achieved. According to section 125(2)(d) of the MFMA, a municipality has to disclose in the notes to the financial statements, particulars of any material unauthorised and fruitless and wasteful expenditure. Contrary to this prescript, the following expenditure that met the requirements of the respective MFMA definitions of unauthorised, fruitless and wasteful expenditure was not included in the disclosure of unauthorised, fruitless and wasteful expenditure as disclosed in note 37 to the financial statements:

Services provided	Amount R
Photocopiers	4 291 418
Meter-reading company	1 033 521
Upgrading of stadium	906 000
Computer services	831 417
Telephone system	683 625
Computer services	95 952
Valuation roll	499 265
Total	R 8 341 198

Revenue

19. Contrary to section 64(2)(e) of the MFMA, the accounting officer did not take all reasonable steps to ensure that the municipality had an accounting system in place, which:
- recognises revenue when it is earned
 - accounts for debtors
 - accounts for receipts of revenue;

Revenue as disclosed in the income/statement was understated by R2 803 468:

- (a) The municipality suffered a calculated loss of income of R1 956 960 due to the fact that no rentals are charged for the 1 208 units of hostel accommodation rented out. Income and debtors are therefore understated by this amount at year-end.
- (b) Revenue was understated by R846 508 due to receipts not being recorded timeously.
20. Due to the lack of rental registers and contracts, rental income of R1 181 707 could not be verified as complete and accurate. There were no alternative procedures that I could perform to obtain reasonable assurance regarding the completeness and accuracy of rental income.

Consequently, I was unable to satisfy myself as to the completeness and accuracy of accounting records relating to rental income.

Creditors

21. The existence, valuation, rights and obligations of sundry creditors of R1 133 014 (2006: R4 435 520) could not be confirmed due to a lack of supporting documentation. There were no alternative procedures that I could perform to obtain reasonable assurance these transactions were valid and accurate. Consequently, I was unable to satisfy myself as to the accuracy of accounting records relating to creditors.

Qualified opinion

22. In my opinion, except for the effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Metsimaholo Local Municipality as at 30 June 2007 and its financial performance and cash flows for the year then ended, 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 MFMA.

EMPHASIS OF MATTERS

I draw attention to the following matters:

Highlighting of a matter affecting the financial statements

23. Various fruitless and wasteful expenditure totalling R1 281 231 was identified during the year under review and attention is drawn to the disclosure thereof in note 37 to the financial statements.

Basis of accounting (departures and deviations)

24. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *Government Notice 552 of 2007* issued in *Government Gazette 30013 of 29 June 2007*.

OTHER MATTERS

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

Material non-compliance with applicable legislation

25. Municipal Financial Management Act, 2003 (Act No. 56 of 2003) (MFMA)

- (a) Mayor's Trust: The financial statements for the Metsimaholo Mayor's Trust (municipal entity) had not been submitted in respect of the 2004-05, 2005-06 and 2006-07 financial years as required by sections 122 and 126 of the MFMA.
- (b) Reports regarding all unauthorised, irregular, fruitless and wasteful expenditure have not been submitted to the mayor, the MEC for Local Government and the Auditor-General, as required by section 32(4) of the MFMA.

- (c) The council of the municipality did not adopt an oversight report containing the council's comments on the annual report, as required by section 129 of the MFMA, and had thus not submitted such a report to the provincial legislature in terms of section 132.
- (d) Due to numerous deficiencies identified during the audit it is evident that for the financial year under review, the accounting officer did not take all reasonable steps to ensure that all revenue, receivables and receipts are recognised and accounted for when earned, as required by section 64 of the MFMA.
- (e) With reference to the nature and extent of deficiencies revealed during the audit it is evident that for the financial year under review, the accounting officer did not take all reasonable steps to ensure sufficient monitoring of and control over expenditure and had thus not complied with section 65 of the MFMA.
- (f) The accounting officer did not comply with sections 62(1) and 63(2) of the MFMA as proper and full records had not been maintained and a proper stocktake had not been performed to ensure assets are recorded completely and accurately.
- (g) Various instances were identified where tender procedures, as required by section 114 of the MFMA, had not been followed.

26. Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

In terms of paragraphs 5 and 7 of the code of conduct for councillors (schedule 1 of the MSA), councillors are required to disclose and declare to the municipal council direct or indirect business and financial interests. Various instances were found where this was not done during the year under review.

27. Municipal Supply Chain Management Regulations, 2001 (SCM Regulations)

The accounting officer did not, within 30 days from the end of the financial year, submit a report to the council on the implementation of the supply chain management policy, in terms of the SCM Regulation 6.

28. Municipal Property Rates Act, 2004 (Act No. 6 of 2004) (PRA)

The municipality's valuation roll had not been updated for at least every four years as required by section 32(1)(b) of the PRA.

Matters of governance

- 29. The internal audit unit did not function during the financial year as required by section 165 of the MFMA. The internal auditor was only appointed on 2 July 2007.
- 30. A report from the audit committee was not presented to council during the financial year as required by section 121(3)(j) of the MFMA.
- 31. No performance audit committee was in place during the financial year under review, as required by the Financial Planning and Performance Management Regulations, Regulation 14.
- 32. Several weaknesses were identified in the financial management of the municipality due to a lack of policies, ineffective internal control practices and procedures, as well as inadequate monitoring. These weaknesses included the following:
 - (a) Debtors at year-end increased by approximately 9,6% to R219 million (2006: R198 million). The average time to recover outstanding consumer debtors decreased to 192 days (2006: 220), but it is still regarded as unacceptably high. Consumer debtors before the provision for bad debts

increased by R21 million, while the provision for bad debts increased by R25,8 million to R108,1 million.

- (b) For the year under review, sale of water totalled R69 million (2006: R58,3 million), while an amount of R102 million had been budgeted. An explanation for the difference could not be submitted.
- (c) The net operating deficit for the year amounted to R14,9 million (2006: R33,8 million). The municipality incurred a net operating deficit for the second year in a row.
- (d) The bank overdraft increased from R4,2 million at 30 June 2006 to R15 million at 30 June 2007.
- (e) Funds and reserves for the year amounted to R150 144 559 while investments amounted to only R13 110 393, resulting in a shortfall of R137 034 166 which was not invested at year-end due to the cash flow problems experienced.
33. No documentation was provided with respect to the Sasol Rejuvenation Project undertaken by the municipality, Sasol and various other role players to evaluate the impact on the municipality.

Material corrections made to the financial statements submitted for audit

34. The following material corrections were made to the financial statements submitted for audit:

Description	Debit R	Credit R
(a) Unspent unconditional grants (sundry creditor)	9 304 643	
Provision for bad debts		9 304 642
Equitable share moved to provision for bad debts		
(b) Consumer debtors	7 361 997	
Income Water		4 141 671
Income Electricity		3 220 326
Provision for unmetered consumption at year-end		
(c) Creditors	2 360 919	
Payments to SDC (General expenditure)		1 228 085
Legal fees (General expenditure)		1 132 834
Correction of provision for traffic fine income		

Description	Debit R	Credit R
(d) Short-term portion of long-term loans	1 220 980	
Long-term loans		1 220 980
Correction of calculation		
(e) Sundry debtors	983 349	
Sundry creditors		983 349
Classification correction		
(f) Additional irregular expenditure disclosed in note 37.1 to the financial statements	742 332	
Additional disclosure on financial statements		
(g) Salaries and wages	1 748 326	
Provision for annual bonuses		1 748 326
Provision of annual bonuses at year-end		

Value-for-money matters

35. Land was sold to Heron Banks Development for an amount of R5,5 million:

- Proper processes as required by section 14(5) of the MFMA were not followed for the disposal of capital assets and sufficient evidence could not be obtained that the disposal was fair, equitable, transparent, competitive and consistent with the supply chain management policy.
- Contrary to section 14(2)(b) of the MFMA, the municipal manager did not consider the fair market value of the assets. The Grootfontein farm alone, included in this contract, was valued for R17 million by a registered valuer appointed by the council on 11 October 2004, before the contract was signed on 17 November 2004.
- Only five entities were invited to make a presentation to the council within six days. The municipal manager indicated that the transaction was treated as an unsolicited bid. Although section 113 of the MFMA (only effective from 30 June 2005) allows for unsolicited bids, section 113(2) stipulates that if a municipality decides to consider an unsolicited bid, it may only do so in accordance with the prescribed framework. No such framework was effective at that time.
- The presentation submitted by Heron Banks did not appear to be factually correct as they indicated they owned area 2 (Farm Du Rust) and that they were in the process of acquiring area 3. The fact remains that they were not in the process of acquiring area 3, as this area was included in the deed of sale for Farm Grootfontein. No proof could be provided that they were trying to acquire part 3 as indicated in their proposal. At the time of writing this report Farm du Rust had still not been transferred.
- Notwithstanding stipulations that guarantees for the purchase price of R5,5 million should have been received by the municipality by no later than 17 December 2006, the guarantee was only given on 12 July 2007. No evidence could be obtained that this guarantee was given earlier.
- During September 2007 the construction company started with the development by preparing the land and started to service the property according to the service agreement. By 30 October 2007, almost three years after the contract was signed, the property had still not been transferred. This delay in the transfer of the property resulted in material losses for the council as the purchase price could have been invested and interest earned.

Internal control

36. 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.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Basis for qualified opinion					
Consumer and other debtors		X	X		X
Property, plant and equipment		X	X	X	X
Value-added tax (VAT)		X	X		X

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Expenditure	X	X	X		X
Revenue		X	X		X
Creditors	X	X	X		X
Emphasis of matters					
Highlighting a matter affecting the financial statements.	X	X	X		X
Basis of accounting		X	X	X	X
Other matters					
Non-compliance with applicable legislation		X	X	X	X
Matters of governance		X	X		X
Material corrections to the financial statements		X	X		X
Value-for-money matters	X	X	X		X
Information systems audit of general controls		X	X	X	X
Investigations in progress or completed	X	X	X		X

Control environment

The municipality did not establish the key elements of a control environment to achieve sound financial management. This resulted in an inadequate level of control to enable the financial statements to be accurately prepared in accordance with the applicable basis of accounting and, in turn, gave rise to numerous qualifications concerning non-adherence to the accounting standards.

Although the municipality had an approved fraud prevention plan, they had not implemented this plan to date and there was no evidence of a whistle blower fraud hotline or any other means of reporting alleged or actual incidents of fraud confidentially. Due to the weak control environment management might not be able to prevent, detect and correct misappropriation and mismanagement of funds and other assets.

Assessment of risk

The municipality faces inadequate management of risks as it seeks to achieve its mission and objectives. It was noted that the formal risk assessment for the year was not completed and management did not respond to the risks previously identified.

Control activities

In terms of the MFMA, the municipality is required to ensure that an effective and efficient system of internal control is in place. Management has not identified the actions and control activities needed to address the risks surrounding numerous cycles and has not developed and implemented appropriate policies and procedures. This is evident from the matters reported. A review of the Information Technology General Control environment has revealed major weaknesses which led to the internal controls being rated as poor:

- A comprehensive IT security policy has not yet been approved by council and implemented.

Information system controls and communication

The financial system does not currently function properly as required by the municipality. The system requires significant modification and customisation to be able to meet the financial reporting requirements of the municipality. The controls within the systems are poorly designed and as a result are not functioning properly. The limitations of the financial systems have resulted in numerous variances, inconsistencies and uncertainties.

A number of weaknesses were identified in the general controls of the municipal information systems. The most significant weaknesses are a lack of properly approved policies in respect of information systems and insufficient user account management controls for the applications. These weaknesses prevent the audit team from placing any reliance on the general controls that surround the information systems.

Monitoring controls

From the audit findings listed in this audit report it can be concluded that the monitoring of controls, such as the review of reconciliations, confirmations from external parties and the internal audit process, was not effective in order for the municipality to achieve its desired objectives. In the absence of an internal audit division no internal audit service could be provided to assist management in their governance responsibilities.

Information systems audit of general controls

37. The above-mentioned audit was completed in November 2006.

The most significant weaknesses identified during the audit were the following:

- A comprehensive Information Technology (IT) security policy and user account management procedures had not been developed.
- The user account parameters with regard to passwords were set to an inadequate level to ensure sufficient logical access control.

The above-mentioned weaknesses indicate that management has not established the required level of control over key IT processes, which are consequently exposed to significant control risks.

Investigations in progress or completed

38. The following contracts are currently being investigated by the municipality's attorneys to determine the validity of thereof:

Services provided	Amount R
Photocopiers	4 291 418
Meter-reading company	1 033 521
Upgrading of stadium	906 000
Computer services	831 417
Telephone system	683 625

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

39. I have audited the performance information as set out on pages xx to xx.

Responsibility of the accounting officer

40. 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 by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

41. I have to conduct my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004), read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.

42. In terms of the foregoing my engagement has to include the performing of procedures of an audit nature to obtain sufficient appropriate audit evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

43. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

44. With reference to section 121(3)(c) of the MFMA and section 46 of the MSA, no performance information was submitted by the municipal manager. Consequently, I could not conduct my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 2007*, issued in *Government Gazette No. 29919 of 25 May 2007* and section 45 of the MSA.

45. No performance audit committee had been established in terms of Regulation 14 of the Financial Planning and Performance Management Regulations.

Late finalisation of the audit report

46. In terms of section 126(3)(b) of the MFMA I am required to submit my 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 by me to ensure consistency in the manner in which material audit findings are reported, I have delayed the finalisation of my reports.

APPRECIATION

47. The assistance rendered by the staff of the Metsimaholo Local Municipality during the audit is sincerely appreciated.

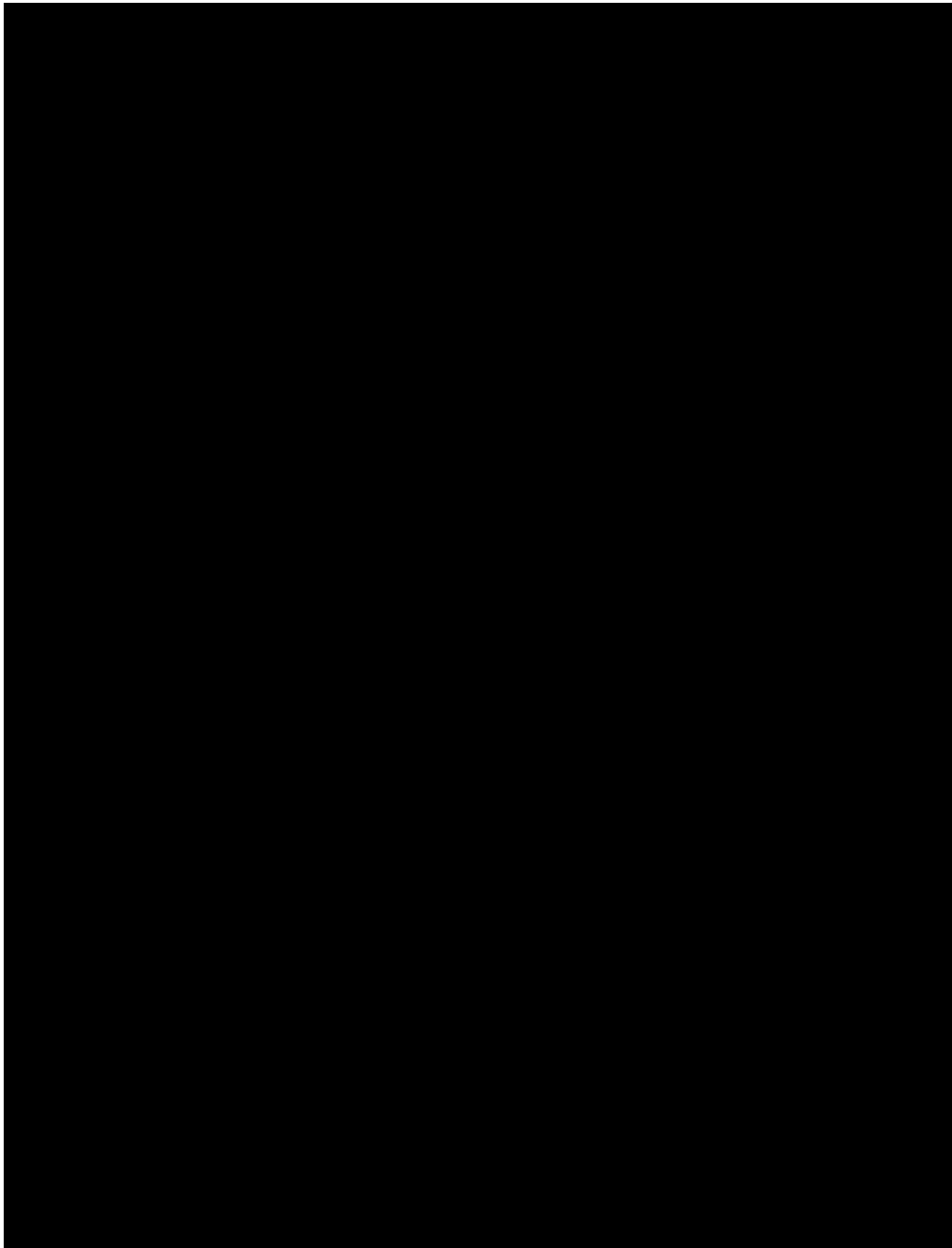
Bloemfontein

19 May 2008

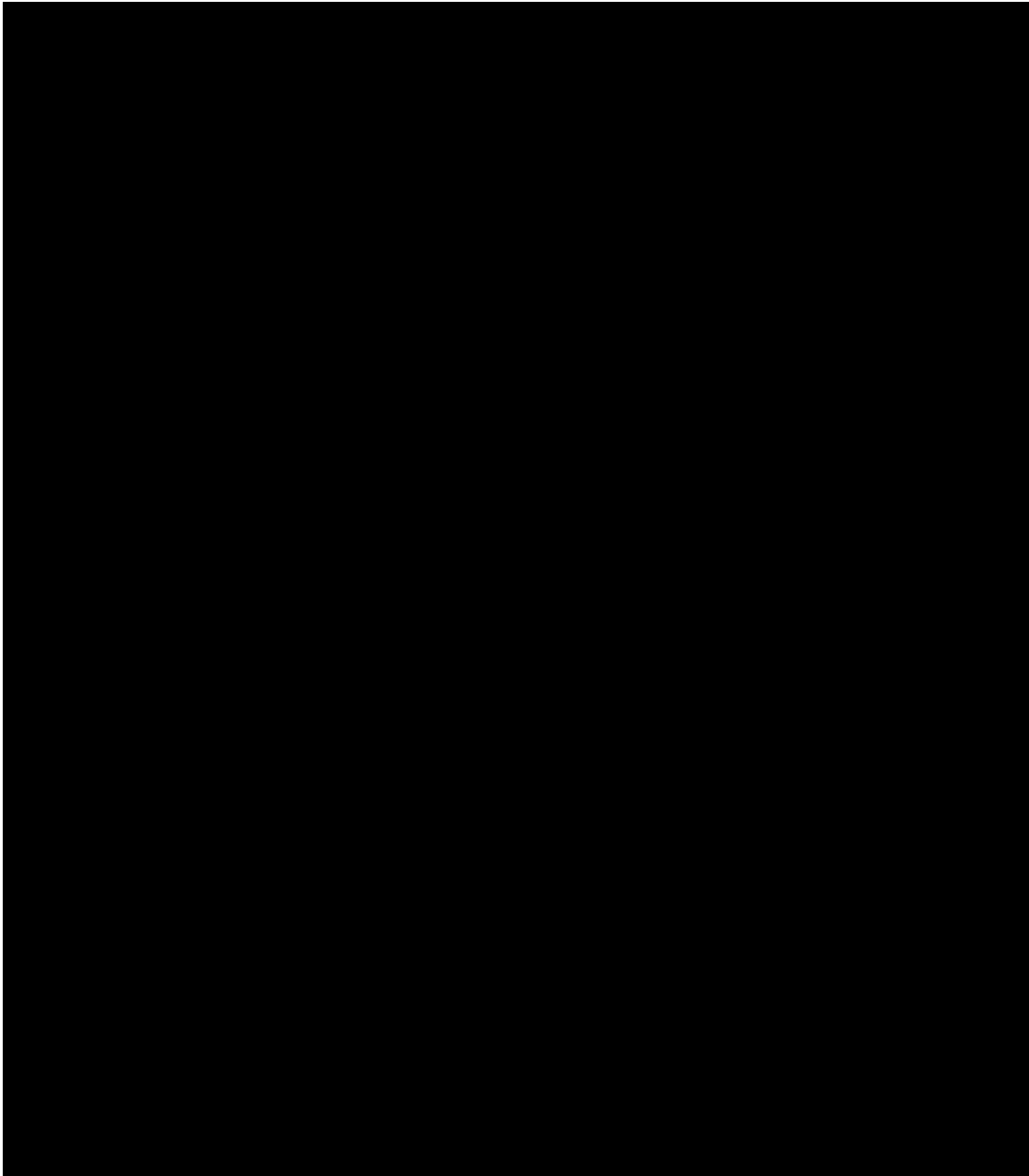


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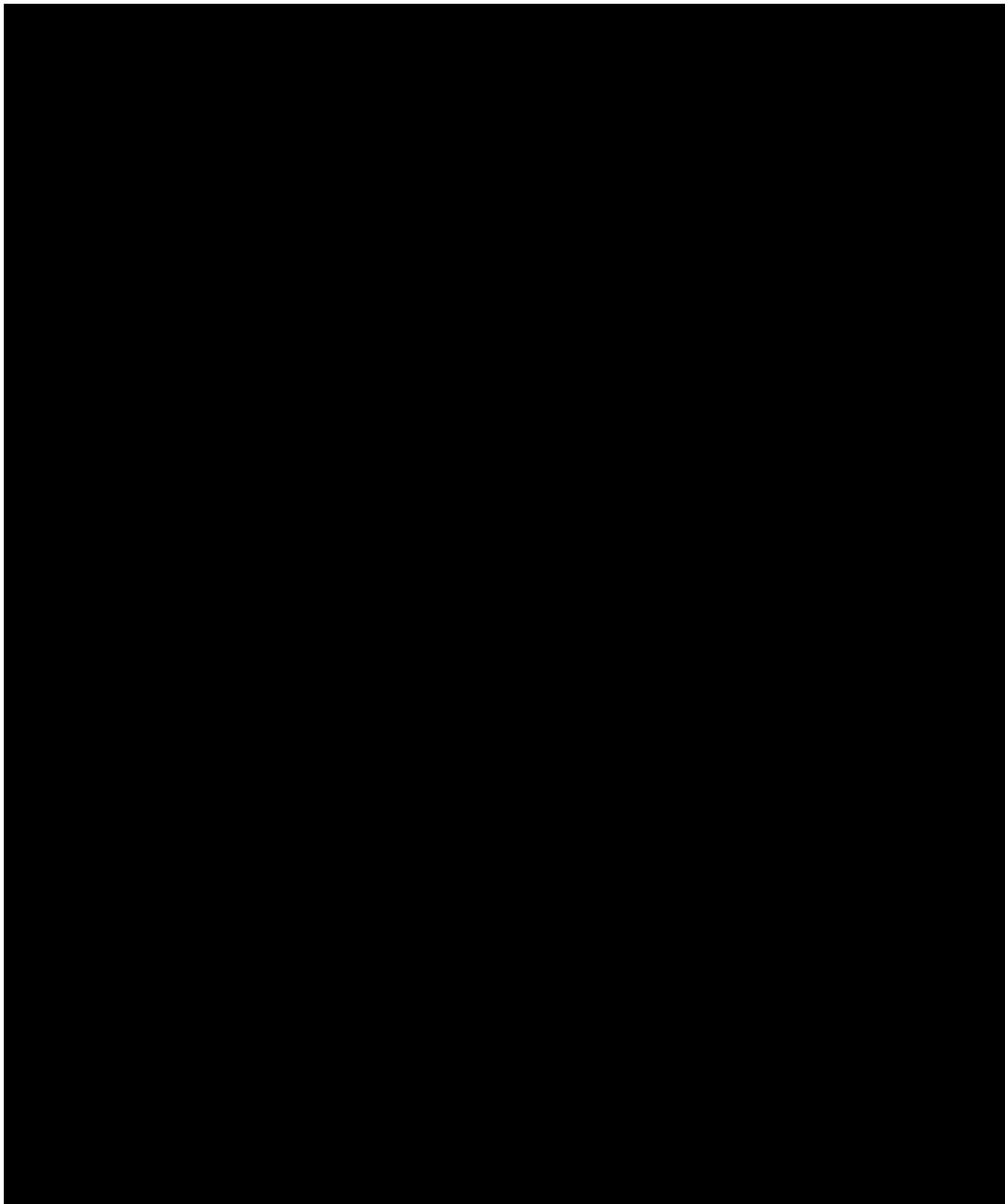
METSIMAHOLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2007



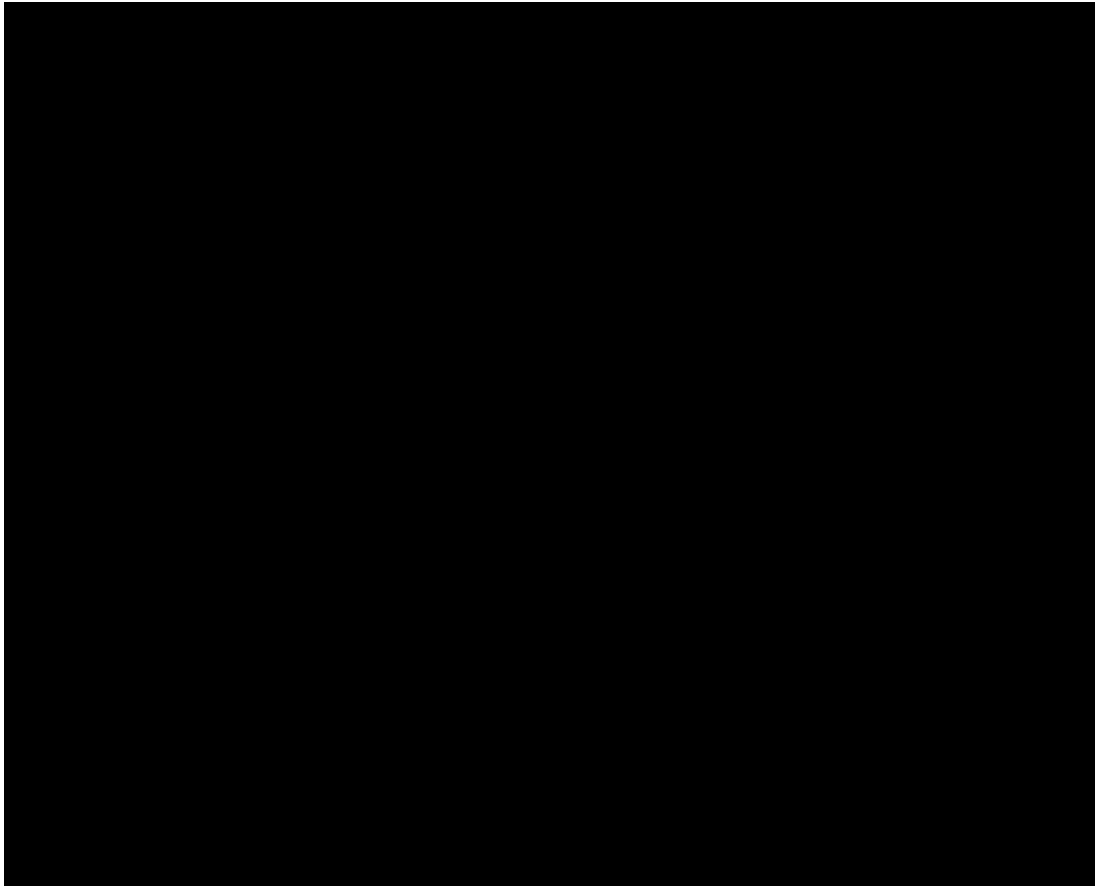
METSIMAHOLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2007



METSIMAHOLO LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2007



METSIMAHOLO LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2007



METSIMAHOLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

The principal accounting policies adopted in the preparation of these financial statements are set out below.

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 and 992 of 2005.

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes 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 Asset
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 (SA GAAP) 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.

The entity has elected to early adopt the following requirement(s) in GRAP, GAMAP or SA GAAP, which were exempted in terms of General notice 552 of 2007:

Standard no.	Standard Title	GRAP, GAMAP and/or SA GAAP requirement(s), exempted in terms of General notice 552 of 2007, that have been early adopted
IAS 20 (AC 134)	Accounting for government grants and disclosure.	Entire standard excluding paragraphs 24 and 26, replaced by GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – 46.

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 South African Rand.

3 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

4 HOUSING DEVELOPMENT FUND

The Housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). The proceeds of erven sold were allocated to the Erven Trust Fund. The funds are transferred from Erven Trust Fund to Housing Development Fund with the implementation of GAMAP. Moneys standing credit to the Fund can be used for the acquisition, planning and surveying of land.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

5 RESERVES

5.1 *Capital Replacement Reserve (CRR)*

The account was the Asset Financing Reserve in 2003/2004 Financial Statements. 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 (Budget approval). A corresponding amount is transferred to a designated CRR investment account. The cash in the designated CRR investment account can only be utilized to finance items of property, plant and equipment.

The CRR is reduced and the accumulated surplus/(deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

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

Including in the Capital Replacement Reserve there are the following three reserves electrical, water and sewerage network strengthening. These funds are financed by public contributions. The funds can be used for operating and capital expenses on the above networks.

5.2 *Capitalisation Reserve*

During 2003/2004 the account was Future Depreciation Reserves : AFR.

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 utilized 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).

6 PROPERTY, PLANT AND EQUIPMENT

2006/07 accounting policy regarding property, plant and equipment transactions agree with that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

Property, plant and equipment, is stated at cost, less accumulated depreciation, land and buildings. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an indefinite life.

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 is capitalized when the recognition and measurement criteria of assets are met.

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

<i>Infrastructure</i>	Years	Other	Years
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
<i>Community</i>		Specialised plant and equipment	10-15
Buildings	30	Other items of plant and equipment	2-5
Recreational Facilities	20-30	Landfill sites	15
Security	5		

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

No provision was made for the landfill sites but was expensed during the year as incurred.

Accumulated depreciation was done with the implementation of the asset register.

7 REVALUATION OF LAND AND BUILDINGS

No revaluation of assets was done in 2005/2006 and in 2006/2007.

8 INVENTORIES

2006/07 accounting policy regarding inventory transactions agree with that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realizable values. In general, the basis of determining cost is the first-in, first-out method

2006/07 accounting policy differs from that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 Jun'07.

The value of water in Water reservoir was calculated on the purchase prices of the water. The value of the stock at the Workshops was determined by the Store price.

9 FINANCIAL INSTRUMENTS

Financial assets and financial liabilities must initially be recognized at cost.

2006/07 accounting policy regarding financial instrument transactions agree with that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

9.1 INVESTMENTS

Financial instruments, which include fixed deposits, short-term deposits and call account investments invested in registered commercial banks, are stated at cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognized as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

9.2 ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realizable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified.

9.3 TRADE CREDITORS

Trade creditors are stated at their nominal value.

9.4 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 overdraft are expensed as incurred.

10 REVENUE RECOGNITION

Revenue must initially be recognized at cost.

2006/07 accounting policy regarding revenue transactions agree with that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

10.1 *Revenue from Exchange Transactions*

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognized as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognized as revenue in the invoicing period. Revenue from the sale of electricity prepaid meter cards are recognized at the point of sale.

Service charges relating to refuse removal are recognized on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognized on a time proportion basis.

Dividends are recognized on the date that the Municipality becomes entitled to receive the dividend.

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

Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognized on a time proportion.

Revenue from the sale of goods is recognized when the risk is passed to the consumer.

Revenue from public contributions is recognized 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 public contributions have been received but the municipality has not met the condition, a liability is recognized.

10.2 *Revenue from non-exchange transactions*

Revenue from property rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Penalty interest on unpaid rates is recognized on a time proportion basis.

Donations are recognized 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 recognized when such items of property, plant and equipment are brought into use.

Revenue from the recovery of unauthorized, 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 recognized when the recovery thereof from the responsible councillors or officials is virtually certain.

2006/07 accounting policy differs from that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

10.3 *Revenue from non-exchange transactions*

Fines constitute both spot fines and summonses. Revenue from spot fines is recognized when payment is received. Revenue from summonses is recognized when handed over for collection and the debtor is created.

The above accounting policy is in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

11 PROVISIONS

Provisions are recognized 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.

12 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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.

13 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 supply chain management policy. 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.

14 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.

15 FOREIGN CURRENCIES

Not applicable to the Municipality.

16 COMPARATIVE INFORMATION

16.1 *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.

17 RETIREMENT BENEFITS

2006/07 accounting policy regarding retirement benefit transactions agree with that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

18 GOVERNMENT GRANTS

2006/07 accounting policy differs from that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

18.1 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 a 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).

18.2 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 government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/ (deficit).

Paragraph 22.1 and 22.2 were two separate accounts during 2003/2004 and are currently combined as one account namely Future Depreciation Reserves: Government Grants, Public Contributions and Donations

The accounting policy applied in the 2006/07 is in accordance with the exemptions in Gazette no. 30013 of 29 Jun'07.

Government Grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to the operating activities of the entity. They exclude those forms of government assistance which cannot reasonably have a value placed upon them and transactions with government which cannot be distinguished from the normal trading transactions of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Subsidiary conditions may also be attached restricting the type or location of the assets or the period during which they are to be required or held.

Grants related to income are government grants other than those related to assets.

Government grants, including non-monetary grants at fair value, are not recognized until there is reasonable assurance that:

- The entity will comply with the conditions attaching to them; and
- The grants will be received.

Government grants must be recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They shall not be credited directly to shareholders' interests.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs shall be recognized as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, must be presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

Where the current year's accounting policy regarding Conditional Grants and Receipts transactions agrees with that applied in the prior year, the accounting policy is as follow:

18.3 *Conditional Grants and Receipts*

Revenue received from conditional grants, donations and funding are recognized 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 recognized.

19 INTANGIBLE ASSETS

2006/07 accounting policy differs from that applied in the 2005/06 financial year, in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

There was no accounting policy for intangible assets. The intangible assets were accounted for under property, plant and equipment.

The accounting policy applied in the 2006/07 is in accordance with the exemptions in Gazette no. 30013 of 29 June 2007.

An intangible asset should be recognized when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets should be initially recognized at cost and comprise of:

- software

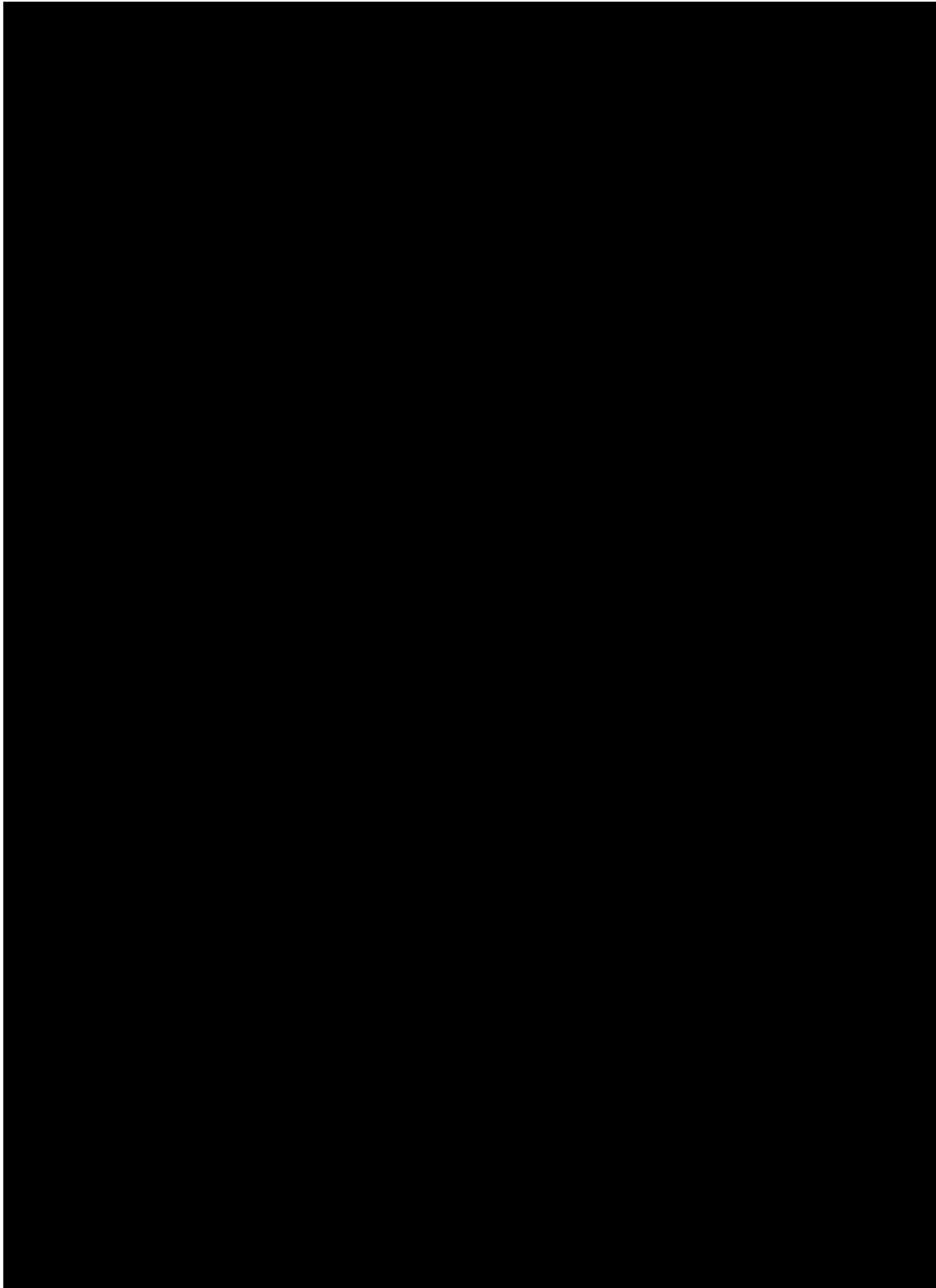
Intangible assets should be carried at cost less any accumulated amortization.

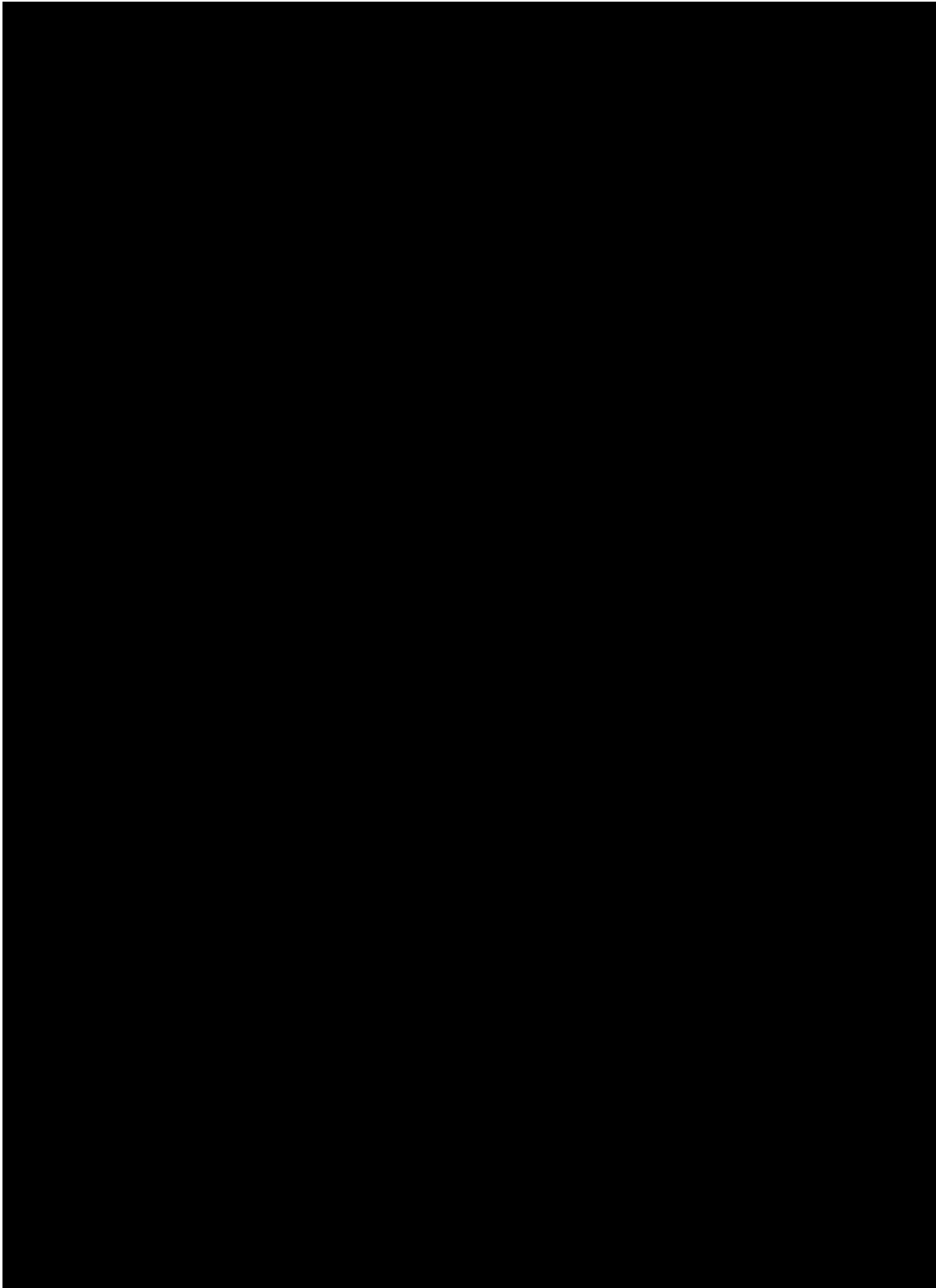
Computer software should be capitalized to computer equipment where it forms an integral part of computer hardware.

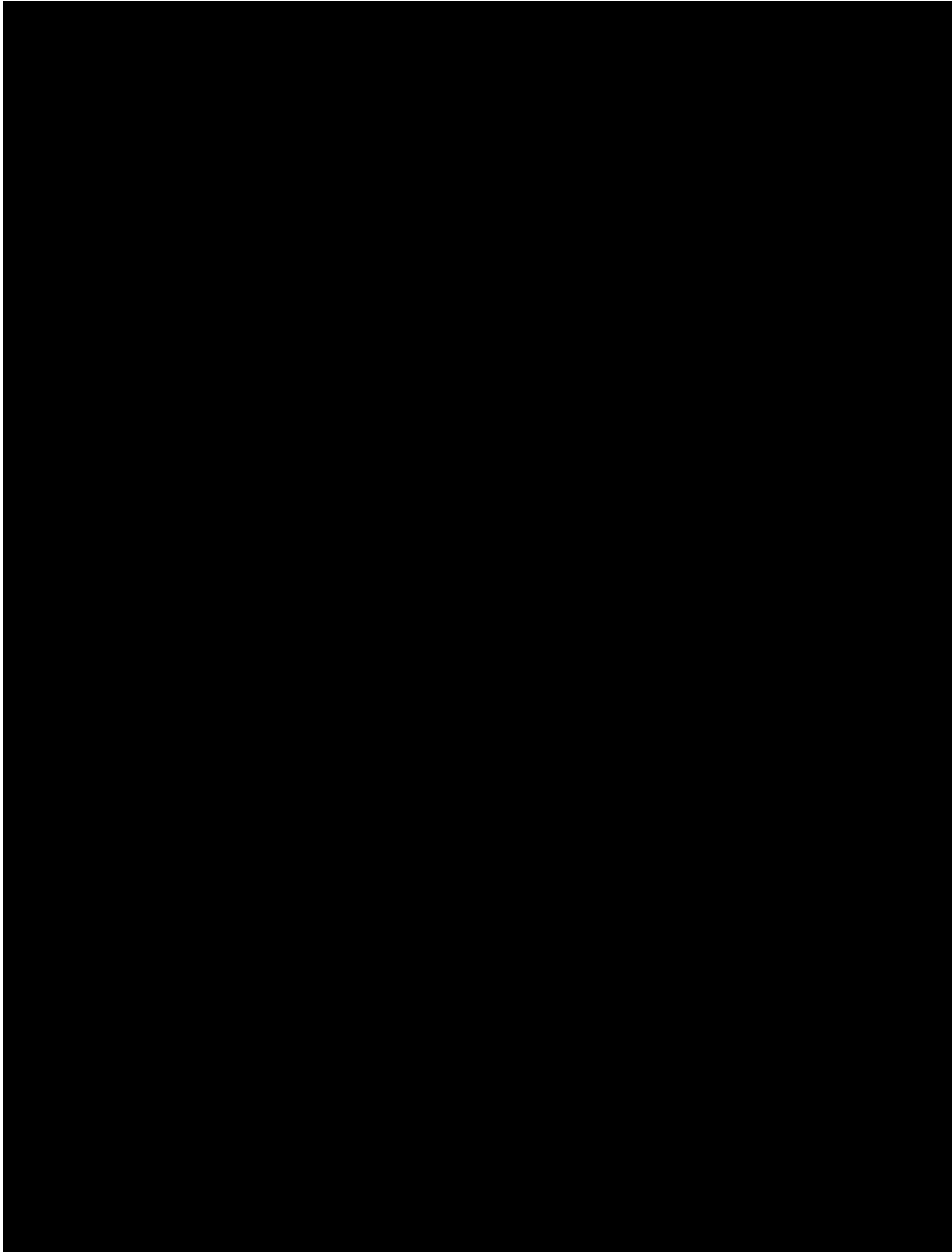
Amortization is provided to write down the assets, on a straight-line basis, over the estimated useful life, as follows:

Item	Useful life
Computer software	2-5 Years

METSIMAHOLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

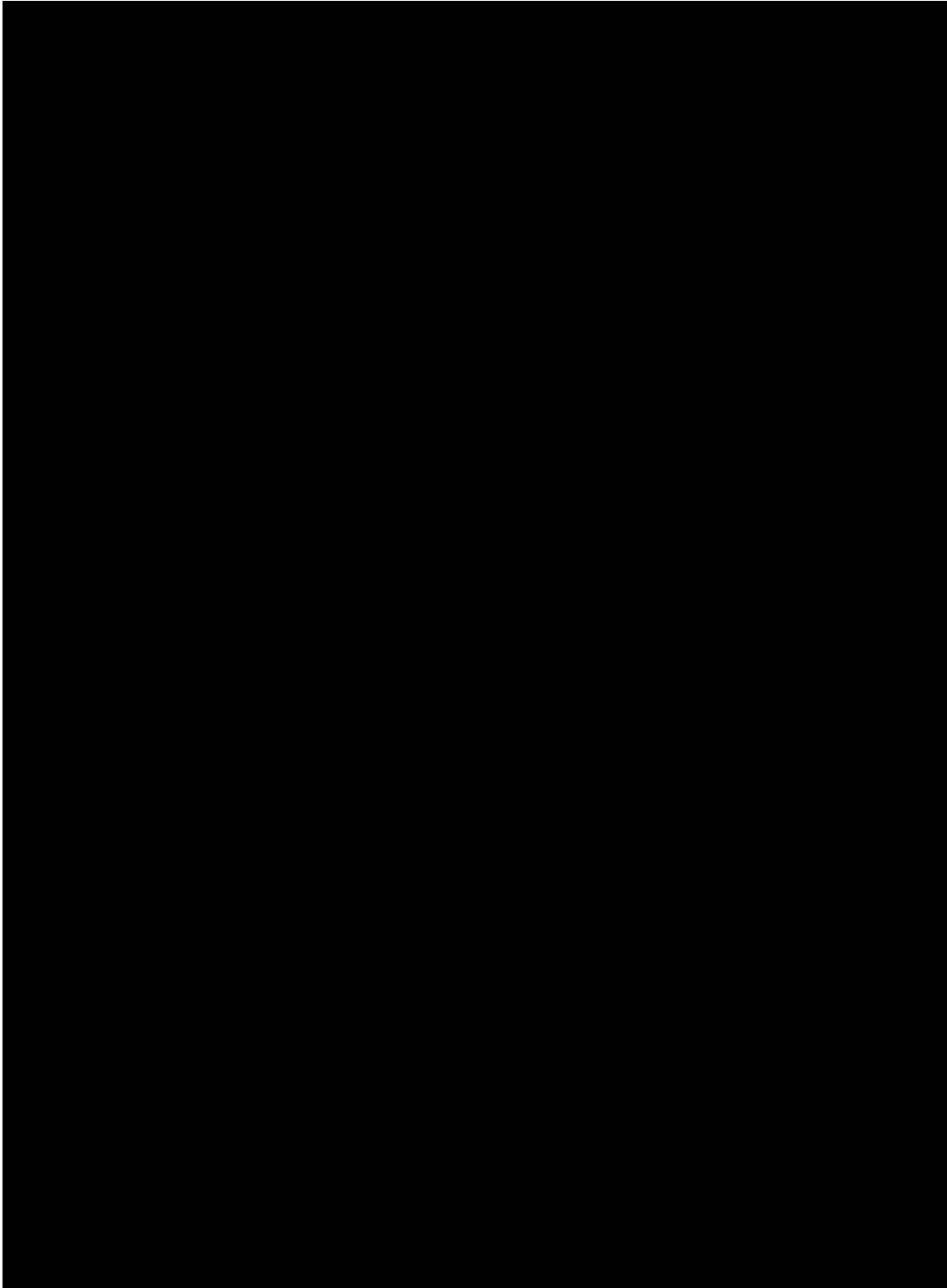


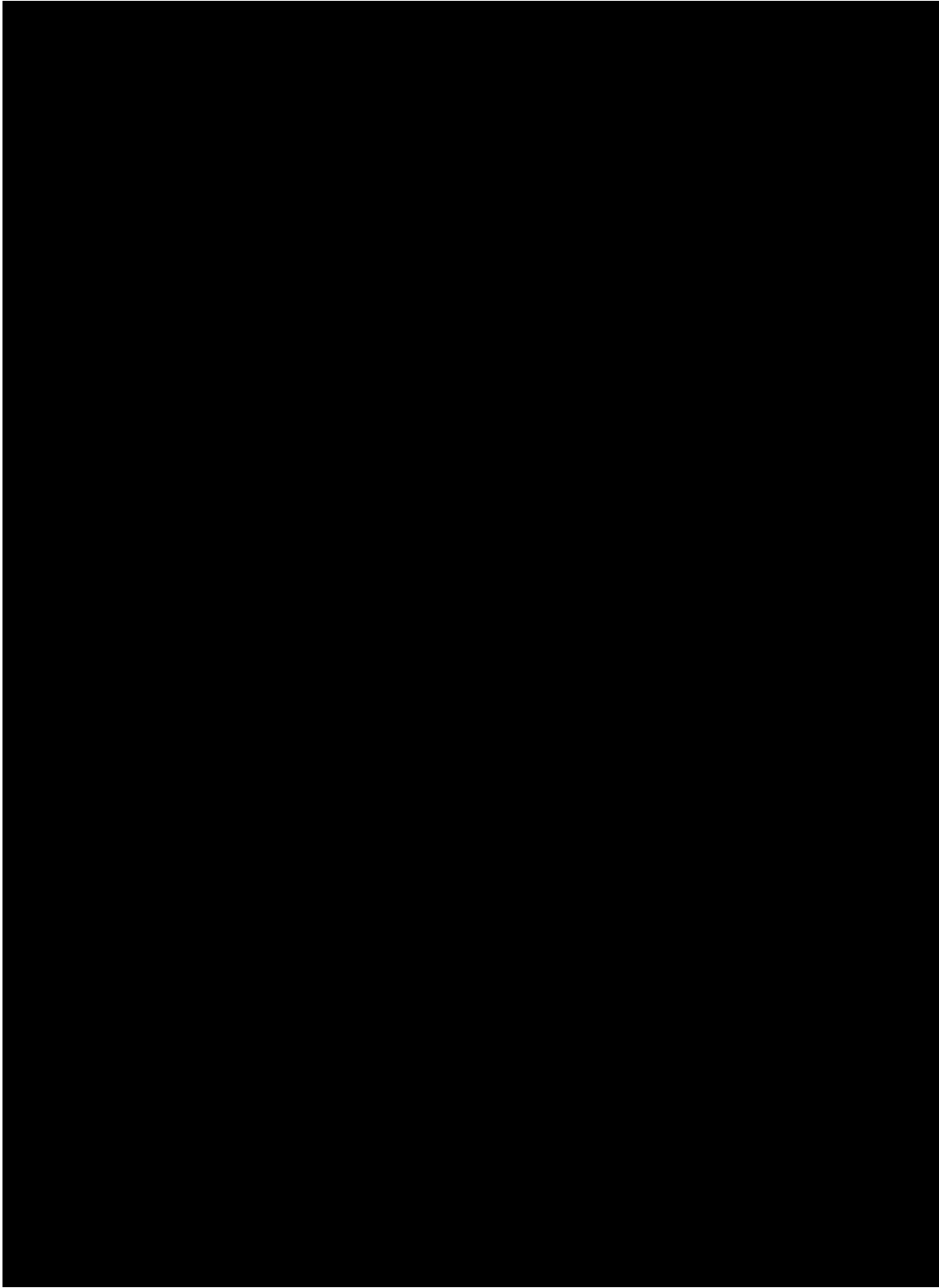




Note 7
Property, Plant and equipment

	Land and Buildings	Infra-structure	Community	Heritage	Other	Housing	Total
30 June 2007							
Reconciliation of Carrying Value							
Carrying values at 1 July 2006	20,835,689	152,239,381	10,086,671	180,660	16,170,119	25,093,120	224,605,640
Cost	24,857,711	249,656,929	14,764,114	180,870	33,539,124	27,104,302	350,103,050
Accumulated depreciation							-
- Cost	4,022,022	97,417,548	4,677,443	210	17,369,005	2,011,182	125,497,410
Acquisitions	181,544	28,675,049	143,940	-	3,654,423	-	32,654,956
Depreciation	1,049,263	16,840,933	719,419	65	4,367,955	409,212	23,386,847
- based on cost	1,049,263	16,840,933	719,419	65	4,367,955	409,212	23,386,847
- based on revaluation							
Carrying value of disposals	183,900	-	37,870	-	39,478	-	261,248
Cost/revaluation	183,900		37,870		380,544		602,314
Accumulated depreciation					341,066		341,066
Impairment losses							
Other movements							-
Carrying values at 30 June 2007	19,784,070	164,073,497	9,473,322	180,595	15,417,109	24,683,908	233,612,501
Cost	24,855,355	278,331,978	14,870,184	180,870	36,813,003	27,104,302	382,155,692
Accumulated depreciation	5,071,285	114,258,481	5,396,862	275	21,395,894	2,420,394	148,543,191
30 June 2006							
Reconciliation of Carrying Value							
Carrying values at 1 July 2005	21,746,910	150,516,394	10,850,405	160,005	8,861,923	25,318,431	217,454,068
Cost	24,718,821	231,323,225	14,743,764	180,870	22,369,324	26,920,402	320,256,406
Accumulated depreciation							-
- Cost	2,971,911	80,806,831	3,893,359	20,865	13,507,401	1,601,971	102,802,338
Acquisitions	138,890	18,333,704	20,350	-	11,259,593	183,900	29,936,437
Depreciation	1,050,111	16,610,717	784,084	(20,655)	3,952,255	409,211	22,785,723
- based on cost	1,050,111	16,610,717	784,084	(20,655)	3,952,255	-	22,376,512
- based on revaluation							
Carrying value of disposals	-	-	-	-	-	-	-
Cost/revaluation					204,907		204,907
Accumulated depreciation					204,907		204,907
Impairment losses							
Other movements							
Carrying values at 30 June 2006	20,835,689	152,239,381	10,086,671	180,660	16,169,261	25,093,120	224,604,782
Cost	24,857,711	249,656,929	14,764,114	180,870	33,539,124	27,104,302	350,103,050
Accumulated depreciation	4,022,022	97,417,548	4,677,443	210	17,369,005	2,011,182	125,497,410





16 HOUSING DEVELOPMENT FUND

Housing Development Fund	4,396,419	4,524,715
Unappropriated Surplus	4,396,419	4,524,715

The Housing Development Fund is represented by the following assets and liabilities:

Anauthorised use of cash for other purposes		
Investments	4,396,419	4,524,715
Total Housing Development Fund Assets and Liabilities	4,396,419	4,524,715

17 PROPERTY RATES

Actual

Residential	26,942,629	27,597,492
Commercial	5,201,574	4,812,214
Light Industries	1,676,903	1,499,434
Heavy Industries	13,657,934	12,326,259
State	1,466,705	1,290,883
Municipality		
Total Assessment Rates	48,945,745	47,526,282

Valuations

Residential	343,054	333,107
Commercial	38,592	79,522
Light Industries	34,657	49,540
Heavy Industries	31,457	30,526
State	17,301	17,301
Municipality	46,127	46,127
Total Property Valuations	511,188	556,123

Valuations on land are performed every 5 (five) years. The last valuation came into effect on 1 July 2002. Interim valuations are processed monthly to take into account changes in individual property values due to alterations and subdivisions. Rebates of 20% are granted to State property owners. Rates are levied on a monthly basis. Interest is levied after 30 days at bank rate plus 1%.

Sasolburg / Zamdela

Residential:		
- Sasolburg	- 9.76	cents per Rand
- Zamdela	- 12.57	cents per Rand
Commercial	- 13.07	cents per Rand
Light Industries	- 19.44	cents per Rand
Heavy Industries	- 43.63	cents per Rand
State	- 13.07 - 20%	cents per Rand

Deneyville / Refenggotso

Residential:		
- Deneyville	- 12.74	cents per Rand
- Refenggotso	- 4.54	cents per Rand
Businesses	- 21.11	cents per Rand
State	- 21.11 - 20%	cents per Rand

Oranjeville / Metsimaholo

Residential:		
- Oranjeville	- 6.95	cents per Rand
- Metsimaholo	- 4.54	cents per Rand
Businesses	- 08.02	cents per Rand
State	- 8.02 - 20%	cents per Rand

18 SERVICE CHARGES

Sale of Electricity	61,905,938	58,632,813
Sale of Water	69,047,708	58,324,735
Refuse removal	10,536,874	9,855,239
Sewerage and Sanitation charges	12,619,558	11,872,084
Total Service Charges	154,110,078	138,684,871

19 GOVERNMENT GRANTS AND SUBSIDIES

Equitable share (Operating)	32,095,254	26,487,141
Financial Management Grant (Operating)	413,270	2,203,534
Provincial Government (Operating)	80,000	46,025
Department of Water (Capital)	-	86,796
District Municipality (Capital)	4,080,468	5,037,594
DME (Capital)	5,397,648	854,936
Provincial Government MIG (Capital)	18,693,804	10,805,177
Financial Management Grant (Capital)	50,917	145,847
SETA (Capital)	13,814	-
SCI (Capital)	60,399	145,121
Total Government Grants and Subsidies	60,885,574	45,812,171

Equitable Share (Operating)

In terms of The Constitution the grant is used to subsidise the provision of free basic services to all households (6kl water, 50 kWh Electricity and basic sewer) and approved indigents, that receive R60,00 per month plus 4kl water and refuse.

	167	158
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Financial Management Grant (Operating)

Balance unspent at beginning of year	4,820	354,201
Current year receipts	500,000	1,854,153
Conditions met - transferred to revenue	464,187	2,203,534
Conditions still to be met - transferred to liabilities	40,633	4,820

The Municipality received the FMG from National Treasury. It is used for capacity building and assistance to Financial Services to improve service delivery.

Provincial Government (Operating)

Balance unspent at beginning of year	-	-
Current year receipts	80,000	-
Conditions met - transferred to revenue	80,000	-
Conditions still to be met - transferred to liabilities	-	-

Funds received from Provincial Government to assist with Spatial framework.

District Municipality (Capital)

Balance unspent at beginning of year	66,695	38,597
Current year receipts	4,080,468	5,065,692
Conditions met - transferred to revenue	(4,080,468)	(5,037,594)
Conditions still to be met - transferred to liabilities	66,695	66,695

Capital projects (infrastructure) financed by the District Council.

DME (Capital)

Balance unspent at beginning of year	589,696	444,632
Current year receipts	7,500,000	1,000,000
Conditions met - transferred to revenue	(5,397,648)	(854,936)
Conditions still to be met - transferred to liabilities	2,692,048	589,696

Installation of electricity in the Municipality's area, financed by DME.

Department of Water

Balance unspent at beginning of year	299,043	-
Current year receipts	104,488	385,839
Conditions met - transferred to revenue	-	(86,796)
Conditions still to be met - transferred to liabilities	403,531	299,043

Funds for waterworks at Deneysville
Government Housing.

Provincial Government

Balance unspent at beginning of year	632,590	66,222
Current year receipts	-	670,000
Conditions met - transferred to revenue	-	(103,632)
Conditions still to be met - transferred to liabilities	632,590	632,590

Funds for waterworks at laboratory

SCI (Capital)

Balance unspent at beginning of year	43,061	43,061
Current year receipts	60,399	145,121
Conditions met - transferred to revenue	(60,399)	(145,121)
Conditions still to be met - transferred to liabilities	43,061	43,061

Equipment for Library Zamdela

Provincial Government MIG (Capital)

Balance unspent at beginning of year	1,344,448	2,415,689
Current year receipts	18,921,941	9,733,936
Conditions met - transferred to revenue	(18,693,804)	(10,805,177)
Conditions still to be met - transferred to liabilities	<u>1,572,585</u>	<u>1,344,448</u>

Funds received for instalation of infrastructure

Financial Management Grant (Capital)

Balance unspent at beginning of year	-	-
Current year receipts	50,917	145,847
Conditions met - transferred to revenue	(50,917)	(145,847)
Conditions still to be met - transferred to liabilities	<u>-</u>	<u>-</u>

The Municipality received the FMG from National Treasury. It is used for capacity building and assistance to Financial Services to improve service delivery.

SETA Grant (Capital)

Balance unspent at beginning of year	-	-
Current year receipts	15,000	-
Conditions met - transferred to revenue	(13,814)	-
Conditions still to be met - transferred to liabilities	<u>1,186</u>	<u>-</u>

The Municipality received funds from SETA for excellence performance by Human Resources division

Changes of levels in Government Grants

Based on the allocations set out in Division of Revenue Act (Act no 53 of 2000) no significant changes in the level of Government Grant funding are expected over the forthcoming 3 financial years.

20 OTHER INCOME

Selling of houses	-	-
Other Income	1,329,999	1,511,636
Total other income	<u>1,329,999</u>	<u>1,511,636</u>

21 EMPLOYEE RELATED COSTS

Salaries and Wages	58,187,102	55,310,975
Council Contributions - UIF, pension, medical, group Ins.	12,713,968	10,960,464
Travel, Motor car, accommodation, subsistence and other allowance	4,934,654	2,469,321
Housing benefits and allowance	454,152	409,003
Overtime payments	6,634,887	5,205,205
Total Employee Related cost	<u>82,924,763</u>	<u>74,354,968</u>

There was no advances to employees.
Loans to employees are set out in note 4.

Remuneration of the Municipal Manager

Annual Remuneration	364,646	370,795
Car Allowance	199,455	186,976
Contributions - UIF, pension, medical, group Ins.	84,359	81,603
Travel, Motor car, accommodation, subsistence and other allowance	27,120	12,120
Total	<u>675,580</u>	<u>651,494</u>

Remuneration of Chief Financial Officer

Annual Remuneration	334,008	331,307
Car Allowance	178,107	163,761
Contributions - UIF, pension, medical, group Ins.	55,424	52,041
Travel, Motor car, accommodation, subsistence and other allowance	21,241	12,120
Total	<u>588,780</u>	<u>559,229</u>

Remuneration of Directors - 2007

	Technical Services	Corporate Services	Social Services	Economic Development
Annual Remuneration	313,937	354,772	271,640	350,683
Car Allowance	180,050	175,322	134,245	182,110
Contributions - UIF, pension, medical, group Ins.	76,360	79,348	32,119	63,685
Travel, Motor car, accommodation, subsistence and other allowance	21,241	22,535	16,429	21,526
Total	591,588	631,977	454,433	618,004

Remuneration of Directors - 2006

	Technical Services	Corporate Services	Social Services	Economic Development
Annual Remuneration	308,780	378,632	332,907	339,353
Car Allowance	163,761	163,761	119,974	163,761
Contributions - UIF, pension, medical, group Ins.	71,276	59,061	53,416	64,805
Travel, Motor car, accommodation, subsistence and other allowance	12,120	12,120	12,120	12,120
Total	555,937	613,574	518,417	580,039

22 REMUNERATION COUNCILLORS

Executive Mayor	319,276	284,493
Speaker	251,827	275,283
Mayoral Committee Members	1,588,234	1,498,103
Councillors	2,746,539	1,509,411
Councillors' pension contribution	583,375	297,660
Councillors' medical contribution	146,664	178,881
Telephone Allowance	313,940	-
Traveling allowance	2,088,657	564,195
Total Councillors' Remuneration	8,038,512	4,608,026

In-Kind Benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and Secretarial support at the cost of Council.

The Executive Mayor has use of a Council owned vehicle for official duties and a bodyguard.

23 INTEREST PAID

Long term Liabilities	927,515	893,547
Bank Overdraft	81,251	-
Rand Water	558,047	-
Total Interest on External Borrowings	1,566,813	893,547

24 BULK PURCHASES

Electricity	39,035,991	35,640,208
Water	50,239,624	54,557,538
Total Bulk purchases	89,275,615	90,197,746

25 GRANTS AND SUBSIDIES PAID

Grant to Community Chess	17,544	20,000
Equitable Share	12,243,285	11,622,256
Total Grants and Subsidies	12,260,829	11,642,256

Council contribute annually to the community chess. One of the Mayoral Committee members sits on the Governing body of the Community Chess.

26 GENERAL EXPENSES

Audit Fees	1,479,566	1,978,182
Bank Charges	863,197	1,363,133
Financial Management Grant	166,124	1,147,526
Insurance Premium	1,602,136	1,397,030
Insurance Aggregate	86,187	-
Regional Services Levy	424	367,954
Skills Development	682,890	615,564
Advertising	215,766	218,499
Bursaries	14,494	58,062
Conference and Delegations	281,183	347,655
Connection Charges	983,409	362,726
Entertainment	198,878	470,764
Fuel and Oil Vehicles	2,867,733	2,531,152
Membership Fees	278,426	350,817
Postage	945,101	767,080
Printing and Stationary	614,356	621,818
Professional Fees	3,871,683	3,784,604
Rental: External Equipment	5,753,697	2,346,049
Sewer treatment charges	7,620,600	7,278,844
Stocks and Material	1,197,506	1,148,037
Telephone	2,214,996	2,071,024
Training	585,747	377,294
Uniforms and Overalls	265,106	317,465
Legal Expenses	3,064,063	1,286,361
Transport claims	233,658	201,973
Departmental Consumption	4,547,291	5,193,674
License fees Vehicles	119,727	129,324
Valuation cost	2,478,076	-
Other	1,255,424	1,910,227
	<u>44,487,444</u>	<u>38,642,838</u>

27 CORRECTION OF ERROR

Refer to Note 18. Balance unspent at beginning of year (2005/2006) was correct for Provincial Government and SCL grants.

28 CASH GENERATED BY OPERATIONS

Net surplus/deficit for the year	(18,715,873)	(33,796,888)
Non cash movement		
Adjustment for:		
Depreciation	23,452,852	22,969,792
Gain on disposal of property, plant and equipment	(303,334)	-
Contributions to provisions	308,469	2,888,806
Operating surplus before working capital changes:	<u>4,742,114</u>	<u>(7,938,290)</u>
(Increase) / Decrease in inventory	(621,862)	18,709
(Increase) / Decrease in consumer debtors	(19,086,846)	(19,902,116)
(Increase) / Decrease in other debtors	(28,311,982)	(1,255,012)
Increase / (Decrease) in creditors	6,861,560	1,138,009
Increase / (Decrease) in Conditional Grants	10,755,926	(32,671)
(Increase) / Decrease in non-current receivables	505,230	924,692
Increase / (Decrease) in VAT	2,683,872	1,232,001
Increase / (Decrease) in Provisions	17,000,000	21,361,795
Increase / (Decrease) in Other Funds	(1,591,308)	761,389
Appropriation transactions - previous year	6,844,235	
Cash Generated by/(utilized in) Operations	<u>(219,061)</u>	<u>(3,691,494)</u>

29 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating the financial position.

Bank balance/ cash	5,315	5,315
Call Investment Deposit	5,505,154	7,012,488
Bank overdraft	(15,063,094)	(4,153,775)
Total in cash and cash equivalents	<u>(9,552,625)</u>	<u>2,864,028</u>

30 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term liabilities (Note 15)	5,394,250	1,807,279
Used to finance property, plant and equipment	(5,394,250)	(1,807,279)
Sub-total	-	-
Cash set aside for repayment of long-term liabilities	5,494,250	1,807,279
Cash invested for repayment of long-term liabilities	<u>5,494,250</u>	<u>1,807,279</u>

31 ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

31.1 Contributions to Salga

Opening balance		
Council Subscriptions	266,186	329,839
Amount paid - current year	(266,186)	(329,839)
Balance unpaid (included in creditors)	-	-

31.2 Audit Fees

Opening balance	-	-
Current year audit fee	1,479,565	1,978,182
Amount paid - current year	(1,479,565)	(1,978,182)
Amount paid - previous year		
Balance unpaid (included in creditors)	-	-

31.3 VAT

VAT payable is shown in note 12.
All VAT returns have been submitted by the due date throughout the year.

31.4 PAYE and UIF

Opening balance		-
Current year payroll deductions	9,994,188	9,051,732
Amount paid - current year	(9,994,188)	(9,051,732)
Amount paid - previous year		
Balance unpaid (included in creditors)	-	-

31.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions	21,263,735	17,571,654
Amount paid - current year	(21,263,735)	(17,571,654)
Amount paid - previous year		
Balance unpaid (included in creditors)	-	-

31.6 Councillor's arrear accounts

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

	Total	Outstanding less than 90 days	Outstanding more than 90 days
30 June 2007			
None	-	-	-
Total Councillor arrear consumer accounts	-	-	-

	Total	Outstanding less than 90 days	Outstanding more than 90 days
30 June 2006			
M Mokubung	2,518	1,802	716
M A Malindi	3,260	50	3,210
Total Councillor arrear consumer accounts	5,778	1,852	3,926

During the year the following Councillor's had arrear accounts outstanding for more than 90 days

	Highest amount outstanding	Ageing
30 June 2007		
None	-	-
30 June 2006		
M Mokubung	3,856	150 days
M A Malindi	3,542	1500 days

32 CAPITAL COMMITMENTS

- Commitments in respect of capital expenditure		
- Approved and contracted for:		
- Infrastructure	5,411,694	2,975,531
- Approved but not yet contracted for:		
- Infrastructure	-	-
Total	5,411,694	2,975,531
This expenditure will be financed from:		
- External Loans	-	-
- Asset Financing Reserve	-	-
- Government Grants	5,411,694	2,975,531
- District Council Grants	-	-
- Other	-	-
	5,411,694	2,975,531

An amount of R18 921 941:2007 (R9 733 936:2006) was received from MIG and all the conditions have not been met yet.

An amount of R7 148 158 :2007 (R1 000 000: 2006) is for DME Grants that the full conditions have not been met yet.

An amount of R104 488:2007(R385 839:2006) is received from DWAF and all the conditions have not been met yet.

33 RETIREMENT BENEFIT INFORMATION

The Councillors can belong to the Municipal Councillors Pension Fund. The Fund is subject to an actuarial valuation. The latest valuation was done on 30 June 2002 and reflected a net return of 9,6% on the Gratuity Section.

The employees contribute to the Free State Municipal Pension Fund, Sala Pension Fund, Free State Municipal Provident Fund and SAMWU Provident Fund. The pension funds are subject to actuarial valuation. The latest actuarial valuation of the first fund was on 30 June 2002 and reflected a sound financial position. The Free State Provident Fund's latest actuarial valuation was on 30 June 2002 and reflected a sound financial position. The latest actuarial valuation of Sala Pension Fund was on 1 July 1995 and reflected a deficit of 2%.

34 EVENTS AFTER THE REPORTING DATE

On the 2nd of July 2007 the Refenggotso offices were damaged due to the riots of residence.

Councillor N M Mokoena past away on the 02 July 2007.

35 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).

36 DISCLOSURE OF RELATED PARTIES

36.1 Related parties and transactions

Councillor N M Mtimkulu:Letsema Civil Works	-	40,444
Mr. M Penkin : CT Computers	-	78,265
Councillor N M Mtimkulu:Letsema Cleansing Services	529,914	525,966
Councillor S I Ramathesele : Mamohato Construction	46,535	4,326
Director Mr. Mqwathi: MKS Management Services CC	517,033	379,132

36.2 Related party relationships

The Municipal Entity (The Mayoral Trust) was under the sole control of the municipality during the financial year. The Mayoral Trust was not consolidated in the current and previous financial year. The non consolidation was approved by National Treasury as part of the phase in of Gamap/Grap compliance.

Mr Mqwathi the Director: Organisational Development and Corporate services and MKS Management Services CC are members of Mitoro Management Consulting CC. MKS Management Services CC was appointed as a service provider.

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

37 DISALLOWED

37.1 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance	-	-
Fruitless and wasteful expenditure current year	1,109,947	-
Condoned by Council	171,284	-
Fruitless and wasteful expenditure	1,281,231	-

Incident	Actions taken		
Interest on Rand Water		558,047	-
Interest charged by Ikangeng Catering since funds to make payment was delayed	None taken	1,950	-
Payments made to Promptvest 26 (Pty) Ltd for a GAMAP compliant fixed asset register not completed in full.	Contract cancelled Disciplinary hearing was held and one of the employees was dismissed.	164,059	578,274,00
Suspended Employees - Salaries (Refer to Note 22)		385,841	-
		1,109,947	578,274,00

Incident	Actions taken		
Purchases without an order	Condoned by Council	22,525	-
Purchases without an order and not budgeted for	Condoned by Council	148,759	-
		171,284	-

37.2 Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance	-	-
Irregular expenditure current year	37,602	-
Irregular expenditure	37,602	-

Incident	Actions taken		
Inadequate quotation obtained for payments made to Jacobsco.	Supply Chain Officer will take control over procurement procedures	37,602	-
		37,602	-

38 Restatement of comparative figures

Certain comparative figures have been reclassified which has resulted in more appropriate disclosure and presentation.

39 Prior Period Error

39.1 Government Grants

Government Grants are accounted for in terms of IAS 20 paragraph 26. The client accounted for government grants directly as part of the reserves and as per IAS 20 paragraph 12 stated that the client shall not credited government grants to shareholders' interests.

Increase / Decrease in the Government Grants Reserve	(47,721,693)
Increase / Decrease in the Deferred Income Conditional Grant	56,814,419
Decrease in Government Grants and Subsidies revenue	(9,092,726)
Effect on the Accumulated Surplus	-

39.2 Consumer debtors

Unmetered consumption for water and electricity was not accounted for at the end of 30/06/2006

Increase in Consumer Debtors	4,643,674.00
Increase in income water	-1,934,996.00
Increase in income electricity	-2,708,678.00
Effect on the Accumulated Surplus	-

40 Contingent Liability

40.1 Housing Loans

Guarantees for housing loans to employees at financial institutions.

29,821.00

-

41 Risk management

Liquidity risk

The Council's risk to liquidity is a result of the funds available to cover future commitments. The Council manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared monthly and adequate utilised borrowing facilities are monitored. The Council has a R 5 million overdraft facility with ABSA BANK to ensure adequate borrowing facilities are available. The cash flow of the Council is managed on a daily basis and any problems are communicated to the management in time to ensure arrangements with major suppliers can be reached. The cash flow of the Council was placed under pressure due to an unforeseen problem in the form of a sudden abnormal level of unaccounted for water. The situation was managed and Council took drastic action to improve the matter.

The general liquidity of the Council is managed by a bank and investment policy with properly defined duties and responsibilities supported by adequate delegated authority by the Council.

The exposure of Council risk to liquidity due to the non payment of debtors are managed by ensuring that adequate deposits are required by consumers.

The Council has the following financial instruments that can be cashed in on a very short notice to relieve cash flow matters that cannot be addressed in the normal course of business.

Paid up annuity
Shares SANLAM LTD
Non paid up annuity
Approved additional credit facility available

The above instruments are available if the current funds are not enough to cover the future commitments and are sufficient to cover any normal liquidity risk of the Council.

The Council is empowered to perform tariff adjustments and budget for any unforeseen operational changes in the nature of the Council business subject to applicable regulations.

Risk from biological assets

The Council is not exposed to financial risks arising from changes in any purchased biological bulk services. The Council operates two water purification plants as well as two sewer purification plants in Oranjeville and Deneysville which is considered an ecologically sensitive and national key resource area. (Upper and Lower Vaal Dam) The Council has established a disaster management committee and forum to ensure any disaster can be managed. The main bulk services for the area is purchased and these resources are negotiated through a national negotiation forum that ensure that bulk service purchase price increases are fair. The sewer purification for the Sasolburg and Zamdela services is purchased from SASOL group. The annual price increase is forwarded to the consumers to ensure that financial risks is managed. No joint or separate responsibility for sewer outfall exist on the Sasolburg and Zamdela plant.

The Council reviews its water and sewer purification prices annually, considering the need for active financial risk management.

The Council operates seven cemeteries. The Council is in process to procure adequate land for these cemeteries to ensure the major financial risk relating to cemeteries are catered for.

The Council operates three demarcated refuse removal sites. The operation of these sites are considered adequate and current studies are underway to ensure that the sustainability, operation and rehabilitation of these sites are adequate. These studies will ensure that adequate financial risks is identified and managed.

The financial risk for storm water is managed through the non acceptance of any risk for down flow storm water in title deeds and the inclusion of operational and financial risk controls in the title deeds of all stands and the town planning scheme.

Adequate (R 100m) public liability insurance is secured annually from the insurers of the Council.

Interest rate risk

Deposit and all attract interest at rate that vary with prime. The company policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on surplus / deficit.

At year end, financial instruments exposed to interest rate risk were as follows.

Call deposits
Notice deposits
Long Term Annuity
DBSA Loan
ABSA overdraft

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Council only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Only approved major financial institutions are utilised. An extensive investment policy and delegated authority is approved by Council and is adhered to.

Minimal cash on hand is kept in the form of receipts, petty cash and cashier floats. The income is daily collected by a collection service and sufficient categories of safes and strong rooms are utilised to keep cash until collection.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The collection of arrears is a priority. The credit control and debt collection policy is reviewed annually to ensure the credit risk is managed. The Council budget for adequate working capital and a bad debt write off policy is being developed. Deposits are levied with new connections to protect the Council from non payment. The indigent register is regularly reviewed and updated. A credit collection section is functioning and any arrear accounts duly followed up. Action is taken timeously against defaulters. For unsuccessful action accounts are handed over to attorneys for collection. Proceeds of the sale of property is attached for amounts owed during the transfer of properties by issuing clearance certificates as required.

Cash, fidelity and money handlers insurance are taken out annually to ensure adequate risk cover exist.

Financial assets exposed to credit risk at year end were as follows:

METSIMAHOLO LOCAL MUNICIPALITY								APPENDIX A
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2007								
	Loan Number	Redeem-able	Balance at 1 July 2006	Received during period	Redeemed/ Written off during the period	Balance at 30 June 2007	Carrying Value of Property Plant and Equipment	Other costs in accordance with MFMA
Long Term loans								
Annuity loans								
DBSA @ 15,3%	8	30/6/2007	8,269		8,269	0		
DBSA @ 15,3%	9	30/6/2007	18,043		18,043	0		
DBSA @ 15,3%	10	30/6/2007	69,578			32,234	37,344	
DBSA @ 15,6%	11	30/6/2008	27,120		9,646	17,474		
DBSA @ 13,5%	1	31/3/2008	1,377,435		642,544	734,891	378,124	
INCA	2	30/6/2009	7,823,073	0	2,375,631	5,447,442	5,166,767	
INCA	3	30/4/2011		5,000,000	167,416	4,832,584	2,044,334	
			9,323,518	5,000,000	3,253,783	11,069,735	2,303,120	
Housing loans								
F.D.B. @ 6%	100	31/3/2007	15,139		15,139	0		
F.D.B. @ 0%	101	30/9/2008	27,267		27,267	0		
F.D.B. @ 6%	102	30/9/2007	25,858		25,858	0		
F.D.B. @ 6,0%	B13	31/3/2008	1,855		1,855	0		
F.D.B. @ 6%	104	30/9/2008	24,001		24,001	0		
F.D.B. @ 6%	105	30/9/2009	76,072		76,072	0		
F.D.B. @ 6%	B93	30/9/2013	55,170		55,170	0		
F.D.B. @ 6%	B97	30/9/2013	81,536		81,536	0		
			306,898	0	306,898	0		
Total : External Loans			9,630,416	5,000,000	3,560,681	11,069,735	2,303,120	
It was not a requirement in the past to link loans and assets.								
Due to a lack of information, the loans ,except Annuity loan 1,2 and 3 cannot be linked								
DBSA loans were for infrastructure in the Deneysville/Refengkgotso Council								
Housing loans (F.D.B) were for hostels and houses in Zamdela area								

METSIMAHOLO LOCAL MUNICIPALITY

ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	Cost / Revaluation				Accumulated Depreciation						Budget Additions 2007
	Opening Balance	Additions	Transfer Balance	Disposals	Closing Balance	Opening Balance	Additions	Transfer Disposals	Closing Balance	Carrying Value	
Land and Buildings											
Land											0
Buildings	24,857,711	181,544	0	183,900	24,855,355	4,022,022	1,049,263		5,071,285	19,784,070	11,010,780
	24,857,711	181,544	0	183,900	24,855,355	4,022,022	1,049,263	0	5,071,285	19,784,070	11,010,780
Infrastructure											
Stormwater	19,366,421	3,946,435	0		23,312,856	5,203,139	1,583,139		6,786,278	16,526,578	3,100,000
Roads	71,764,959	237,645	0		72,002,604	41,100,859	6,044,457		47,145,316	24,857,288	2,255,000
Sewerage Mains & Purification	57,408,326	11,973,480	0		69,381,806	12,735,041	3,166,426		15,901,467	53,480,339	10,004,000
Electricity Mains	56,313,591	671,769	0		56,985,360	20,149,987	3,448,529		23,598,516	33,386,844	30,600,000
Electricity Peak Load Equipment	1,531,860		0		1,531,860	473,945	10,5489		579,434	952,426	250,000
Water Mains & Purification	41,450,254	11,845,720	0		53,295,974	16,441,650	2,457,322		18,898,972	34,397,002	7,460,000
Reservoirs - Water	1,821,518	0	0		1,821,518	1,312,927	35,571		1,348,498	473,020	0
Water Meters									0	0	0
Refuse dumps	0		0		0				0	0	0
	249,656,929	28,675,049	0	0	278,331,978	97,417,548	16,840,933	0	114,258,481	164,073,497	53,669,000
Community Assets											
Parks	3,089,770	143,940	0	37,870	3,195,840	2,225,419	200,571		2,425,990	769,850	100,000
Libraries	0		0		0				0	0	0
Stadiums	4,070,312		0		4,070,312	616,200	179,926		826,126	3,244,186	1,200,000
Halls	3,531,365	0	0		3,531,365	670,520	122,855		793,375	2,737,990	180,000
Theatre	0		0		0				0	0	0
Swimming Pools	1,128,024	0	0		1,128,024	331,938	114,576		446,514	681,510	80,000
Recreation facilities	566,445		0		566,445	95,915	27,913		123,828	442,617	1,350,000
Clinics	1,510,821	0	0		1,510,821	587,161	4,3595		630,756	880,065	
Cemetery	867,377	0	0		867,377	120,290	29,983		150,273	717,104	550,000
	14,764,114	143,940	0	37,870	14,870,184	4,677,443	719,419	0	5,396,862	9,473,322	3,460,000
Heritage											
Paintings,sculptures,ect	180,870		0		180,870	210	65		275	180,595	0
	180,870	0	0	0	180,870	210	65	0	275	180,595	0
Other Assets											
Landfill Sites											
Furniture	3,670,840	52,672	0	19,825	3,703,687	2,221,702	444,775	0	10,141	2,656,336	1,047,351
Office equipment	977,499	20,050	0	133	997,416	713,212	118,662	0	108	831,766	165,650
Emergency equipment			0		0				0	0	0
Motor vehicles	9,012,961	3,166,521	0	4,091	12,175,391	4,287,751	1,243,655	0	4,091	5,527,315	6,648,076
Fire Engines	2,188,843	0	0		2,188,843	115,802	109,442		225,244	1,963,599	0
Refuse Trucks	6,856,824	0	0	237,653	6,619,171	3,221,850	1,101,859	194,084	4,129,525	2,489,546	0
Computer equipment	4,284,732	199,005	0	116,841	4,366,896	2,051,802	742,366	0	134,475	2,662,693	1,704,203
Councillor's Regalia					0				0	0	0
Other assets	6,547,425	216,174	0	2,000	6,765,599	4,756,886	607,196	0	1,167	5,362,915	1,398,684
	33,539,124	3,654,422	0	380,543	36,813,003	17,369,005	4,367,955	0	344,066	21,395,894	15,417,109
Housing											
Hostels	25,666,292		0		25,666,292	1,799,033	353,291		2,152,324	23,503,968	12,570,900
Housing Rental	1,448,010	0	0		1,448,010	112,149	55,921		268,070	1,379,940	
	27,104,302	0	0	0	27,104,302	2,011,182	409,212	0	2,420,394	24,683,908	12,570,900
Total	350,103,050	32,654,955	0	602,313	382,155,692	125,497,410	23,386,847	0	344,066	148,543,191	233,612,501

Problems are experienced with the asset register to be in line with GAMAP.

1. Depreciation is done with implementation of Asset Register, but further adjustments will be made to correct depreciation on the assets taken up
2. Loans redeemed and other capital receipts were allocated to accumulated depreciation, as well as Loan Redemption Fund.

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METSIMAHOLO LOCAL MUNICIPALITY

SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	COST				ACCUMULATED DEPRECIATION						
	Opening Balance	Additions	Transfer Balance	Disposals	Closing Balance	Opening Balance	Additions	Transfer	Disposals	Closing Balance	Carrying Value
Office of the Municipal Manager	775,948	0	0	20,120	755,828	398,483	103,260		16,431	485,312	270,516
Corporate Services	24,470,448	23,093	0	44,109	24,449,432	7,536,596	1,448,696	0	36,682	8,948,610	15,500,822
Information Technology	2,184,110	4,708	-726,571	-6,804	1,469,051	2,029,591	-53,554	-640,354	-6,804	1,342,487	126,564
Health Services	2,032,915	3,734	0	2,473	2,034,176	858,564	98,870	0	1,848	955,586	1,078,590
Cleansing Services	5,966,748	563,770	0	171,871	6,358,647	2,632,166	812,828		141,111	3,203,883	3,054,764
Public Safety	7,474,076	20,133	0	750	7,493,459	1,965,844	734,299		612	2,699,531	4,793,928
Parks and Recreation	2,366,820	18,410	0	0	2,385,230	881,032	350,419	0	0	1,231,451	1,153,779
Pleasure Resorts	668,549	12,632	0	0	681,181	313,294	98,428		0	411,722	269,459
Community Centres	1,019,867	0	0	0	1,019,867	278,738	79,652		0	358,390	664,477
Stadiums	5,422,943	0	0	0	5,422,943	823,925	206,993		0	1,030,918	4,392,025
Swimming Pools	670,718	0	0	0	670,718	183,324	35,852		0	219,176	451,542
Cemeteries	1,357,557	68,200	0	0	1,225,757	403,314	45,399		0	448,713	777,044
Libraries	879,278	60,399	0	3,581	936,096	465,973	88,318		2,894	551,397	384,699
Technical Services	251,727	0	0	5,200	246,527	172,591	33,601	0	4,200	201,992	44,535
Electricity	52,056,412	6,078,414	0	2,380	58,132,446	14,686,887	3,777,521	0	1,944	18,462,464	39,669,982
Mechanical Workshop	402,394	0	0	2,328	400,066	204,684	58,557		1,901	261,340	138,726
Streets and Stormwater	88,980,874	6,941,099	0	69,874	95,852,099	46,163,473	7,719,372	0	57,064	53,825,781	42,026,318
Buildings	286,836	0	0	0	286,836	133,480	46,856		0	180,336	106,500
Sewerage	60,358,422	11,973,481	0	0	72,331,903	13,867,240	3,310,992	0	0	17,178,232	55,153,671
Water	43,133,618	6,642,272	0	0	49,775,890	17,966,060	2,542,495	0	0	20,508,555	29,267,335
Financial Services	4,566,662	243,558	726,571	101,032	5,435,759	1,766,836	833,808	640,354	81,957	3,159,041	2,276,718
Economical Development and Planning	0	0	0	0	0	0	0		0	0	0
	46,196	0	0	0	46,196	7,149	6,599		0	13,748	32,448
Housing Admin	7,265,847	0	0	750	7,265,097	7,240,170	14,129		613	7,253,686	11,411
Property Admin	1,152,608	0	0	183,900	968,708	615,704	87,369		0	703,073	265,635
Urban Planning	36,511,477	1,053	0	750	36,511,780	3,902,292	906,088		613	4,807,767	31,704,013
TOTAL	350,103,050	32,654,956	0	602,314	382,155,692	125,497,410	23,386,847	0	341,066	148,543,191	233,612,501

METSIMAHOLO LOCAL MUNICIPALITY							
SEGMENTAL INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2007							
2006	2006	2006		2007	2007	2007	2007
Actual	Actual	Surplus/ (Deficit)		Actual	Actual	Surplus/ (Deficit)	Budget
Income	Expenditure	(Deficit)		Income	Expenditure	(Deficit)	Surplus/ (Deficit)
112,287,619	133,156,877	-20,869,258	Rates and General Services	149,431,830	167,450,811	-18,018,981	15,847,640
82,105,681	85,564,021	-3,458,340	Community Services	115,954,173	115,105,788	848,385	25,300,330
180,000	1,209,802	-1,029,802	Executive Mayor : Admin	30,000	1,706,956	-1,676,956	1,282,380
0	326,729	-326,729	Youth Unit	0	246,723	-246,723	-340,470
0	78,505	-78,505	Age/Disability/Gender/Children	0	10,534	-10,534	-159,950
0	1,256,718	-1,256,718	Speaker : Admin	0	1,642,920	-1,642,920	-1,619,120
0	1,659,515	-1,659,515	Mayoral Committee	0	3,374,445	-3,374,445	-2,853,580
4,557	2,390,994	-2,386,437	Councillors	4,557	4,339,999	-4,335,442	-3,777,710
0	1,251,738	-1,251,738	Municipal Manager : Admin	0	1,973,168	-1,973,168	-706,580
0	186,119	-186,119	IDP and PMS	0	196,788	-196,788	-311,470
0	116,932	-116,932	Internal Audit	0	105,696	-105,696	-360,660
0	0	0	Masakhane/IEC	0	11,328	-11,328	230,400
0	791,358	-791,358	Director : Transformation & Corp.	0	323,584	-323,584	-295,640
22,717	2,941,907	-2,919,190	Corporate Service : Admin	21,710	2,866,785	-2,845,075	-2,820,140
0	1,107,348	-1,107,348	Human Resources	328,712	1,325,289	-996,577	-1,068,620
0	773,127	-773,127	Legal Services	0	951,860	-951,860	-935,850
77,582	3,390,402	-3,312,820	Civic Centre	77,583	3,154,219	-3,076,636	-4,387,890
0	464,860	-464,860	Staff housing - hostels & dwellings	0	158,212	-158,212	-29,080
91,538	1,536,397	-1,444,859	Business System	109,906	1,641,182	-1,531,276	-919,670
38,163	811,768	-773,605	Director : Social Services	38,161	1,256,191	-1,218,030	-1,507,870
0	482,835	-482,835	Public Safety & Security : Admin	0	442,923	-442,923	-657,120
0	354,462	-354,462	Disaster & Emergency Management	0	265,555	-265,555	-290,470
0	1,837,855	-1,837,855	Security Services	0	2,379,799	-2,379,799	-1,343,880
4,401,326	6,678,822	-2,277,496	Traffic Services	33,818,607	24,773,436	9,045,171	-531,380
66,748	8,206,409	-8,139,661	Parks, Recreation & Open Spaces	73,624	9,127,901	-9,054,277	-7,639,410
0	216,446	-216,446	Director : Technical Services	0	193,270	-193,270	-1,009,830
18,028	1,936,555	-1,918,527	Engineering Workshop	19,635	1,800,327	-1,780,692	-2,146,040
67,112	918,578	-851,466	Civil Engineering : Admin	56,571	980,577	-924,006	-1,447,280
3,528,459	16,605,986	-13,077,527	Streets & Stormwater	4,157,865	15,965,854	-11,807,989	-5,509,710
0	2,841,446	-2,841,446	Building Maintenance	945	2,914,833	-2,913,888	-3,484,980
0	409,115	-409,115	Director : Financial Services	0	264,407	-264,407	-2,012,650
20,355,685	19,774,535	581,150	Financial Services : Admin	23,726,528	24,699,803	-973,275	-607,610
12,468	333,374	-320,906	Stores and Purchasing	984,584	351,798	632,786	-258,350
52,173,168	0	52,173,168	Assessment Rates	51,794,403	0	51,794,403	57,113,110
0	742,326	-742,326	Director : Economic Dev. & Planning	0	885,743	-885,743	-1,003,460
0	406,027	-406,027	Housing prop. & Urban Plan. : Admin	0	557,757	-557,757	-541,650
28	837,770	-837,742	Property Admin	28	1,083,708	-1,083,680	17,925,130
1,066,878	2,331,743	-1,264,865	Urban Planning	710,754	2,251,857	-1,541,103	-95,420
0	352,213	-352,213	Econ. Development : Admin	0	832,883	-832,883	-435,330
1,224	3,305	-2,081	Marketing and Tourism	0	47,498	-47,498	-9,820
0	0	0	Public Relations	0	0	0	-132,000

2006	2006	2006		2007	2007	2007	2007
Actual	Actual	Surplus/		Actual	Actual	Surplus/	Budget
Income	Expenditure	(Deficit)		Income	Expenditure	(Deficit)	Surplus/
							(Deficit)
420,893	12,967,399	-12,546,506	Subsidized Services	1,042,255	14,316,049	-13,273,794	-12,908,860
0	5,135,826	-5,135,826	Fire Protection Services	0	5,421,732	-5,421,732	-4,264,360
46,952	833,339	-786,387	Etienne Rousseau Theatre	693,642	1,199,691	-506,049	-1,547,140
0	0	0	Zamdela Arts and Culture Centre	70	0	70	-19,810
2,050	975	1,075	Refengkgotso Hall	1,214	3,763	-2,549	7,390
12,638	13,649	-1,011	Metsimaholo Hall	12,638	18,659	-6,021	7,220
11,333	355,091	-343,758	Zamdela Community Hall	11,333	281,785	-270,452	-195,230
66,498	1,265,262	-1,198,764	D P de Villiers Stadium	63,896	1,737,175	-1,673,279	-2,730,210
5,570	552,419	-546,849	Moses Kotoane Stadium	789	352,994	-352,205	518,850
0	7,823	-7,823	Refengkgotso Stadium	0	7,484	-7,484	-16,200
0	8,545	-8,545	Metsimaholo Stadium	0	4,000	-4,000	-53,820
53,099	999,996	-946,897	Penny Heyns Swimming pool	35,579	1,004,398	-968,819	-1,316,940
5,053	480,070	-475,017	Zamdela Swimming pool	5,000	641,796	-636,796	-631,130
86,723	521,655	-434,932	Sasolburg Cemetery	70,350	438,002	-367,652	-172,740
39,413	228,048	-188,635	Zamdela Cemetery	20,606	254,076	-233,470	-254,790
0	42,469	-42,469	Deneysville Cemetery	0	51,850	-51,850	286,940
0	1,023	-1,023	Oranjeville Cemetery	0	2,599	-2,599	-10,770
82,143	1,998,264	-1,916,121	Sasolburg Library	90,098	2,195,686	-2,105,588	-2,038,760
9,421	346,893	-337,472	Zamdela Library	37,040	433,414	-396,374	-304,570
0	172,437	-172,437	Deneysville Library	0	263,221	-263,221	-169,590
0	3,615	-3,615	Oranjeville Library	0	3,724	-3,724	-3,200
29,761,045	34,625,457	-4,864,412	Economical Services	32,435,402	38,028,974	-5,593,572	3,456,170
12,741,526	13,669,224	-927,698	Cleansing Services	13,724,396	15,057,605	-1,333,209	-1,373,010
1,059,443	2,251,041	-1,191,598	Abrahamsrust Holiday Resort	1,363,834	2,520,321	-1,156,487	-2,210,330
0	6,238	-6,238	Deneysville Shore facility	0	26,732	-26,732	54,580
150	2,071	-1,921	Oranjeville Shore facility	0	1,233	-1,233	77,750
15,959,926	18,696,883	-2,736,957	Sewerage	17,347,172	20,423,083	-3,075,911	6,907,180
255,442	1,779,913	-1,524,471	Housing Services	363,599	1,640,926	-1,277,327	6,879,670
255,442	1,779,913	-1,524,471	Housing Admin	363,599	1,640,926	-1,277,327	6,879,670
135,072,431	146,475,590	-11,403,159	Trading Services	154,003,416	147,858,122	6,145,294	59,132,450
63,810,936	53,794,848	10,016,088	Electricity : Admin	69,525,463	56,590,900	12,924,563	14,805,370
742,983	14,296,834	-13,553,851	Electricity : Distribution	980,760	15,322,296	-14,341,536	13,423,830
64,553,919	68,091,682	-3,537,763	Electricity	70,496,223	71,913,196	-1,416,973	28,229,200
70,518,512	78,383,908	-7,865,396	Water Service	83,507,193	75,944,926	7,562,267	30,903,250
247,615,492	281,412,380	-33,796,888	Total	303,798,845	316,949,859	-13,151,014	81,859,760

METSIMAHOLO LOCAL MUNICIPALITY					APPENDIX E(1)
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2007					
	2007	2007	2007	2007	Explanation of Significant Variance greater than 10% Versus Budget
	Actual (R)	Budget (R)	Variance (R)	Variance (%)	
Revenue					
Property Rates	48,945,745	54,839,110	(5,893,365)	(11)	
Service Charges	154,110,078	194,358,000	(40,247,922)	(21)	1*
Tariff Charges	9,129,670	5,224,460	3,905,210	75	2*
Fines	33,414,817	7,013,780	26,401,037	376	3*
Government Grant and Subs.	32,588,525	36,607,950	(4,019,425)	(11)	4*
Interest earned - external investments	1,857,337	1,000,000	857,337	86	5*
Interest earned - outstanding debtors	11,567,172	11,550,000	17,172	0	
Rental facilities and Equipment	1,225,827	812,660	413,167	51	6*
Licenses and Permits	70,954	90,000	(19,046)	(21)	7*
Profit sale of Assets	564,583	-	564,583	100	8*
Other income	1,329,999	6,884,050	(5,554,051)	(81)	9*
Capital Grants and Subsidies	8,994,138	79,724,780	(70,730,642)	(89)	10*
Total Revenue	303,798,845	398,104,790	(94,305,945)	(24)	
Expenditure					
Employee related costs	82,924,763	91,524,550	(8,599,787)	(9)	
Remuneration of Councillors	8,038,512	6,948,860	1,089,652	16	
Bad debts	17,000,000	17,000,000	-	-	
Collection Cost	-	-	-	-	
Depreciation	23,452,852	1,000,000	22,452,852	2,245	12*
Repairs and Maintenance	12,885,091	14,627,300	(1,742,209)	(12)	13*
Interest on external borrowings	1,566,813	1,434,590	132,223	9	14*
Bulk purchases	89,275,615	117,188,690	(27,913,075)	(24)	15*
Contracted Services	24,485,018	7,397,960	17,087,058	231	16*
Grants and Subsidies paid	12,260,829	9,630,000	2,630,829	27	17*
General expenses - Other	44,487,444	50,502,870	(6,015,426)	(12)	16*
Contributions to/(transfers from) provisions	311,673	(1,009,790)	1,321,463	100	18*
Loss on disposal of property, plant and equipment	261,249	-	261,249	100	19*
TOTAL EXPENDITURE	316,949,859	316,245,030	704,829	0	
Net Surplus / (Deficit) for the year	(13,151,014)	81,859,760	(95,010,774)		
Less Capital Grants	-	-	-	-	
Net Surplus / (Deficit) for the year	(13,151,014)	81,859,760	(95,010,774)		

METSIMAHOLO LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2007

	2007 Actual	2007 Under Construction	2007 Total Additions	2007 Budget	2007 Variance (R)	2007 Variance (%)	Explanation of Significant Variances greater than 5% versus Budget
Land and Buildings							
Land							
Buildings	181,544		181,544	11,010,780	(10,829,236)	(98)	1*
	181,544	-	181,544	11,010,780	(10,829,236)	(98)	
Infrastructure							
Stormwater	3,946,435		3,946,435	3,100,000	846,435	27	2*
Roads	237,645		237,645	2,255,000	(2,017,355)	(89)	3*
Sewerage Mains & Purification	11,973,480		11,973,480	10,004,000	1,969,480	20	4*
Electricity Mains	671,769		671,769	30,600,000	(29,928,231)	(98)	5*
Electricity Peak Load Equipment	-		-	250,000	(250,000)	(100)	5*
Water Mains & Purification	11,845,720		11,845,720	7,460,000	4,385,720	59	6*
Reservoirs - Water	-		-	-	-	100	
Water Meters	-		-	-	-		
Refuse dumps	-		-	-	-		
	28,675,049	-	28,675,049	53,669,000	(24,993,951)	(47)	
Community Assets							
Parks	143,940		143,940	100,000	43,940	44	3*
Libraries	-		-	-	-	-	
Stadiums	-		-	1,200,000	(1,200,000)	(100)	3*
Halls	-		-	180,000	(180,000)	(100)	3*
Theatre	-		-	-	-		
Swimming Pools	-		-	80,000	(80,000)	(100)	3*
Recreation facilities	-		-	1,350,000	(1,350,000)	(100)	3*
Cemeteries	-		-	550,000	(550,000)	(100)	7*
	143,940	-	143,940	3,460,000	(3,316,060)	(96)	
Heritage							
Paintings	-		-	-	-		
Other Assets							
Landfill Sites	-		-	-	-		
Furniture	52,672		52,672	465,730	(413,058)	(89)	8*
Office equipment	20,050		20,050	-	20,050	100	8*
Emergency equipment	-		-	-	-		
Motor vehicles	3,166,521		3,166,521	57,000	3,109,521	5,455	8*
Fire Engines	-		-	-	-		8*
Refuse Trucks	-		-	-	-		8*
Computer equipment	218,205		218,205	973,400	(755,195)	100	8*
Councillor's Regalia	-		-	-	-		
Other Assets	216,174		216,174	17,880,600	(17,664,426)	(99)	8*
	3,673,622	-	3,673,622	19,376,730	(15,703,108)	(81)	
Housing							
Hostels	-		-	12,570,900	(12,570,900)	(100)	14*
Housing Rental	-		-	-	-		14*
	-	-	-	12,570,900	(12,570,900)	(100)	
Investment Properties							
Investment Properties	-		-	-	-		
	-	-	-	-	-	-	
Total	32,674,155	-	32,674,155	100,087,410	(67,413,255)	(67)	



REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE METSIMAHOLO LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008

REPORT ON THE FINANCIAL STATEMENTS

Introduction

2. I was engaged to audit the accompanying financial statements of the Metsimaholo Local Municipality (municipality) which comprise the statement of financial position as at 30 June 2008, 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 90 to 149.

Responsibility of the accounting officer for the financial statements

3. 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 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). 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
 - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

4. 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 conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
5. 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 not effective for this financial year, I have determined that my audit of any disclosures made by the municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

Basis of accounting

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

Basis for disclaimer of opinion

Property, plant and equipment

7. I was unable to obtain sufficient appropriate audit evidence as to the existence of items of property, plant and equipment with a carrying value of R13 263 861 included in the fixed asset register and disclosed in the statement of financial position and in note 7 to the financial statements, as a result of the fixed asset register not containing information to separately identify assets. Furthermore, the municipality requested exemption from GAMAP 17 *Property, Plant and Equipment*, as the municipality had not prepared an asset register for infrastructure assets. As exemption was not granted, I am unable to verify the completeness, existence and valuation of infrastructure assets disclosed in note 7 to the financial statements. The records of the municipality also did not permit me to perform reasonable alternative procedures in respect of these items of property, plant and equipment.

Long-term receivables

8. Included in long-term receivables as presented in the statement of financial position are housing debtors of R4 392 995. A provision for the impairment of these receivables is included in accounts payable and was not set off against long-term receivables. As a result, long-term receivables and non-current liabilities are both overstated by R4 392 995.

Accounts receivable

9. For reasons as detailed below, consumable receivables to the value of R127 240 569 as disclosed in the statement of financial position and in note 2 to the financial statements are not reasonably stated:
 - (a) Consumer debtors are overstated by R66 877 450 and expenditure is understated by the same amount. The balance of R66 877 450 represents amounts that should have been provided for as a provision for doubtful debts, as indicators of impairment, including long-outstanding debt and a slow collection rate, are evident. This raises concerns regarding the valuation of these consumer debtors.
 - (b) Consumer debtors are overstated by R13 752 510 and accumulated surplus is overstated by the same amount. The difference of R13 752 510 relates to a shortfall between the general ledger and the debtors age analyses at 30 June 2007.
 - (c) The debtors aging in the financial statements as disclosed in note 2 reflects current consumer debtors at an amount of R97 767 164. On average the municipality levies property rates and service charges on a monthly basis of R25 263 217. Consequently, I am unable to assess the fair representation of the consumer debtors aging.
 - (d) The municipality is registered for value-added tax (VAT) on the cash basis and has not yet recovered VAT on long-outstanding consumer debtors. Since this is not a legal obligation, accounts payable (which include the VAT liability) and consumer debtors are overstated by an amount of R21 667 825.
 - (e) Other accounts receivable are overstated by a cumulative amount of R13 354 126 (2007: R11 167 011) and expenditure and accumulated surplus are understated by R2 187 115 and R11 167 011, respectively. This represents amounts that should have been provided as a provision for doubtful debts, as indicators of impairment are evident.

Revenue

10. For reasons as detailed below, I was unable to obtain sufficient appropriate audit evidence as to the completeness, accuracy and occurrence of revenue (property rates and service charges)

amounting to R272 918 457 as disclosed in the statement of financial performance and in notes 17 and 18 to the financial statements:

- (a) The municipality recorded water sales of R117 730 942 included in the financial statements. The water sales according to the municipality's sales system amount to R122 071 904, which is R4 340 962 more than the amounts actually recorded in the financial records. No explanations could be provided for the difference.
- (b) The municipality recorded electricity sales of R73 402 144 included in the financial statements. The electricity sales according to the municipality's sales system amount to R78 165 426, which is R4 763 282 more than the amounts actually recorded in the financial records. No explanations could be provided for the difference.
- (c) I identified 5 577 properties in the municipal area from which no revenue (service charges, rates and taxes) was being recovered. The municipality's records did not permit the application of alternative procedures and, accordingly, the impact on the current year's results could not be determined.
- (d) Inter-departmental sales to the value of R3 923 404 (2007: R4 547 290) have not been eliminated in the financial statements of the municipality and, as a result, both income and expenditure are overstated by this amount.

Irregular expenditure

- 11. For expenses amounting to R2 373 941, the municipality did not comply with the supply chain management policy as authorised by council, as no evidence could be provided to indicate that the formal process of evaluation of quotations, tenders and bids had been performed. This expenditure constitutes irregular expenditure in terms of section 1 of the MFMA, resulting in irregular expenditure as disclosed in note 36.3 to the financial statements being understated by this amount.

Accounts payable

- 12. Included in trade and other payables as presented in the statement of financial position and disclosed in note 11 to the financial statements are unallocated deposits amounting to R21 084 113. I was unable to obtain sufficient appropriate audit evidence as to the existence, completeness and valuation of this balance as at year-end. This may indicate that accounts payable and consumer debtors are overstated, while revenue may be understated. The VAT implications on these unallocated deposits are also uncertain and have not been considered. The records of the municipality also did not permit me to perform reasonable alternative procedures in respect of these deposits.

Employee-related costs

- 13. The municipality has not made a provision for long-term service awards in terms of its policy on long-term service. I have estimated that the value of this obligation is R2 287 725, but an actuarial valuation would be required in terms of IAS 19 to calculate the obligation.

Accumulated surplus

- 14. The municipality was unable to provide an explanation for an adjustment of R2 165 814 in which the VAT liability was debited and accumulated surplus at the beginning of the year was credited. No alternative audit procedures could be performed on this adjustment.

Fruitless and wasteful expenditure

15. The municipality incurred expenditure amounting to R442 557 that was made in vain and could have been avoided had reasonable care been taken. The expenses meet the definition of fruitless and wasteful expenditure as contained in section 1 of the MFMA and should have been disclosed in the notes to the financial statements in terms of section 125(1)(d) of the MFMA.

Related parties

16. The municipality disclosed an amount of R568 056 as transactions with related parties in note 35 to the financial statements, in terms of IAS 24 *Related Parties*. However, I identified related party transactions of R2 682 904, resulting in an understatement of R2 114 398 that could not be explained by management.

Commitments and contingencies

17. I was unable to obtain sufficient appropriate audit evidence in the form of an independent attorney's confirmation to satisfy myself that the amount of contingent liabilities disclosed in the financial statements is complete.
18. My review of management controls and procedures to record outstanding commitments indicated that there are no effective procedures in place to ensure that all of the municipality's capital commitments have been identified and disclosed in the financial statements.

Cash flow statement

19. The cash flow statement does not fairly reflect the results of the municipality's cash flows for the year ended 30 June 2008. Due to a lack of information, no alternative procedures could be performed and I was unable to determine the extent of the misstatements in the cash flow statement.

Risk management

20. Note 40 to the financial statements indicate that the municipality's liquidity risk is adequately covered through consumer deposits. However, the following indicate that the current disclosure on credit and liquidity risk is inadequate and incorrect in terms of IAS 32 *Financial Instruments: Presentation and Disclosure*:
 - (a) Consumer receivables amount to R127 240 569, which is significantly more than the consumer deposits of R7 143 179. The financial statements do not address the remaining liquidity and credit risk.
 - (b) Taking into account the amounts actually received subsequent to year-end from the municipality's debtors as well as the provision raised for impairment, consumer debtors are overstated by an amount of R80 629 960. The financial statements do not disclose the municipality's exposure in respect of credit risk.
 - (c) The recoverability of other receivables, with a carrying value of R13 354 126, is also considered to be doubtful. The municipality's exposure to liquidity and credit risk is not disclosed on these financial assets.

Disclosure of non-compliance with legislation

21. The notes to the financial statements do not disclose particulars of non-compliance with the MFMA, as required by section 125(2)(e) of the MFMA. Particulars of such non-compliance that came to my attention during the audit are noted below in the paragraph on non-compliance with applicable legislation.

Going concern

22. As a result of the matters described in the Basis for disclaimer of opinion paragraphs, the municipality may be in a worse financial position than the position reflected in these financial statements. The difficulties experienced by the municipality in recovering all debts due to it as well as the potential negative effect of this tendency on the cash flows of the municipality, indicate that there is a risk that the municipality may be exposed to serious financial problems, which may require provincial or national intervention arising from financial crises as set out in terms of sections 139 and 150 of the MFMA. This could result in the municipality not settling its obligations. These matters were not disclosed in the financial statements.

Disclaimer of opinion

23. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Metsimaholo Local Municipality. Accordingly, I do not express an opinion on the financial statements.

EMPHASIS OF MATTER

I draw attention to the following matter:

Basis of accounting (departures and deviations)

24. As set out in accounting policy note 1, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of *Government Notice 552 of 2007* issued in *Government Gazette No. 30013 of 29 June 2007*.

OTHER MATTERS

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

Internal controls

25. 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 that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Property, plant and equipment	X		X		
Consumer debtors	X		X		

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Revenue			X		
Irregular expenditure			X		
Accounts payable			X		
Employee-related costs			X		
Accumulated surplus				X	
Fruitless and wasteful expenditure			X		
Related parties			X		
Contingencies and commitments			X		
Cash flow statement				X	
Risk management		X			
Disclosure of non-compliance	X		X		
Going concern	X				

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information in a form and time frame that allows people to carry out their financial reporting duties.

Monitoring: covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.

Non-compliance with applicable legislation

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

26. The municipality did not give notice to the public in terms of section 19 of all ordinary and special meetings of the council.
27. The municipality did not place all the information as set out in section 21B, including annual budgets, all budget-related policies, all performance agreements and all service delivery agreements, on a website.
28. The organisational chart of the municipality had not been kept up to date in terms of sections 55 and 66.
29. No sufficient appropriate audit evidence was provided that performance agreements between the municipality and its senior managers had been agreed in terms of section 57.

Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

30. The municipality did not settle creditors within 30 days of receipt of invoice in respect of expenditure transactions with a value of R16 800 748, as required by section 65(2)(e).
31. Certain reporting obligations, including those in sections 52(d), 53, 54(1)(f), 70(1), 73 and 133, were not submitted to council, the provincial treasury, the National Treasury and the Auditor-General.
32. The municipality did not implement an appropriate budget system to ensure compliance with sections 17, 18, 23, 28 and 69.

33. The municipality had not fulfilled its functions in terms of section 56 to ensure that the Metsimaholo Local Municipality Trust had complied with sections 84 to 109.
34. A supply chain management policy had not been fully implemented, as required by section 111.
35. Contrary to the requirements of section 115(1)(b), the municipality had not implemented an approved fraud prevention plan.

Unemployment Insurance Fund (UIF) Act, 2002 (Act No. 2 of 2002)

36. The municipality had not deducted UIF for full-time councillors from 1 April 2002 to 30 April 2008.

Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA)

37. I was not provided with sufficient appropriate audit evidence that the municipality had complied with all its reporting requirements as a receiving entity to the National Treasury in terms of section 11.

Matters of governance

38. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

Matter of governance	Yes	No
Audit committee		
• The municipality had an audit committee in operation throughout the financial year.	X	
• The audit committee operates in accordance with approved, written terms of reference.	X	
• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	X	
Internal audit		
• The municipality had an internal audit function in operation throughout the financial year.	X	
• The internal audit function operates in terms of an approved internal audit plan.	X	
• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	X	
Other matters of governance		
• The annual financial statements were submitted for audit as per the legislated deadlines in section 126 of the MFMA.	X	
• The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
• The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
• No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X

Matter of governance	Yes	No
<ul style="list-style-type: none"> The prior year's external audit recommendations have been substantially implemented. 		X
Implementation of Standards of Generally Recognised Accounting Practice (GRAP)		
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 30 October 2007. 	X	
<ul style="list-style-type: none"> The municipality substantially complied with the implementation plan it submitted to the National Treasury and the relevant provincial treasury before 30 October 2007, detailing its progress towards full compliance with GRAP. 		X
<ul style="list-style-type: none"> The municipality submitted an implementation plan, detailing further progress towards full compliance with GRAP, to the National Treasury and the relevant provincial treasury before 31 March 2008. 	X	

Unaudited supplementary schedules

39. Appendices A to D set out on pages 54 to 59 do not form part of the financial statements and are presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

OTHER REPORTING RESPONSIBILITIES

REPORT ON PERFORMANCE INFORMATION

40. I was engaged to audit the performance information.

Responsibility of the accounting officer for the performance information

41. 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 by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Responsibility of the Auditor-General

42. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

43. 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.

44. 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

Quarterly reports on performance information

45. No evidence could be obtained of quarterly reports having been prepared with regard to the achievement of measurable objectives and targets. Thus it would appear that no quarterly report had been prepared by the municipality during the course of the financial year to facilitate effective performance monitoring, evaluation and corrective actions. No indication could be obtained that any related reports were submitted to council.

Existence and functioning of performance audit committee

46. The audit committee did not review the municipality's performance management system, did not make recommendations in this regard to council, and did not at least twice during the financial year submit an audit report to council regarding the performance management system, in terms of section 14(2), (3) and (4) of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

47. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurements as part of its internal auditing process, as required in terms of section 45 of the MSA.

Policies and procedures

48. No documented policies and procedures were developed to guide, direct and manage the processes to be followed by officials in order to achieve the set objectives.

Development priorities and objectives

49. The consistency of development priorities and objectives as reflected in the integrated development plan could not be evaluated, as there was no clear link with the development priorities and objectives per the budget as well as with the development priorities and objectives per the performance report.

Measurable performance targets

50. No evidence was submitted to identify measurable performance targets relating to each key performance area and set objective.

Performance information not received in time

51. Contrary to the requirements of section 121(3)(c) of the MFMA, the municipality did not submit its report relating to performance information for evaluation as part of the audit process. This issue was also raised in the prior year.

OTHER REPORTS

Investigations in progress

52. The previous audit report indicated that the following contracts were being investigated by the municipality's attorneys to determine the validity thereof:

Services provided	Amount R
Photocopiers	4 291 418
Upgrading of stadium	906 000
Computer services	831 417
Telephone system	<u>683 625</u>
	<u>6 712 460</u>

The municipality has not provided an update on these matters.

APPRECIATION

53. The assistance rendered by the staff of the municipality during the audit is sincerely appreciated.

Bloemfontein

30 November 2008



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

METSIMAHOLO LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2008

	Note	2008 R	2007 R
ASSETS			
Current Assets		156,533,401	138,596,059
Inventory	1	1,985,481	2,242,812
Consumer receivables	2	127,240,569	111,328,283
Other receivables	3	17,621,376	19,025,652
Current portion of long term receivables	4	185,863	488,843
Current portion of investment	9	2,272,200	0
Call investment	5	7,221,019	5,505,154
Cash and cash equivalents	6	6,893	5,315
Non-current Assets		279,366,555	265,304,000
Property, plant and equipment	7	268,244,137	252,534,886
Intangible assets	8	34,437	98,558
Investments	9	5,983,105	7,605,239
Long-term receivables	4	5,104,876	5,065,317
Total Assets		435,899,956	403,900,059
LIABILITIES			
Current Liabilities		117,564,843	107,886,407
Consumer deposits	10	7,143,179	7,091,811
Payables	11	60,400,785	46,656,905
Unspent conditional grants and receipts	12	465,804	5,048,795
VAT payable	13	26,757,903	17,141,958
Bank overdraft	6	2,653,987	15,063,094
Current portion of long term liabilities	14	4,050,364	4,622,627
Current portion of deferred income conditional grant	14	11,837,148	8,994,138
Current portion of finance lease liability	15	4,255,673	3,267,079
Non-current Liabilities		118,994,863	98,513,925
Long-term liabilities	14	6,957,739	10,840,103
Deferred income conditional grant	14	95,722,541	67,123,193
Finance lease liability	15	16,314,583	20,550,629
Total Liabilities		236,559,706	206,400,332
NET ASSETS		199,340,250	197,499,728
Housing development fund	16	12,706,410	4,396,419
Capital replacement reserve	41	2,335,488	1,893,857
Capitalisation reserve	42	133,072,323	143,854,284
Accumulated surplus		51,226,029	47,355,168
TOTAL NET ASSETS		435,899,956	403,900,059

METSIMAHOLO LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2008

Budget 2007 R	Budget 2008 R		Note	Actual 2008 R	Actual 2007 R
REVENUE					
54,839,110	57,437,760	Property rates	17	56,917,298	48,945,745
194,358,000	233,243,510	Service charges	18	216,001,159	154,110,078
7,013,780	6,510,930	Fines		6,528,431	6,414,817
116,332,730	51,543,670	Government grants and subsidies	19	50,725,832	42,838,686
1,000,000	300,000	Interest earned - external investments		1,826,981	1,857,337
11,550,000	12,243,000	Interest earned - outstanding		14,585,301	11,567,172
812,660	1,292,910	Rental income		1,288,598	1,225,827
90,000	90,000	Licenses and permits		63,320	70,954
12,108,510	13,174,380	Other income	20	10,966,529	10,459,669
-	-	Gains on disposal of property, plant and equipment		8,805,166	873,553
398,104,790	375,836,160	Total Revenue		367,708,615	278,363,838
EXPENDITURE					
91,524,550	101,920,820	Employee related costs	21	93,947,023	84,673,089
6,948,860	8,205,560	Remuneration of councillors	22	7,627,974	8,038,512
17,000,000	27,000,000	Bad debts		72,564,515	17,000,000
1,000,000	26,685,670	Depreciation and amortization		27,101,150	26,773,299
14,627,300	17,952,270	Repairs and maintenance		8,777,593	12,885,091
1,434,590	1,915,200	Finance Cost	23	4,154,443	3,388,787
117,188,690	121,858,650	Bulk purchases	24	93,097,767	89,275,615
7,397,960	9,177,730	Contracted services		9,048,405	9,988,303
9,630,000	6,543,600	Grants and subsidies paid	25	3,543,782	12,260,829
50,502,870	64,491,740	General expenses - other	26	43,797,889	39,019,447
(1,009,790)	(6,780)	Increase in provisions		931,277	311,673
-	-	Loss on disposal of property, plant & equipment		1,276,272	261,249
316,245,030	385,744,460	Total Expenditure		365,868,090	303,875,893
81,859,760	(9,908,300)	SURPLUS/(DEFICIT) FOR THE YEAR		1,840,525	(25,512,055)

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

METSIMAHOLO LOCAL MUNICIPALITY
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 R	2007 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		358,903,449	277,490,285
Cash paid to suppliers and employees		(332,660,004)	(233,671,319)
Cash generated from operations	27.	26,243,445	43,818,966
Interest received		(16,412,282)	(13,424,509)
Interest paid		4,154,443	3,388,787
NET CASH FLOW FROM OPERATING ACTIVITIES		13,985,606	33,783,244
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(31,707,569)	(70,678,757)
Proceeds on disposal of property, plant and equipment		8,494,880	6,822,046
Increase in investments		(650,066)	(950,783)
Decrease in non-current receivables		263,421	505,230
NET CASH FORM INVESTING ACTIVITIES		(23,599,334)	(64,302,264)
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan (repaid) / taken up		(4,454,627)	1,542,515
Increase / (Decrease) in Finance Leases		(3,247,452)	(2,743,062)
Increase in deferred income conditional grant		31,442,358	19,302,912
NET CASH FLOWS FROM FINANCING ACTIVITIES		23,740,279	18,102,365
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		14,126,551	(12,416,655)
Cash and cash equivalents at the beginning of the year	28	(9,552,626)	2,864,028
Cash and cash equivalents at the end of the year		4,573,925	(9,552,626)

METSIMAHOLO LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2008

	Note	Capital Replacement Reserve CRR R	Housing Fund R	Capital Reserve R	Accumulated Surplus/ (Deficit) R	Total R
Opening balance as previously reported	38	10,236,260	4,524,715	156,277,804	45,112,377	216,151,156
Prior period error					1,655,625	1,655,625
Balance at 1 July 2006 as restated		10,236,260	4,524,715	156,277,804	46,768,002	217,806,781
Deficit for the year		-	-	-	(25,512,055)	(25,512,055)
Transfer to capital replacement reserve		(4,175,122)	-	-	-	(4,175,122)
Property, plant and equipment purchased		(1,034,987)	-	-	1,034,987	-
Transfer to Housing Development Fund		-	136,754	-	-	136,754
Offsetting of depreciation		-	-	(12,423,521)	12,423,521	-
Expenditure		(3,132,294)	(265,050)	-	-	(3,397,344)
Transfer from/to funds, provision		-	-	-	4,453,586	4,453,586
Write off - combined systems		-	-	-	79,024	79,024
Write off - loan cost and loans Zamdela		-	-	-	8,364,036	8,364,036
Adjustments previous year		-	-	-	(232,482)	(232,482)
Adjustments auctions previous years		-	-	-	(44,496)	(44,496)
Write off debtor and creditor balances		-	-	-	21,045	21,045
Balance at 30 June 2007		1,893,857	4,396,419	143,854,283	47,355,168	197,499,727
Deficit for the year		-	-	-	1,840,525	1,840,525
Property, plant and equipment purchased		(1,081,783)	-	-	1,081,783	-
Expenditure		(244,520)	(299,186)	(10,781,956)	11,325,662	-
Transfer		1,767,932	8,609,177	-	(10,377,109)	-
Balance at 30 June 2008		2,335,486	12,706,410	133,072,327	51,226,029	199,340,252

METSIMAHOLO LOCAL MUNICIPALITY
ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

The principal accounting policies adopted in the preparation of these financial statements are set out below.

BASIS OF PREPARATION

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 and 992 of 2005.

The standards are summarised as follows:

Standard	Title of Standard
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes 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 (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The effective Standards of GRAP issued by the Accounting Standards Board replacing the equivalent SA GAAP Statements are as follows:

Standard of GRAP	Replaced Statement of SA GAAP
GRAP 1: Presentation of financial statements	AC101: Presentation of financial statements

GRAP 2: Cash flow statements	AC118: Cash flow statements
GRAP 3: Accounting policies, changes in accounting estimates and errors	AC103: Accounting policies, changes in accounting estimates and errors

Currently the recognition and measurement principles in the above GRAP and SA GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 & 3 has resulted in the following changes in the presentation of the financial statements:

1. Terminology differences:

Standard of GRAP	Replaced Statement of SA GAAP
Statement of financial performance	Income statement
Statement of financial position	Balance sheet
Statement of changes in net assets	Statement of changes in equity
Net assets	Equity
Surplus/deficit	Profit/loss
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Distributions to owners	Dividends

2. The cash flow statement can only be prepared in accordance with the direct method.
3. Specific information has been presented separately on the Statement of Financial Position such as:
- Receivables from non-exchange transactions, including taxes and transfers
 - Taxes and transfers payable
 - Trade and other payables from non-exchange transactions
4. Amount and nature of any restrictions on cash balances is required.

The Minister of Finance has, in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 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, the municipality are exempted from certain requirements of the following standards:

Standard	Title of Standard	Extent of exemption
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors	Partially exempted
GAMAP 9	Revenue	Partially exempted
GAMAP 12	Inventories	Partially exempted
GAMAP 17	Property, Plant and Equipment	Partially exempted
IFRS 5 (AC 142)	Non-current Assets held for Sale and	Partially exempted

	Discontinued Operations	
IFRS 7 (AC 144)	Financial Instruments: Disclosures	Fully exempted
IAS 36 (AC 128)	Impairment of Assets	Fully exempted
IAS 38 (AC 129)	Intangible Assets	Partially exempted
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement	Partially exempted
SAICA Circular 09/2006	Transactions giving rise to Adjustments to Revenue/Purchases	Partially exempted
IAS 40 (AC 135)	Investment Property	Partially exempted

A summary of the significant accounting policies, which have been consistently applied, together with an indication of the effects of General Notice 522 of 2007, Government Gazette no. 30013 of 29 June 2007, is disclosed below.

BASIS OF ACCOUNTING

The municipality prepares its financial statements, except for cash flow information, using the accrual basis of accounting.

The financial statements are prepared on the historical cost basis, except where otherwise indicated.

STANDARDS ISSUED NOT YET EFFECTIVE

Application of exemption:

The municipality has been exempted from the requirements in regards with new GRAP standards in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The municipality has been exempted from the identification and impact of GRAP standards that have been issued but are not yet effective. Therefore the municipality has not identified and disclosed the GRAP standards issued but not yet effective.

The municipality will identify such GRAP standards for the 2008/09 financial year.

The following amendments to SA GAAP Standards and new Interpretations have been approved but are not yet effective:

SA GAAP Standard Amended/ New Interpretations	Effective Date of Amendment (Years beginning on or after)
IFRS 2(AC 139) IFRS 2 – Share-based Payment: Vesting Conditions and Cancellations	1 January 2009
IFRS 3(AC 140) Business Combinations	1 July 2009
IFRS 8(AC 145) Operating Segments	1 January 2009
IAS 1(AC 101) Presentation of Financial Statements	1 January 2009

IAS 23(AC 114) Borrowing Costs	1 January 2009
IAS 27(AC 132) Consolidated and Separate Financial Statements	1 July 2009
IAS 32(AC 125) and IAS 1(AC 101) Financial Instruments: Presentation and Presentation of financial Statements: Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
IFRIC 12(AC 445) Service Concession Arrangements	1 January 2008
IFRIC 13(AC 446) Customer Loyalty Programmes	1 July 2008
IFRIC 14(AC 447) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

The municipality has not applied these new standards for this financial year.

Possible effect on the municipality's financial statements in the period of initial application:

The following are the only standards which are applicable to the municipality:

Standard	Effect on initial application
IFRS 8	No significant effect
IAS 1	No significant effect
IAS 23	The municipality will have to identify if they have any qualified assets. For these assets, the borrowing cost must be capitalised to the cost of the asset. For any other borrowing cost, there will be no significant effect due to the fact that the municipality currently expense borrowing costs.

PRESENTATION CURRENCY

The financial statements are presented in South African Rand.

SIGNIFICANT JUDGEMENTS

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Loans and receivables

Requirements of accounting standard:

The municipality assesses its loans and receivables for impairment at each reporting date. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for loans and receivables is calculated on a portfolio basis, based on historical deficit ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual deficit ratios are applied to loan balances in the portfolio and scaled to the estimated deficit emergence period.

Available-for-sale financial assets

Requirements of accounting standard:

The municipality follows the guidance of *IAS 39 (AC 133) – Financial Instruments: Recognition and Measurement*, to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the municipality evaluates, among other factors, the duration and extent to which the fair value of an asset is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Allowance for slow moving, damaged and obsolete inventory

An allowance is made for slow-moving, damaged and obsolete inventory to write the inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down, if any, is included in the Statement of Financial Performance.

Fair value estimation

Requirements of accounting standard:

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

Impairment testing

Requirements of accounting standard:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment (i.e. carrying amount is less than recoverable amount) may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values.

Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

The municipality has also requested extension of implementation dates for purposes of complying with the impairing of assets.

Effect:

The municipality has been exempted from the entire standard of Impairment of Assets (IAS 36). Therefore the municipality did not assess any of its assets for impairment.

The municipality will assess its property, plant and equipment, investment property and intangible assets for impairment in the 2008/09 financial year. As a result of this impairments may be identified which will then be recognised in the Statement of Financial Position and the Statement of Financial Performance.

INVESTMENT PROPERTY

Requirements of accounting standard:

Investment property represents property held to earn long-term rental yields and/or capital appreciation. Investment property comprises freehold land and building and leasehold land with buildings, but excludes owner-occupied property.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent to initial measurement investment property is measured at fair value.

A surplus or deficit arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Application of exemption:

The municipality has been exempted from these requirements to the extent that the property is accounted for in terms of GAMAP 17 Property, plant and equipment, in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The municipality has been exempted from the entire standard of Investment Property (IAS 40) to the extent that the property is accounted for in terms of GAMAP 17 Property, Plant and Equipment. Due to fixed asset register not updated the completeness of property to be reclassified to investment property if they meet the definition can not be satisfied.

The municipality will identify investment property during the 2008/09 financial year. This may result in reclassifications from Property, plant and equipment.

PROPERTY PLANT AND EQUIPMENT

Requirements of accounting standard:

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Costs include costs (cash or cash price equivalent) incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. The cost of replacing or servicing an asset will only be included if the expenditure improves the condition of the asset beyond the most reasonably assessed standard of performance. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

An item of property, plant and equipment shall be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

The residual value and the useful life of each asset are reviewed annually.

Where estimates differ from those previously assessed the change is recognised as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately over its estimated useful life. Those items of property, plant and equipment which are of such a nature that they are replaced as a whole and not in terms of component parts, are not broken down into significant components as the useful lives of the components are expected to approximate the useful lives of the items taken as a whole.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. Depreciation is provided, using the straight line method, on all

property, plant and equipment to write down their cost over their estimated useful lives to their estimated residual values. Where the residual value of an asset item is considered to be insignificant it is also considered to be immaterial in the calculation of the depreciable amount of those assets.

Depreciation is provided as follows:

	<i>Useful lives range (years)</i>		<i>Useful lives range (years)</i>
Roads	10-30	Specialist vehicles	10
Electricity	20-30	Other vehicles	3-20
Water	15-20	Office equipment	3-5
Sewerage	15-20	Furniture and fittings	3-7
Housing	30	Bins and containers	5-10
Buildings	30	Specialised plant and equipment	5-15
Recreational facilities	20-30	Other items of plant and equipment	2-5

The surpluses or deficits arising from derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Donated assets and assets obtained at less than fair value are accounted for at fair value. Donated assets are recognised when either available for use or when the risks and rewards of ownership have transferred. The difference between the fair value and the cash consideration is accounted for using the accounting policy relating to the accounting of non-exchange revenue.

Land is not depreciated.

Depreciation commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Application of exemption:

The municipality has been exempted from impairment and annual review of useful life and depreciation method of assets in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The property, plant and equipment are depreciated over the same period as the previous year, no reviewing was done of the useful lives and depreciation method applied to items of property, plant and equipment recognised.

The municipality did not test property, plant and equipment for impairment.

A complete review of useful lives and depreciation methods will be performed in the 2008/09 financial year. This may result in adjustments to the carrying values of property, plant and equipment.

NON-CURRENT ASSETS (OR DISPOSAL GROUP) HELD FOR SALE

Requirements of accounting standard:

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal group) held for sale, are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

Application of exemption:

The municipality has been exempted from the classification, measurement and disclosure of non-current assets held for sale in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The municipality has been exempted from the classification, measurement and disclosure of non-current assets held for sale. Therefore any non-current assets held for sale are not classified as current nor measured at the lower of cost or fair value less costs to sell nor separately disclosed in the Statement of Financial Position.

Such assets will be identified and classified as such for the 2008/09 financial year.

IMPAIRMENT OF ASSETS

Requirements of accounting standard:

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

The municipality has also requested extension of implementation dates for purposes of complying with the entire standard.

Effect:

The municipality has been exempted from the entire standard of Impairment of Assets (IAS 36). Therefore the municipality did not assess its assets for impairment.

The municipality will assess its property, plant and equipment, investment property and intangible assets for impairment in the 2008/09 financial year. As a result of this impairments may be identified which will then be recognised in the Statement of Financial Position and the Statement of Financial Performance.

FINANCIAL INSTRUMENTS

Requirements of accounting standard:

Initial recognition

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset or a financial liability in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when the municipality becomes party to the contractual provisions of the instrument.

Fair value determination

Fair value information for trade and other receivables and payables are determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Loans to employees

These financial assets are initially recognised at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

On loans receivable an impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the Statement of Financial Performance.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables are classified as financial liabilities carried at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value. These are initially recorded at fair value, and are subsequently

measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents are classified as loans and receivables.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

Bank overdraft and borrowings are classified as financial liabilities carried at amortised cost.

Other loans and receivables

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment.

These financial assets are not quoted in an active market and have fixed or determinable payments.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment

At reporting date, the Municipality determines whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the deficit is measured as

the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit deficits that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the deficit is recognised in surplus or deficit.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and is settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset to the financial asset that is impaired. Such impairment losses are not reversed.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative deficit that had been recognised directly in net assets shall be removed and recognised in surplus or deficit even though the financial asset has not been derecognised.

The amount of the cumulative deficit that is removed from equity and recognised in surplus or deficit are the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit.

Application of exemption:

The municipality has been exempted from these requirements relating to the initial measurement of financial assets and liabilities at fair value in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The municipality has been exempted from the initial measurement of financial assets and liabilities at fair value. Therefore the municipality did not discount any financial assets or liabilities on initial measurement. All financial assets and liabilities were measured at their original invoice amount.

The municipality will fair value its financial assets and liabilities at initial recognition for the 2008/09 year. This will result in the finance component of revenue and expenditure to be identified and recognised as finance cost and the values of the relating financial assets and liabilities carried at fair value at initial recognition, where after it will be carried at amortised cost or re-measured to fair value depending on the classification of the instrument.

INVENTORIES

Requirements of accounting standard:

Inventories are measured at the lower of cost and net realisable value, except where the paragraph mentioned below applies.

Where inventories are held for:

- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge,

these inventories are measured at the lower of cost and current replacement cost.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The following cost formulas are applied for every inventory class:

Inventory class:

Measurement basis:

Consumable stores

First-in-first out

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits of inventories are recognised as an expense in the period the write-down or deficit occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Application of exemption:

The municipality has been exempted from these requirements in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007 as far as it relates to immovable capital assets inventory and water inventory not purchased by the municipality.

Effect:

The municipality has been exempted from the entire standard of Inventory (GAMAP 12) as far as it relates to immovable capital assets inventory that is accounted for in terms of GAMAP 17 Property, plant and equipment and the entire standard to the extent that it relates to water stock that was not purchased by the municipality.

The municipality will identify immovable capital assets to be reclassified to inventory if they meet the definition during the 2008/09 financial year.

LEASES

Requirements of accounting standard:

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The municipality recognises finance lease receivables on the Statement of Financial Position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

The following situations would normally individually or in combination lead to a lease being classified as a finance lease and have been considered by the municipality:

- lease transfers ownership of the asset to the lessee by the end to the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the asset;
- the leased asset is of such a specialised nature that only the lessee can use them without major modifications;
- if the lessee can cancel the lease, the lessor's deficits associated with the cancellation are born by the lessee;
- gains or deficits from the fluctuation in the fair value of the residual accrue to the lessee; and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Finance leases are recognised as assets and liabilities in the Statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Assets held under finance leases are depreciated over their expected useful lives on the same basis

as owned assets, or where shorter, the term of the relevant lease.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using IAS 17 (AC 105) Leases.

Operating leases - lessor

Operating lease income is recognised as an income on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease income.

Income for leases is disclosed as a separate line item in the Statement of Financial Performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as either a pre-paid expense asset or liability depending on whether the payment exceeds the expense or vice versa. This asset/liability is not discounted, as it is already carried at fair value.

Any contingent rents are expensed in the period they are incurred.

INTANGIBLE ASSETS

Requirements of accounting standard:

Metsimaholo Local Municipality classifies assets that are non-monetary without physical substance as intangible assets.

When software is not an integral part of the related hardware, computer software is treated as an intangible asset; otherwise it is treated as property, plant and equipment.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the municipality; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;

- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a definite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

An item of intangible assets shall be eliminated from the statement of financial position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The residual value and the useful life of each asset are reviewed annually.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Computer software	3 years
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Application of exemption:

The municipality has been exempted from the entire standard except for the recognition, measurement and disclosure of computer software and website costs in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

Effect:

The municipality has been exempted from the entire standard of Intangible Assets (IAS 38) except for the recognition, measurement and disclosure of computer software and website costs. Only these intangible assets were consequentially recognised.

For the 2008/09 financial year, the municipality will identify, recognise, measure, present and disclose all intangible assets in line with the requirements of IAS 38.

EMPLOYEE BENEFITS

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted when the effect of discounting is not material.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on a regular basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to reporting date where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or deficit exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in the Statement of Financial Performance over the expected average remaining service lives of participating employees. Actuarial gains or deficits within the corridor are not recognised.

Gains or deficits on the curtailment or settlement of a defined benefit plan are recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset.

The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the Statement of Financial Performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and deficits and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial deficits, plus the present value of available refunds and reduction in future contributions to the plan.

Multi-employer plans

A multi-employer plan is classified as either a defined benefit plan or a defined contribution plan. If the plan is a defined benefit plan, an actuarial valuation should be obtained. Normal defined benefit accounting would be applied to the proportionate share of the obligation and assets relating to the municipality. If actuaries are unable to provide the municipality with an actuarial valuation, the municipality accounts for the plan as if it were a defined contribution plan.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Requirements of accounting standard:

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the effect of time value of money is material, the amount of a provision shall be the present value of the expenditure expected to be required to settle the obligation.

The Municipality uses a pre-tax rate that reflects current market assessments of the time value of money and the risks for which future cash flow estimates have been adjusted.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
 - the business or part of a business concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

Application of exemption:

The municipality has been exempted from the entire standard of Business Combinations (IFRS 3) in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

The municipality has requested further extension of implementation dates for purposes of complying with the entire standard.

Effect:

The municipality has been exempted from the entire standard. Therefore the municipality has not recognised any contingent liabilities in business combinations, if any.

The municipality will identify any business combinations during the 2008/09 financial year and recognise and measure it in accordance with IFRS 3.

NON-EXCHANGE REVENUE

Requirements of accounting standard:

Metsimaholo Local Municipality classifies revenue received from taxes and transfers (whether cash or non-cash, including grants, debt forgiveness, fines, bequests, gifts, donations and goods and services in-kind) as non-exchange revenue.

Revenue from non-exchange transactions is measured at fair value.

Revenue from property rates is recognised when the legal entitlement to this revenue arises.

Collection charges are recognised when such amounts are legally enforceable.

Penalty interest on unpaid rates is recognised on a time proportion basis which should only be recognised when leviable in terms of the law.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Donations are recognised on a cash receipt basis or when the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use if the recognition criteria have been met. Contributed property, plant and equipment are recognised when such items of property, plant and equipment are brought into use if the recognition criteria have been met.

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.

Application of exemption:

The municipality has been exempted from initial measurement of revenue at fair value in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

The municipality has requested further extension of implementation dates for purposes of complying with the initial measurement of revenue at fair value.

Effect:

The municipality has been exempted from initial measurement of fair value discounting all future receipts using an imputed rate of interest. Therefore the municipality did not discount any revenue transactions on initial measurement. All non-exchange revenue was measured at their original invoice amount.

The municipality will recognise non-exchange revenue in line with the applicable GRAP Standard for the 2008/09 financial year.

EXCHANGE REVENUE

Requirements of accounting standard:

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 associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue comprises of amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Application of exemption:

The municipality has been exempted from initial measurement of revenue at fair value in terms of General Notice 522 of 2007, in Government Gazette no. 30013 of 29 June 2007.

The municipality has requested further extension of implementation dates for purposes of complying with the initial measurement of revenue at fair value.

Effect:

The municipality has been exempted from initial measurement of fair value discounting all future receipts using an imputed rate of interest. Therefore the municipality did not discount any revenue transactions on initial measurement. All exchange revenue was measured at their original invoice amount.

The municipality will fair value its financial assets and liabilities at initial recognition for the 2008/09 year. This will result in the finance component of revenue and expenditure to be identified and recognised as finance cost and the values of the relating financial assets and liabilities carried at fair value at initial recognition, whereafter it will be carried at amortised cost or re-measured to fair value depending on the classification of the instrument.

GOVERNMENT GRANTS

Requirements of accounting standard:

Government grants are recognised when there is reasonable assurance that:

Government grants are recognised when it is probable that economic benefits or service potential will flow to the entity, when the revenue can be reliably measured and when all the restrictions have been complied with.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or deficits already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs is recognised as income in the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in

the Statement of Financial Position by setting up the grant as deferred income which is released to the Statement of Financial Performance as the assets are depreciated i.e. as the cost are incurred which the grant is intended to compensate.

Grants related to income are presented as a credit in the Statement of Financial Performance (separately).

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by reducing the deferred income balance by the amount repayable.

Application of exemption:

The municipality has requested further extension of implementation dates for purposes of releasing the deferred income in accordance with the depreciation of the related asset.

BORROWING COST

Borrowing costs are recognised as an expense in the period in which they are incurred.

UNAUTHORISED, IRREGULAR AND FRUITLESS AND WASTEFUL 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.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, the Municipal Systems Act and the Public Office Bearers Act or any other applicable legislation, or in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised.

The Municipality recognises the expenditure relating to unauthorised, irregular or fruitless and wasteful expenditure as expenses in the Statement of Financial Performance in the year that the expenditure was incurred and classify the expenditure in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to conform to changes in the presentation in the current financial year.

METSIMAHOLO LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

	2008 R	2007 R
1 INVENTORY		
Consumable stores	1,766,249	2,026,246
Unsold properties	66,122	66,122
Water reservoir	153,110	150,444
Total	1,985,481	2,242,812

Inventory is net of allowances for impairment.

The Municipality has recognised purchased water stock on hand on 30 June 2008. This amount has been estimated using water in reservoirs and water networks and the different purchase prices of water.

The municipality is in the process of phasing in the calculations of water stock in accordance with the exemption granted in General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

2 CONSUMER RECEIVABLES

	Gross balances R	Provision for bad debt R	Net balances R
As at 30 June 2008			
Service receivables	301,276,516	(174,100,324)	127,176,192
Rates	66,847,661	-	66,847,661
Electricity	42,903,027	-	42,903,027
Water	143,911,453	-	143,911,453
Sewerage	16,037,618	-	16,037,618
Refuse	31,576,757	-	31,576,757
Provision for bad debts	-	(174,100,324)	174,100,324
Housing rentals	64,377	-	64,377
Total	301,340,893	(174,100,324)	127,240,569

As at 30 June 2007			
Service receivables	219,377,576	(108,113,670)	111,263,906
Rates	55,978,936	-	55,978,936
Electricity	32,135,287	-	32,135,287
Water	87,607,078	-	87,607,078
Sewerage	14,260,201	-	14,260,201
Refuse	29,396,074	-	29,396,074
Provision for bad debts	-	(108,113,670)	(108,113,670)
Housing rentals	64,377	-	64,377
Total	219,441,953	(108,113,670)	111,328,283

Rates - Ageing

	2008 R	2007 R
Current	10,476,168	6,594,576
1 - 30 days	3,133,457	1,698,220
31 - 60 days	1,646,230	1,251,530
61 - 90 days	1,458,455	1,075,445
91 - 120 days	1,292,191	899,360
120 + days	48,841,160	44,459,805
Total	66,847,661	55,978,936

Services (Electricity, Water, Sewerage and Refuse) Ageing

Current	87,290,996	47,450,581
1 - 30 days	23,135,247	6,709,359
31 - 60 days	10,098,693	4,543,987
61 - 90 days	16,471,554	6,668,491
91 - 120 days	5,364,602	5,973,945
120 + days	92,067,763	92,052,277
Total	234,428,855	163,398,640

Housing Rentals - Ageing

+ 365 days	64,377	64,377
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SUMMARY OF RECEIVABLES BY CUSTOMER CLASSIFICATION

	Consumers R	Industrial Commercial R	National and Provincial Government R
30 June 2008			
Current	86,002,157	11,536,034	164,606
1 - 30 days	22,278,493	3,817,314	172,897
31 - 60 days	7,635,664	3,995,873	113,376
61 - 90 days	15,744,221	2,104,063	81,725
91 - 120 days	4,616,523	2,017,796	22,474
120 + days	120,126,624	20,566,587	344,466
Sub-total	256,403,682	44,037,667	899,544
Less: Provision for bad debt	(174,100,324)	-	-
Total	82,303,358	44,037,667	899,544

SUMMARY OF RECEIVABLES BY CUSTOMER CLASSIFICATION

30 June 2007			
Current	47,490,625	6,436,758	117,774
1 - 30 days	7,085,615	1,259,805	62,159
31 - 60 days	4,428,882	1,339,923	26,717
61 - 90 days	7,126,599	568,848	48,489
91 - 120 days	6,314,374	545,575	13,356
120 + days	125,358,445	11,193,755	24,254
Sub-total	197,804,540	21,344,664	292,749
Less: Provision for bad debt	(108,113,670)	-	-
Total receivables by customer classification	89,690,870	21,344,664	292,749

Reconciliation of bad debt provision

	2,008 R	2,007 R
Balance at beginning of year	108,113,670	82,284,775
Contributions to provision	72,564,515	26,304,642
Bad debts written off against provision	(6,577,861)	(475,747)
Balance at end of year	174,100,324	108,113,670

3 OTHER RECEIVABLES

Sundry receivables - general	9,879,429	7,669,838
Traffic	-	-
Claims and subsidies	2,144,033	4,882,400
Input VAT / capital receivable	2,987,908	3,682,387
Sundry receivables	2,610,006	2,791,027
Total	17,621,376	19,025,652

4 LONG-TERM RECEIVABLES

Staff housing loans	16,507	18,846
Car loans	225,366	475,671
Housing selling scheme loans	656,235	667,012
Housing loans RDP houses	4,392,631	4,392,631
	5,290,739	5,554,160
Less: Current portion transferred to current receivables	(186,863)	(488,843)
Staff housing loans	(183,420)	(2,324)
Car loans	(2,443)	(318,519)
Housing loans RDP houses	-	(168,000)
Total	5,104,876	5,065,317

STAFF HOUSING LOANS

The loan was granted to a staff member in 1984 at an interest rate of 5% according to the housing scheme that was then applicable. The loan will be fully redeemed in 2014.

CAR LOANS

Senior staff are entitled to car loans which attract interest at 8,5% per annum and which are repayable over a maximum period of 6 years. The scheme is the old Bargaining Council's motor scheme.

HOUSING SELLING SCHEME LOANS

These loans were granted to the public by the former Development Board. The loans are in the process to be written off according to the R7,500 discount scheme by the government.

RDP HOUSES LOANS

Loan are granted for the purchase of the land (stands).

5 CALL INVESTMENT

30 day deposits	<u>7,221,019</u>	<u>5,595,154</u>
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Deposits amounting to R2,335,488(2007 - R93,460) have been ring fenced for the purpose of the Capital Replacement Reserve and an amount of R465,804 have been ring fenced for the purpose of payables obligations as set out in Note 12.

6 CASH AND CASH EQUIVALENTS

The Municipality have the following bank accounts:

Current Account (primary bank account)

ABSA
Account No. 520 000 038

Cash book balance at beginning of year		<u>(14,274,808)</u>	<u>(4,153,775)</u>
Cash book balance at end of year		<u>(2,653,987)</u>	<u>(14,274,806)</u>
Bank statement balance at end of year	9026937	<u>(4,088,977)</u>	<u>2,408,182</u>
		<u>2,574,534</u>	<u>(4,088,977)</u>

Transmission Account

ABSA
Account no. 520 000 062

Cash book balance at beginning of year		<u>(788,288)</u>	<u>-</u>
Cash book balance at end of year		<u>-</u>	<u>(788,288)</u>
Bank statement balance at beginning of year		<u>800,853</u>	<u>-</u>
Bank statement balance at end of year		<u>-</u>	<u>800,853</u>

Total cash book balance at beginning of year		<u>(15,063,096)</u>	<u>(4,153,775)</u>
Total cash book balance at end of year		<u>(2,653,987)</u>	<u>(15,063,094)</u>

Cash on hand

Balance at beginning of year		<u>5,315</u>	<u>5,315</u>
Balance at end of year		<u>6,893</u>	<u>5,315</u>

Pledge cash and cash equivalents		<u>-</u>	<u>-</u>
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Total cash and cash equivalents		<u>6,893</u>	<u>5,315</u>
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Guarantee: Eskom as electricity deposit		<u>990,000</u>	<u>-</u>
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7 Property, plant and equipment

30 June 2008

Reconciliation of Carrying Value	Land and buildings	Infra-structure	Community	Heritage	Finance Leases	Other	Housing	Total
Carrying values at 1 July 2007	19,784,070	164,073,497	9,473,322	180,595	18,922,385	15,417,109	24,683,908	252,534,886
Cost	24,855,355	278,331,978	14,870,184	180,870	21,211,551	36,813,003	27,104,302	403,367,243
Accumulated depreciation	(5,071,285)	(114,258,481)	(5,396,862)	(275)	(2,289,166)	(21,395,894)	(2,420,394)	(150,832,357)
Acquisitions	1,500,000	39,871,027	-	-	29,195	2,312,043	-	43,712,265
Depreciation	(1,036,112)	(16,619,520)	(682,690)	(65)	(4,306,008)	(3,988,266)	(404,367)	(27,037,028)
Carrying value of disposals	(121,813)	(196)	(833,704)	(450)	-	(9,822)	-	(965,986)
Cost	(188,855)	(279)	(1,451,600)	(450)	-	(49,747)	-	(1,690,931)
Accumulated depreciation	67,042	83	617,896	-	-	39,924	-	724,945
Carrying values at 30 June 2008	20,126,145	187,324,808	7,956,928	180,080	14,645,572	13,731,061	24,279,541	268,244,137
Cost	26,166,500	318,202,726	13,418,584	180,420	21,240,746	39,075,293	27,104,302	445,388,577
Accumulated depreciation	(6,040,355)	(130,877,918)	(5,461,656)	(340)	(6,595,174)	(25,344,236)	(2,824,761)	(177,144,440)

30 June 2007

Reconciliation of Carrying Value	Land and buildings	Infra-structure	Community	Heritage	Finance Leases	Other	Housing	Total
Carrying values at 1 July 2006	20,835,689	152,239,381	10,086,671	180,660	8,324,633	16,170,119	25,093,120	232,930,273
Cost	24,857,711	249,656,929	14,764,114	180,870	-	33,539,124	27,104,302	350,103,050
Accumulated depreciation	(4,022,022)	(97,417,548)	(4,677,443)	(210)	-	(17,369,005)	(2,011,182)	(125,497,410)
Prior year	-	-	-	-	8,324,633	-	-	8,324,633
Acquisitions	181,544	28,675,049	143,940	-	19,866,693	3,654,423	-	52,521,649
Depreciation	(1,049,263)	(16,840,933)	(719,419)	(65)	(3,320,447)	(4,367,955)	(409,212)	(26,707,294)
Carrying value of disposals	(183,900)	-	(37,870)	-	(5,948,494)	(39,478)	-	(6,209,742)
Cost	(183,900)	-	(37,870)	-	(8,418,590)	(380,544)	-	(9,020,904)
Accumulated depreciation	-	-	-	-	2,470,096	341,066	-	2,811,162
Carrying values at 30 June 2007	19,784,070	164,073,497	9,473,322	180,595	18,922,385	15,417,109	24,683,908	252,534,886
Cost	24,855,355	278,331,978	14,870,184	180,870	21,211,551	36,813,003	27,104,302	403,367,243
Accumulated depreciation	(5,071,285)	(114,258,481)	(5,396,862)	(275)	(2,289,166)	(21,395,894)	(2,420,394)	(150,832,357)

The Municipality did not review the useful life or the depreciation method used on the assets recognised in the annual financial statements for the 2007/2008 financial year in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007. Furthermore, in line with the exemption the municipality did not consider impairment.

Included in land and buildings are items that may meet the definition of investment property but have been included as property, plant and equipment in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

Immovable capital assets inventory is included in property, plant and equipment in terms of General Notice 522, in Government Gazette no. 30013 of 29 June 2007.

A register with detail of the entity's land is available for inspection at the business address of the municipality.

8 INTANGIBLE ASSETS

30 June 2008

Reconciliation of carrying value	Computer Software	Total
Carrying values at 1 July 2007	98,558	98,558
Cost	1,817,522	1,817,522
Accumulated depreciation	(1,718,964)	(1,718,964)
Depreciation	64,121	64,121
Carrying values at 30 June 2008	34,437	34,437
Cost	1,817,522	1,817,522
Accumulated depreciation	(1,783,085)	(1,783,085)

30 June 2007

Reconciliation of carrying value	Computer Software	Total
Carrying values at 1 July 2006	145,364	145,364
Cost	1,805,126	1,805,126
Accumulated depreciation	-1,659,762	-1,659,762
Acquisitions	19,200	19,200
Depreciation	66,006	66,006
Cost	-6,804	-6,804
Accumulated depreciation	6,804	6,804
Carrying values at 30 June 2007	98,558	98,558
Cost	1,817,522	1,817,522
Accumulated depreciation	-1,718,964	-1,718,964

9 INVESTMENTS

Listed

Sanlam Ltd - Moneymarket (2008: 419 098,64 units @ 100 cents; 2007: 306 600,94 units @ 100 cents)
Sanlam Ltd - Term annuity investment
Sanlam Ltd - Investment policies

419,099	306,601
1,379,743	1,641,869
6,425,905	5,626,948
8,224,747	7,575,418

Unlisted

Other deposits (Collateral housing deposits)

30,558 29,821

Total cash investments

30,558 **29,821**

Less: Current portion transferred to current investment

(2,272,200) -

Sanlam Ltd - Investment policies

(2,272,200) -

Total investments

5,983,105 **7,605,239**

Council valuation of listed investments

Sanlam Ltd

8,224,747 **7,575,418**

Allocation of external investments

In terms of legislation, surplus cash is invested until used for specific purposes.
Investments are allocated on the following basis:

Repayment of fixed period external loans

8,224,747 7,575,418

Total

8,224,747 **7,575,418**

10 CONSUMER DEPOSITS

Electricity and water	<u>7,143,279</u>	<u>7,091,811</u>
Guarantees in lieu of electricity and water deposits.	<u>45,300</u>	<u>45,300</u>

11 PAYABLES

Trade payables	13,201,112	16,860,108
Other payables	17,085,623	18,727,668
Leave accrual	5,723,154	5,119,739
Annual bonus accrual	2,076,187	1,748,326
Payments received in advance	22,314,709	4,201,064
Total	<u><u>60,400,785</u></u>	<u><u>45,655,905</u></u>

12 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Conditional grants from other spheres of government	<u>421,557</u>	<u>5,004,568</u>
Municipal Infrastructure Grant	(931,314)	1,572,584
Department of Minerals and Energy	481,602	2,692,048
District Municipality - Fezile Dabi	66,695	66,694
Department of Water Affairs and Forestry	-	-
Financial Management Grant	171,984	40,632
Provincial Government	632,590	632,590
Other Conditional Receipts	<u>44,247</u>	<u>44,247</u>
SETA	1,186	1,186
Public Contribution - Sasol Chemical Industries	43,061	43,061
Total unspent conditional grants and receipts	<u><u>465,804</u></u>	<u><u>5,048,795</u></u>

Department of Water Affairs and Forestry
The amount has been restated.

See Note 19 for reconciliation of grants from National/Provincial government.

These amounts are invested in a ring-fenced investment until utilised.

13 VAT payable

VAT payable	<u>26,757,903</u>	<u>17,141,958</u>
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VAT is payable on the cash basis. Vat is only paid over to SARS once payment is received from receivables.

14 LONG-TERM LIABILITIES

Annuity loans	6,615,108	11,069,735
Less: Current portion transferred to current liabilities	(4,050,364)	(4,454,627)
Total external loans	<u><u>2,564,744</u></u>	<u><u>6,615,108</u></u>

The loans have been taken up to finance Infrastructure and the purchase of vehicles. The interest rate vary between 13.5% and 15.6%. The term of the loans vary and will be redeemed at 30/4/2011.

Other

Loan to RDP house owners	4,392,995	4,392,995
Less: Current portion transferred to current liabilities	-	(168,000)
Total other	<u><u>4,392,995</u></u>	<u><u>4,224,995</u></u>

Deferred conditional grant

Conditional grant	107,559,689	76,117,331
Less: Current portion of conditional grant	(11,837,148)	(8,994,138)
Total deferred conditional grant	<u><u>95,722,541</u></u>	<u><u>67,123,193</u></u>

Total long-term liabilities	<u><u>102,680,280</u></u>	<u><u>77,963,296</u></u>
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15 Finance lease liability

2008

	Minimum lease payment	Future finance charges	Present value of minimum lease payments
Amounts payable under finance leases			
Within one year	6,557,173	2,247,463	4,255,673
Within two to five years	<u>19,243,721</u>	<u>2,929,137</u>	<u>16,314,583</u>
	<u>25,800,894</u>	<u>5,176,600</u>	<u>20,570,256</u>
Less: Amount due for settlement within 12 months			<u>(4,255,673)</u>
			<u>16,314,583</u>

The average lease term is 2-5 years and the average effective borrowing rate is 11.91%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between 10%-15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

2007

	Minimum lease payment	Future finance charges	Present value of minimum lease payments
Amounts payable under finance leases			
Within one year	6,018,259	2,751,180	3,267,079
Within two to five years	<u>25,779,507</u>	<u>5,228,878</u>	<u>20,550,629</u>
	<u>31,797,766</u>	<u>7,980,057</u>	<u>23,817,708</u>
Less: Amount due for settlement within 12 months			<u>(3,267,079)</u>
			<u>20,550,629</u>

The average lease term is 2-5 years and the average effective borrowing rate is 11.91%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms and other escalate between 10%-15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

16 HOUSING DEVELOPMENT FUND

	2,008	2,007
	R	R
Housing development fund	12,706,410	4,396,419
Unappropriated surplus	<u>12,706,410</u>	<u>4,396,419</u>

The housing development fund is represented by the following:

Investments	<u>12,706,410</u>	<u>4,396,419</u>
Total	<u>12,706,410</u>	<u>4,396,419</u>

The Housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). The proceeds of erven sold were allocated to the Erven Trust Fund. The funds were transferred from Erven Trust Fund to Housing Development Fund with the implementation of GAMAP. Moneys standing credit to the fund can be used for the acquisition, planning and surveying of land.

17 PROPERTY RATES

Actual

Residential	33,907,775	26,942,629
Commercial	5,745,693	5,201,574
Light Industries	1,974,827	1,676,903
Heavy Industries	13,641,016	13,657,934
State	1,647,987	1,466,705
Total assessment rates	56,917,298	48,945,745

Valuations

	June 2008	June 2007
	R000's	R000's
Residential	347,894	343,054
Commercial	68,678	38,592
Light industries	9,479	34,657
Heavy industries	29,232	31,457
State	17,301	17,301
Municipality	77,994	46,127
Total property valuations	550,578	511,188

Valuations on land are performed every five years. The last valuation came into effect on 1 July 2002. In terms of the Property Rates Act the new valuation roll must be in place not later than 1 July 2009. The new valuation roll will be implemented from 1 July 2008. Interim valuations are processed monthly to take into account changes in individual property values due to alterations and subdivisions. Rebates of 20% are granted to State property owners. Rates are levied on a monthly basis. Interest is levied after 30 days at prime rate plus 10%

Sasolburg / Zamdela		
Residential:		
- Sasolburg	10.73	cents per Rand
- Zamdela	13.82	cents per Rand
Commercial	14.35	cents per Rand
Light Industries	21.4	cents per Rand
Heavy Industries	4.8	cents per Rand
State	14.35 (-20%)	cents per Rand

Deneysville / Refengkgotso		
Residential:		
- Deneysville	14.00	cents per Rand
- Refengkgotso	5.00	cents per Rand
Businesses	23.22	cents per Rand
State	23.22 (-20%)	cents per Rand

Oranjeville / Metsimaholo		
Residential:		
- Oranjeville	7.56	cents per Rand
- Metsimaholo	5.00	cents per Rand
Businesses	8.82	cents per Rand
State	8.82 (-20%)	cents per Rand

18 SERVICE CHARGES

Sale of electricity	73,402,144	61,905,938
Sale of water	117,730,942	69,047,708
Refuse removal	12,324,137	10,536,874
Sewerage and sanitation charges	12,543,936	12,619,558
Total service charges	216,001,159	154,110,078

19 GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	19.1	38,890,859	32,095,254
Financial Management Grant	19.2	368,649	413,270
Provincial Government	19.3	537,500	80,000
District Municipality: Fezile Dabi	19.4	117,889	4,080,468
Department Minerals & Energy	19.5	1,209,528	5,397,648
Department of Water Affairs and Forestry		535,895	
Sasol Chemical Industries	19.8	186,694	60,399
Provincial Government Municipal Infrastructure Grant	19.9	7,472,756	18,693,804
Financial Management Grant	19.10	164,546	50,917
Sector Education Training Authority	19.11	-	13,814
Municipal Systems Improvement Grant	19.12	734,000	-
Provincial Government		507,516	
Total government grants and subsidies		50,725,812	60,885,574

19.1 Equitable Share

In terms of section 214(1) of the Constitution (Act No. 108 of 1996), the grant is used to subsidise the provision of free basic services to all households (6kl water, 50 kWh electricity and basic sewer) and approved indigents, that receive R60,00 per month plus 4kl water, additional sewer and refuse.

	254	167
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19.2 Financial Management Grant

Balance unspent at beginning of year	40,633	4,820
Current year receipts	500,000	500,000
Conditions met - transferred to revenue	-368,649	-464,187
Conditions still to be met - transferred to liabilities	909,282	969,007

The Municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.

19.3 Provincial Government

Balance unspent at beginning of year	-	-
Current year receipts	537,500	80,000
Conditions met - transferred to revenue	-537,500	-80,000
Conditions still to be met - transferred to liabilities	0	0

Funds received from Provincial Government to assist with spatial framework.

19.4 District Municipality: Fezile Dabi

Balance unspent at beginning of year	66,695	66,695
Current year receipts	4,225,502	4,080,468
Conditions met - transferred to deferred income	(4,225,502)	(4,080,468)
Conditions still to be met - transferred to liabilities	66,695	66,695

Capital projects (infrastructure) financed by the District Municipality: Fezile Dabi.

19.5 Department of Minerals & Energy

Balance unspent at beginning of year	2,692,048	589,696
Current year receipts	12,000,000	7,500,000
Conditions met - transferred to deferred income	(14,210,445)	(5,397,648)
Conditions still to be met - transferred to liabilities	481,603	2,692,048

Installation of electricity in the Municipality's area, financed by the Department of Mineral & Energy.

19.6 Department of Water Affairs and Forestry

Balance unspent at beginning of year	-	-
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	-	-
	<u>-</u>	<u>-</u>

Funds for waterworks at Deneysville restated.

19.7 Provincial Government

Balance unspent at beginning of year	632,590	632,590
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
Conditions still to be met - transferred to liabilities	-	-
	<u>632,590</u>	<u>632,590</u>

Funds for waterworks at laboratory.

19.8 Sasol Chemical Industries

Balance unspent at beginning of year	43,061	43,061
Current year receipts	1,229,760	60,399
Conditions met - transferred to deferred income	(1,229,760)	(60,399)
Conditions still to be met - transferred to liabilities	43,061	43,061
	<u>43,061</u>	<u>43,061</u>

Equipment for library Zamdela (06/07) and Chairs Theatre (07/08).

19.9 Provincial Government Municipality Infrastructure Grant

Balance unspent at beginning of year	1,572,585	1,344,448
Current year receipts	18,931,181	18,921,941
Conditions met - transferred to deferred income	(21,435,080)	(18,693,804)
Conditions still to be met - transferred to liabilities	(931,314)	1,572,585
	<u>(931,314)</u>	<u>1,572,585</u>

Funds received for installation of infrastructure.

19.10 Financial Management Grant

Balance unspent at beginning of year	-	-
Current year receipts	-	50,917
Conditions met - transferred to revenue	-	(50,917)
Conditions still to be met - transferred to liabilities	-	-
	<u>-</u>	<u>-</u>

The Municipality received the Financial Management Grant from National Treasury. It is used for capacity building and assistance to financial services to improve service delivery.

19.11 Sector Education Training Authority Grant

Balance unspent at beginning of year	1,186	-
Current year receipts	-	15,000
Conditions met - transferred to revenue	-	(13,814)
Conditions still to be met - transferred to liabilities	1,186	1,186
	<u>1,186</u>	<u>1,186</u>

The Municipality received funds from Sector Education Training Authority for excellence performance by human resources division.

19.12 Municipal Systems Improvement Grant

Balance unspent at beginning of year	-	-
Current year receipts	734,000	-
Conditions met - transferred to revenue	(734,000)	-
Conditions still to be met - transferred to liabilities	-	-
	<u>-</u>	<u>-</u>

To assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems.

Changes of levels in Government Grants

Based on the allocations set out in Division of Revenue Act (Act no 53 of 2000) no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

20 OTHER INCOME

Other income	1,237,186	1,329,999
Total	1,237,186	1,329,999

21 EMPLOYEE RELATED COSTS

Salaries and wages	60,375,796	58,187,102
Council contributions - UIF, pension, medical, group Ins.	15,063,079	12,713,968
Travel, motor car, accommodation, subsistence and other allowance	5,749,430	4,934,654
Housing benefits and allowance	660,644	454,152
Overtime payments	7,657,095	6,634,887
Annual bonuses	4,440,979	1,748,326
Total	93,947,023	84,673,089

There was no advances to employees.
Loans to employees are set out in note 4.

Remuneration of the Municipal Manager

Annual remuneration	574,018	364,646
Car allowance	150,617	199,455
Contributions - UIF, pension, medical, group insurance.	26,687	84,359
Travel, motor car, accommodation, subsistence and other allowance.	15,167	27,120
Total	766,489	675,580

Remuneration of Chief Financial Officer

Annual remuneration	653,535	334,008
Car allowance	157,300	178,107
Contributions - UIF, pension, medical, group insurance.	49,578	55,424
Travel, motor car, accommodation, subsistence and other allowance.	16,053	21,241
Total	876,466	588,780

Included in remuneration of Chief Financial Officer is an amount of R 352 652 for early termination of contract with regard to previous Chief Financial Officer.

Remuneration of Directors - 2008

	Technical Services	Corporate Services	Social Services	Economic Development
Annual remuneration	264,249	407,735	361,557	172,846
Car allowance	95,583	173,487	193,483	78,518
Contributions - UIF, pension, medical, group insurance.	40,115	75,931	59,540	28,991
Travel, motor car, accommodation, subsistence and other allowance.	9,632	17,658	19,263	28,139
Total	409,579	674,811	633,843	308,494

Remuneration of Directors - 2007

	Technical Services	Corporate Services	Social Services	Economic Development
Annual remuneration	313,937	354,772	271,640	350,683
Car allowance	180,050	175,322	134,245	182,110
Contributions - UIF, pension, medical, group insurance.	76,360	79,348	32,119	63,685
Travel, motor car, accommodation, subsistence and other allowance.	21,241	22,535	16,429	21,526
Total	591,588	631,977	454,433	618,004

22 REMUNERATION COUNCILLORS

Executive Mayor	304,786	319,276
Speaker	229,724	251,827
Mayoral Committee Members	1,533,688	1,588,234
Councillors	2,454,610	2,746,539
Councillors' pension contribution	642,004	583,375
Councillors' medical contribution	117,573	146,664
Telephone allowance	380,359	313,940
Traveling allowance	1,965,230	2,088,657

Total Councillors' remuneration

7,627,974	8,038,512
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In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time employees of the municipality. Each is provided with an office and secretarial support at the cost of Council.

The Executive Mayor has use of a council owned vehicle for official duties and a bodyguard.

23 INTEREST PAID

Long term liabilities	987,973	927,515
Bank overdraft	111,569	81,251
Rand water	242,588	558,047
Eskom	87,337	-
Total Interest on external borrowings	1,429,467	1,566,813

24 BULK PURCHASES

Electricity	42,306,893	39,035,991
Water	50,790,874	50,239,624
Total bulk purchases	93,097,767	89,275,615

25 GRANTS AND SUBSIDIES PAID

Grant to community chess	20,000	17,544
Equitable share	3,523,782	12,243,285
Total grants and subsidies	3,543,782	12,260,829

Council contributes annually to the community chess. One of the Mayoral Committee members sits on the Governing body of the Community Chess.

Equitable share is used to subsidise registered indigents.

26 GENERAL EXPENSES

Audit fees	1,699,270	1,479,566
Bank charges	1,150,595	863,197
Financial Management Grant	190,744	166,124
Insurance premium	1,731,726	1,602,136
Insurance aggregate	65,121	86,187
Regional Services Levy	-	424
Skills development levy	778,879	682,890
Advertising	213,713	215,766
Bursaries	67,140	14,494
Conference and delegations	350,158	281,183
Connection charges	1,535,850	983,409
Entertainment	111,469	198,878
Fuel and oil vehicles	3,571,064	2,867,733
Membership fees	307,021	278,426
Postage	938,836	945,101
Printing and stationary	895,223	614,356
Professional fees	5,059,993	3,871,683
Rental: external equipment	2,236,198	1,852,876
Sewerage treatment charges	8,618,059	7,620,600
Stocks and material	1,315,996	1,197,506
Telephone	2,116,024	2,214,996
Training	580,338	585,747
Uniforms and overalls	340,299	265,106
Legal expenses	1,881,345	1,496,897
Transport claims	154,815	233,658
Departmental consumption	2,446,521	4,547,291
License fees vehicles	141,717	119,727
Valuation cost	2,153,555	2,478,076
Other	3,146,220	1,255,414
	<u>43,797,889</u>	<u>39,019,447</u>

Finance charges are restated as Finance cost on the Statement of Performance

27 CASH GENERATED BY OPERATIONS

Net deficit for the year	1,840,525	(25,512,055)
Adjustment for:		
Depreciation	27,101,150	26,773,299
Inventory written off	-	-
Loss on disposal of property, plant and equipment	1,276,272	261,249
Surplus on disposal of property, plant and equipment	(8,805,166)	(873,553)
Contributions to provisions	931,277	311,673
Interest received	(16,412,282)	(13,424,509)
Interest paid	4,154,443	3,388,787
Account for reserve accounting	2,030,336	26,099,221
Operating surplus before working capital	12,116,555	17,024,112
(Increase) / Decrease in inventory	257,331	(621,862)
Decrease in consumer receivables	1,087,714	20,499,475
(Increase) / Decrease in other receivables	1,404,276	(6,830,224)
Increase / (Decrease) in payables	13,743,880	(8,701,624)
Increase / (Decrease) in conditional grants	(4,582,991)	1,048,752
Increase in consumer deposits	51,368	17,336
Increase in VAT	2,165,312	488,781
Decrease in other funds	-	20,894,220
Cash Generated by/(utilized in) Operations	26,243,445	43,818,966

28 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the Cash Flow Statement comprise the following:

Bank balance / cash	6,893	5,315
Call investment deposit	7,221,019	5,505,154
Bank overdraft	(2,653,987)	(15,063,094)
Total in cash and cash equivalents	4,573,925	(9,552,625)

29 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Long-term liabilities (Note 15)	6,615,108	5,394,250
Used to finance property, plant and equipment	(6,615,108)	(5,394,250)
Cash set aside for repayment of long-term liabilities	4,050,364	4,454,627
Cash invested for repayment of long- term liabilities	4,050,364	4,454,627

30 ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**30.1 Contributions to SALGA**

Opening balance	-	-
Council subscriptions	301,140	266,186
Amount paid - current year	(301,140)	(266,186)
Balance unpaid (included in payables)	-	-

30.2 Audit fees

Opening balance	-	-
Current year audit fee	1,699,270	1,479,565
Amount paid - current year	(1,671,040)	(1,479,565)
Balance unpaid (included in payables)	28,230	-

30.3 VAT

VAT payable is shown in note 12.
All VAT returns have been submitted by the due date throughout the year.

30.4 PAYE and UIF

Opening balance	-	-
Current year payroll deductions	11,097,434	9,994,188
Amount paid - current year	(11,097,434)	(9,994,188)
Balance unpaid (included in payables)	-	-

30.5 Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions	23,981,915	21,263,735
Amount paid - current year	(23,981,915)	(21,263,735)
Balance unpaid (included in payables)	-	-

30.6 Councillor's arrear accounts

No Councillors had arrear accounts outstanding for more than 90 days at the reporting date or during the year.

31 COMMITMENTS

31.1 Capital commitments

- Commitments in respect of capital expenditure
- Approved and contracted for:
 - Infrastructure

	4,486,419	5,411,694
Total	4,486,419	5,411,694

- This expenditure will be financed from:
- Government grants

	4,486,416	5,411,694
	4,486,416	5,411,694

31.2 At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee (Abrahamsrust)

Within one year	1	1
In the second to fifth year inclusive	5	5
After five years	3	4
Total	9	10

Operating lease payments represent rentals payable by the entity for rental of property situated on Abrahamsrust.

The entity has a 50 year lease option that expires on 31 March 2017.

32 RETIREMENT BENEFIT INFORMATION

32.1 Defined contribution plan

The following are defined contribution plans: Municipal Councilors Pension Fund, Free State Municipal Pension Fund, Free State Municipal Provident Fund and SAMWU Provident Fund. Employees can contribute to the Free State Municipal Pension Fund, Free State Municipal Provident Fund and SAMWU Provident Fund. These Funds are classified as defined contribution plans. These contributions have been expensed.

32.2 Defined benefit plan

The defined benefit plans are the SALA Pension Fund and the Government Employment Pension Fund. These are not treated as defined benefit plans as defined by IAS19 (AC 116), but as a defined contribution plans. According to the actuaries it is not possible to report separately for each municipality on the fund, thus the reason for treating them as defined contribution plans in terms of IAS 19 (AC116) par. 30.

Some employees of various municipalities belongs to the SALA Pension Fund. The latest actuarial valuation of SALA Pension Fund was on 1 July 2007. These valuations indicate that the funds are in a sound financial position. The estimated liability of the fund is R5,580.30 million which adequately financed by assets of R6,138.70 million.

Some employees of various municipalities belongs to the Government Employment Pension Fund. The latest actuarial valuation of Government Employment Pension Fund was on 31 March 2006. These valuations indicate that the funds are in a sound financial position. The estimated liability of the fund is R447,474 million which adequately financed by assets of R545,563 million.

33 EVENTS AFTER THE REPORTING DATE

Key management are not aware of any matter or circumstance arising since the end of the financial year to date of this report, not otherwise dealt with in the financial statements, which significantly affect the financial position of the entity or the results of its operations that would require adjustments to or disclosure in the annual financial statements.

34 COMPARISON WITH THE BUDGET

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

35 DISCLOSURE OF RELATED PARTIES

35.1 Relationships between parents and subsidiaries

Controlled Entities:

Relationships

Parent	Metsimaholo Local Municipality
Municipal entity	Metsimaholo Local Municipality's Trust

35.2 Key management personnel remuneration

See note 21 and 22 for remuneration of key management personnel and Council.

No loans were granted to key personnel.

35.3 Related party transactions

The following related party transactions occurred. These transactions entails sales of goods and rendering of services.

Councillor N M Mtinkulu : Letsema Civil Works	48,239	-
Councillor N M Mtinkulu : Letsema Cleansing Services	519,817	529,914
Mr. Mqwathi : MKS Management Services CC	194,769	517,633
Councillor S I Ramathesele : Mamohato Construction	-	46,535

Mr Mqwathi is a member of Mitoro Management Consulting CC. MKS Management Services CC was appointed as a service provider.

Council contributed R20,000 (R17,544 - 2007) to the community chess.

36 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

36.1 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	3,904,377	-
Fruitless and wasteful expenditure current year	2,275,508	2,699,572
Condoned by Council	247,486	171,284

Fruitless and wasteful expenditure

6,427,371	2,870,856
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Incident	Actions taken
Interest on Rand Water	Payment was made
Interest on Eskom	Payment was made
Interest on Bank overdraft	Overdraft facility was cancelled
Interest charged by Ikangeng Catering since funds to make payment was delayed	None taken
Payments made to Promptvest 26 (Pty) Ltd for a GAMAP compliant fixed asset register not completed in full.	Contract cancelled
Telephone system	Damage in fire, to be paid by Insurers
Upgrading of stadium	Investigation still pending
Suspended Employees - Salaries (refer to note 21)	Disciplinary hearing was held and one of the employees was dismissed.

242,588	558,047
87,337	
111,569	
-	1,950
(11,107)	164,059
323,556	683,625
-	906,000
1,521,565	385,891
2,275,508	2,699,572

Incident	Actions taken
Purchases without an order	Condoned by Council
Purchases without an order and not budgeted for	Condoned by Council

64,715	22,525
182,771	148,759
247,486	171,284

36.2 Irregular expenditure

Reconciliation of irregular expenditure
 Opening balance
 Irregular expenditure current year

5,718,052	-
684,439	5,718,052
<u>6,402,491</u>	<u>5,718,052</u>

Incident	Actions taken
Inadequate quotation obtained for payments/ tender procedures made to Jacobsco.	Supply Chain Officer will take control over procurement procedures
Computer service no tender	Service terminated
Photocopiers tender procedure not followed	Investigation in process
Valuation Roll additional appointment that not form part of contract	Investigation to follow for legal action

684,439	95,952
386,414	831,417
1,133,969	4,291,418
-	499,265
<u>684,439</u>	<u>5,718,052</u>

37 RESTATEMENT OF COMPARATIVE INFORMATION

Provision for leave and bonuses have been reclassified as accruals. The effect of the restatement is summarised below:

Statement of Financial Position:

Provisions	6,868,065
Accruals - leave	(5,119,739)
Accruals - bonuses	<u>(1,748,326)</u>
	<u>-</u>

To ensure more reliable and accurate representation.

38 PRIOR PERIOD ERROR

38.1 Lease

Office equipment leased was incorrectly treated as an operating lease instead of a finance lease. The financial statements of 2006/7 has been restated to correct this error. The effect of the restatement is summarised below:

Net Assets: 509,687

Statement of Financial Position:

Accrued interest	(229,381)
Input VAT - Capital receivable	3,682,388
Accumulated depreciation	(2,289,166)
Finance lease liability	(23,817,709)
Finance lease asset	<u>21,211,551</u>
	<u>(1,442,317)</u>

Statement of Financial Performance:

Lease expense	(4,411,749)
Input VAT - expense	510,928
Depreciation	3,320,447
Finance charges	1,821,974
Surplus on release of finance lease obligation	<u>(308,970)</u>
	<u>932,630</u>

38.2 Traffic Fines

Provision was made for outstanding traffic fines as well as the cost to recover the fines and the 50% payment to the contractor. The financial statements of 2006/7 has been restated to correct this error. The effect of the restatement is summarised below.

Statement of Financial Position:

Traffic fines	27,000,000
Legal cost	(1,567,166)
50%-Contractor	<u>(14,496,715)</u>
	<u>10,936,119</u>

Statement of Financial Performance:

Debtor traffic fines	(27,000,000)
Provision for creditors-legal cost	1,567,166
Provision for creditors-Contractor	<u>14,496,715</u>
	<u>(10,936,119)</u>

38.3 Government Grants and Subsidies

Unspent conditional grant from DWAF and Health claims paid were not allocated to the operating revenue. The financial statements of 2006/7 has been restated to correct this error. The effect of the restatement is summarised below.

Statement of Financial Position:

Grants and Subsidies DWAF	(403,531)
Grants and Subsidies Province	(852,492)
	<u>(1,256,023)</u>

Statement of Financial Performance:

Unspent conditional Grants	403,531
Debtors Control	852,492
	<u>1,256,023</u>

38.4 VAT

The vat apportionment for 2005/6 was not allocated. The financial statements of 2006/7 has been restated to correct this error. The effect of the restatement is summarised below.

Prior year Accumulated surplus	<u>(2,165,312)</u>
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Statement of Financial Performance:

VAT	<u>2,165,312</u>
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39 CONTINGENT LIABILITY

39.1 Housing Loans

Guarantees for housing loans to employees at financial institutions.

<u>30,558</u>	<u>29,821</u>
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39.2 The following pending litigation claims existed at the reporting date:

- Sekete M I B : Arbitration hearing
- Moabi N E : Arbitration hearing
- Seshea PP : Arbitration hearing
- Penkin M P : Disciplinary hearing
- H Kriel and others : Disciplinary hearing

No reliable estimate can be made for the contingent liability.

40 RISK MANAGEMENT

Liquidity risk

The Council's risk to liquidity is a result of the funds available to cover future commitments.

The Council manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared monthly and adequate utilised borrowing facilities are monitored. The Council has a R 5 million overdraft facility with ABSA Bank to ensure adequate borrowing facilities are available. The cash flow of the Council is managed on a daily basis and any problems are communicated to the management in time to ensure arrangements with major suppliers can be reached. The cash flow of the Council was placed under pressure due to an unforeseen problem in the form of a sudden abnormal level of unaccounted for water. The situation was managed and Council took drastic action to improve the matter.

The general liquidity of the Council is managed by a bank and investment policy with properly defined duties and responsibilities supported by adequate delegated authority by the Council.

The exposure of Council's risk to liquidity due to the non payment of receivables are managed by ensuring that adequate deposits are required by consumers.

The Council has the following financial instruments that can be cashed in on a very short notice to relieve cash flow matters that cannot be addressed in the normal course of business.

- Paid up annuity
- Shares Sanlam Ltd
- Non paid up annuity
- Approved additional credit facility available

The above instruments are available if the current funds are not enough to cover the future commitments and are sufficient to cover any normal liquidity risk of the Council.

The Council is empowered to perform tariff adjustments and budget for any unforeseen operational changes in the nature of the Council's business subject to applicable regulations.

Risk from environmental assets

The Council is not exposed to financial risks arising from changes in any purchased biological bulk services.

The Council operates two water purification plants as well as two sewer purification plants in Oranjeville and Deneysville which is considered an ecologically sensitive and national key resource area. (upper and lower Vaal Dam). The Council has established a disaster management committee and forum to ensure any disaster can be managed. The main bulk services for the area is purchased and these resources are negotiated through a national negotiation forum that ensures that bulk service purchase price increases are fair. The sewer purification for the Sasolburg and Zamdela services is purchased from SASOL group. The annual price increase is forwarded to the consumers to ensure that financial risks is managed. No joint or separate responsibility for sewer outfall exists on the Sasolburg and Zamdela plant.

The Council reviews its water and sewer purification prices annually, considering the need for active financial risk management.

The Council operates seven cemeteries. The Council is in process to procure adequate land for these cemeteries to ensure the major financial risk relating to cemeteries are catered for.

The Council operates three demarcated refuse removal sites. The operation of these sites are considered adequate and current studies are underway to ensure that the sustainability, operation and rehabilitation of these sites are adequate. These studies will ensure that adequate financial risks is identified and managed.

The financial risk for storm water is managed through the non acceptance of any risk for down flow storm water in title deeds and the inclusion of operational and financial risk controls in the title deeds of all stands and the town planning scheme.

Adequate (R100 million) public liability insurance is secured annually from the insurers of the Council.

Interest rate risk

Deposits attract interest at rates that vary with prime. The entity's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on surplus / deficit.

At year end, financial instruments exposed to interest rate risk were as follows.

- Call deposits
- Notice deposits
- Long term annuity
- Development Bank of South Africa loan
- ABSA overdraft

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade receivables. The Council only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Only approved major financial institutions are utilised. An extensive investment policy and delegated authority is approved by Council and is adhered to.

Minimal cash on hand is kept in the form of receipts, petty cash and cashier floats. The income is daily collected by a collection service and sufficient categories of safes and strong rooms are utilised to keep cash until collection.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The collection of arrears is a priority. The credit control and debt collection policy is reviewed annually to ensure the credit risk is managed. The Council budgets for adequate working capital and a bad debt write off policy is being developed. Deposits are levied with new connections to protect the Council from non payment. The indigent register is regularly reviewed and updated. A credit collection section is functioning and any arrear accounts duly followed up. Action is taken timeously against defaulters. For unsuccessful action accounts are handed over to attorneys for collection. Proceeds of the sale of property is attached for amounts owed during the transfer of properties by issuing clearance certificates as required.

Cash, fidelity and money handlers insurance are taken out annually to ensure adequate risk cover exist.

4.1 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 (Budget approval). A corresponding amount is transferred to a designated CRR investment account. The cash in the designated CRR investment account can only be utilized to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) are credited by a corresponding amount when the amounts in the CRR are utilized.

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

Including in the Capital Replacement Reserve there are the following three reserves electrical, water and sewerage network strengthening. These funds are financed by public contributions. The funds can be used for operating and capital expenses on the above networks.

4.2 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 utilized 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).

METSIMAHOLO LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2008

	Loan Number	Redeem- able	Balance at 1 July 2007	Received during period	Redeemed/ Written off during the period	Balance at 30 June 2008	Carrying Value of property plant and equipment	Other costs in accordance with MFMA
Long Term loans								
Annuity loans								
	10	30/6/2007	37,344	-	37,344	-	-	-
	11	30/6/2008	17,474	-	11,204	6,270	-	-
	1	31/3/2008	734,891	-	734,891	-	-	-
	2	30/6/2009	5,447,442	-	2,599,892	2,847,550	889,817	-
	3	30/4/2011	4,832,584	-	1,074,296	3,761,288	1,229,287	-
TOTAL			11,069,735	-	4,454,627	6,615,108	2,119,104	-

It was not a requirement in the past to link loans and assets.
 Due to a lack of information, the loans, except Development Bank of South Africa loans cannot be linked.
 Development Bank of South Africa loans were for infrastructure in the Deneysville/Refenggotso Council.

METSIMAHOLO LOCAL MUNICIPALITY
ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	Cost / Revaluation				Accumulated Depreciation					Budget Additions 2008	
	Opening Balance	Additions	Transfer Balance	Closing Balance	Opening Balance	Additions	Transfer	Disposals	Closing Balance		Carrying Value
Land and Buildings											
Land		1,500,000		1,500,000						1,500,000	
Buildings	24,855,355	-	-	236,132	24,619,223	5,071,285	1,036,112	67,042	6,040,355	18,578,868	9,908,400
	24,855,355	1,500,000	-	236,132	24,619,223	5,071,285	1,036,112	67,042	6,040,355	20,078,868	9,908,400
Infrastructure											
Stormwater	23,312,856	6,142,943	-	29,455,799	6,786,278	1,395,443			8,181,721	21,274,078	5,000,000
Roads	72,002,604	-	-	72,002,325	47,145,316	5,277,432		83	52,322,665	19,679,660	7,862,450
Sewerage mains & purification	69,381,806	10,227,033	-	79,608,839	15,901,467	3,746,974			19,648,441	59,960,398	8,807,000
Electricity mains	56,985,360	15,370,446	-	72,355,806	23,598,516	3,424,911			27,023,427	45,322,379	17,408,000
Electricity peak load equipment	1,531,860	-	-	1,531,860	579,434	105,489			684,923	846,937	-
Water mains & purification	53,295,974	8,130,605	-	61,426,579	18,898,972	2,731,168			21,630,140	39,796,439	11,900,000
Reservoirs - water	1,821,518	-	-	1,821,518	1,348,498	28,103			1,376,601	444,917	-
Refuse dumps	-	-	-	-	-	-			-	-	1,500,000
	278,331,978	39,871,027	-	279	318,202,726	114,258,481	16,619,520	83	130,877,918	187,324,808	52,478,450
Community Assets											
Parks	3,195,840	-	-	3,195,840	2,425,990	204,871			2,630,861	564,979	-
Stadiums	4,070,312	-	-	4,070,312	826,126	179,926			1,006,052	3,064,260	-
Halls	3,531,365	-	-	3,531,365	792,375	122,855			916,230	2,615,135	1,192,000
Swimming pools	1,128,024	-	-	1,128,024	446,514	114,576			561,090	566,934	-
Recreation facilities	566,445	-	-	566,445	123,828	27,913			151,741	414,704	-
Clinics	1,510,821	-	-	1,451,600	59,221	630,756		617,896	15,426	43,795	-
Cemetery	867,377	-	-	867,377	150,273	29,983			180,256	687,121	-
	14,870,184	-	-	1,451,600	13,418,584	5,396,862	682,690	617,896	5,461,656	7,956,928	1,192,000
Heritage											
Paintings,sculptures,ect	180,870	-	-	180,870	275	65			340	180,530	-
	180,870	-	-	180,870	275	65			340	180,530	-
Other Assets											
Landfill sites											
Furniture	3,703,687	1,466,857	-	989	5,169,555	2,656,336	619,196	-	2,701	3,272,831	1,896,724
Office equipment	997,416	174,220	-	1,931	1,169,705	831,766	96,206	-	-	927,972	490,280
Emergency equipment	-	-	-	-	-	-	-	-	-	-	-
Motor vehicles	12,175,391	-	-	12,175,391	5,527,315	1,254,991			6,782,306	5,393,085	708,700
Fire engines	2,188,843	-	-	2,188,843	225,244	109,442			334,686	1,854,157	-
Refuse trucks	6,619,171	-	-	6,619,171	4,129,625	785,832			4,915,457	1,703,714	3,000,000
Computer equipment	4,366,896	392,009	-	4,758,905	2,662,693	606,601			3,269,294	1,489,611	1,409,000
Councillor's regalia	-	-	-	-	-	-			-	-	-
Other assets	6,761,599	278,957	-	7,040,556	5,362,915	515,998		37,223	5,841,690	1,198,866	1,402,000
Leases	21,211,551	29,195	-	21,240,746	2,289,166	4,306,008			6,595,174	14,645,572	-
	58,024,554	2,341,238	-	2,920	60,362,872	23,685,060	8,294,274	-	39,924	31,939,410	28,423,462
Housing											
Hostels	25,656,292	-	-	25,656,292	2,152,324	348,447			2,500,771	23,155,521	-
Housing rental	1,448,010	-	-	1,448,010	268,070	55,920			323,990	1,124,020	-
	27,104,302	-	-	27,104,302	2,420,394	404,367			2,824,761	24,279,541	-
Total	403,367,243	43,712,265	-	1,690,931	445,388,577	150,832,357	27,037,028	-	724,945	177,144,440	268,244,137

Problems are experienced with the asset register to be in line with GAMAP.

1. Depreciation is done with implementation of Asset Register, but further adjustments will be made to correct depreciation on the assets taken up
2. Loans redeemed and other capital receipts were allocated to accumulated depreciation, as well as loan redemption fund.

METSIMAHOLO LOCAL MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

	COST				ACCUMULATED DEPRECIATION						
	Opening Balance	Additions	Transfer Balance	Disposals	Closing Balance	Opening Balance	Additions	Transfer	Disposals	Closing Balance	Carrying Value
Office of the municipal manager	755,828	299,129	0	0	1,054,957	485,312	100,471	0	0	585,783	469,174
Corporate services	45,660,983	42,802	0	2,032	45,701,753	11,237,776	5,707,544	0	1,476	16,942,844	28,757,909
Information technology	1,469,051	433,187	0	0	1,902,238	1,242,487	68,075	0	0	1,410,562	491,676
Health services	2,034,176	0	0	1,640,944	393,232	955,586	35,641	0	679,308	311,919	81,313
Cleansing services	6,358,647	4,377	0	0	6,363,024	3,203,883	757,874	0	0	4,061,757	2,301,267
Public safety	7,493,459	2,489	0	0	7,495,948	2,699,531	622,185	0	0	3,221,716	4,174,232
Parks and recreation	2,385,230	29,405	0	0	2,414,635	1,231,451	215,255	0	0	1,446,706	957,929
Pleasure resorts	681,181	48,840	0	0	730,021	411,722	80,973	0	0	492,695	237,326
Community centres	1,019,867	1,229,760	0	0	2,249,627	358,390	235,228	0	0	593,618	1,656,009
Stadiums	5,422,943	0	0	0	5,422,943	1,030,918	198,088	0	0	1,229,006	4,193,937
Swimming pools	670,718	0	0	300	670,418	219,176	35,335	218	0	254,293	416,125
Cemeteries	1,225,757	0	0	0	1,225,757	448,713	52,977	0	0	501,690	724,067
Libraries	936,096	0	0	800	935,296	551,397	82,627	581	0	633,443	301,853
Technical services	246,527	0	0	0	246,527	201,992	15,276	0	0	217,268	29,259
Electricity	58,132,446	15,424,978	0	0	73,557,424	18,462,464	4,000,451	0	0	22,462,915	51,094,509
Mechanical workshop	400,066	0	0	0	400,066	261,340	37,876	0	0	299,216	100,850
Streets and stormwater	95,852,099	6,146,404	0	0	101,998,503	53,825,781	6,713,186	0	0	60,538,967	41,459,536
Buildings	286,836	1,135	0	0	287,971	180,336	40,226	0	0	220,562	67,409
Sewerage	72,331,903	10,411,081	0	0	82,742,984	17,178,232	3,883,929	0	0	21,062,161	61,680,823
Water	49,775,890	8,130,605	0	0	57,906,495	20,508,555	2,530,561	0	0	23,039,116	34,867,379
Financial services	5,435,759	8,073	0	400	5,443,432	3,159,041	755,285	0	290	3,914,036	1,529,396
Economical development and planning	46,196	0	0	0	46,196	13,748	6,599	0	0	20,347	25,849
Housing administration	7,265,097	0	0	0	7,265,097	7,253,686	5,953	0	0	7,259,639	5,458
Property administration	968,708	0	0	0	968,708	703,073	86,690	12,771	0	776,992	191,716
Urban planning	36,511,780	0	0	46,455	36,465,325	4,807,767	896,966	30,301	0	5,674,432	30,790,893
TOTAL	403,367,243	42,212,265	0	1,690,931	443,888,577	150,832,357	27,165,271	0	724,945	177,272,683	266,615,894

METSIMAHOLO LOCAL MUNICIPALITY
SEGMENTAL INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2008

2007 Actual Income	2007 Actual Expenditure	2007 Surplus/ (Deficit)		2008 Actual Income	2008 Actual Expenditure	2008 Surplus/ (Deficit)	2008 Budget Surplus/ (Deficit)
149,431,830	169,031,344	-19,599,514	Rates and General Services	144,934,750	215,737,454	-70,804,704	-78,677,070
115,954,773	116,686,319	-731,446	Community Services	105,647,029	150,270,227	-52,623,198	-58,140,620
30,000	1,706,936	-1,676,936	Executive Mayor : Administration	30,000	3,366,618	-3,336,618	-3,601,330
0	246,723	-246,723	Youth Unit	0	255,398	-255,398	-317,480
0	10,534	-10,534	Age/Disability/Gender/Children	0	0	0	-31,530
0	1,642,920	-1,642,920	Speaker : Administration	0	1,547,643	-1,547,643	-2,003,720
0	3,374,445	-3,374,445	Mayoral Committee	0	3,070,043	-3,070,043	-3,351,280
4,557	4,339,999	4,335,442	Councillors	0	4,054,184	-4,054,184	-4,002,930
0	1,973,168	-1,973,168	Municipal Manager : Administration	0	9,540,258	-9,540,258	-4,786,710
0	196,788	-196,788	IDP and PMS	0	164,035	-164,035	-428,170
0	105,696	-105,696	Internal Audit	0	122,967	-122,967	-738,560
0	11,328	-11,328	IEC	0	0	0	1,020
0	323,584	-323,584	Director : Transformation & Corporation	0	230,657	-330,657	-1,136,940
21,710	2,866,985	-2,845,075	Corporate Service : Administration	19,998	2,516,066	-2,496,068	-4,334,340
328,722	1,215,289	-996,577	Human Resources	217,610	1,247,148	-1,029,538	-1,487,890
0	951,860	-951,860	Legal Services	0	778,872	-778,872	-1,001,870
77,583	3,454,219	-3,076,636	Civic Centre	77,582	2,991,239	-2,913,657	-2,444,260
0	158,212	-158,212	Staff housing - hostels & dwellings	0	208,834	-208,834	-187,970
109,906	1,641,182	-1,531,276	Business System	276,139	1,955,049	-1,678,910	-2,012,380
38,161	1,256,191	-1,218,030	Director : Social Services	0	979,872	-979,872	-2,360,620
0	442,923	-442,923	Public Safety & Security : Administration	0	675,841	-675,841	-605,460
0	265,555	-265,555	Disaster & Emergency Management	0	71,783	-71,783	-317,360
0	2,379,799	-2,379,799	Security Services	0	3,972,606	-3,972,606	-3,482,170
33,818,607	24,773,436	9,045,171	Traffic Services	20,762,628	16,897,498	3,865,130	-1,666,290
73,624	9,127,901	-9,054,277	Parks, Recreation & Open Spaces	36,915	9,347,981	-9,311,066	-11,218,930
0	193,270	-193,270	Director : Technical Services	0	382,458	-382,458	-2,383,310
19,635	1,800,227	-1,780,592	Engineering Workshop	18,028	1,559,723	-1,541,695	-2,054,830
56,571	980,577	-924,006	Civil Engineering : Administration	46,068	1,992,533	-1,946,465	-1,212,340
4,157,865	15,965,854	-11,807,989	Streets & Stormwater	3,128,528	14,771,482	-11,642,954	-6,544,980
945	2,914,813	-2,913,868	Building Maintenance	0	2,786,531	-2,786,531	-3,700,150
0	264,407	-264,407	Director : Financial Services	0	254,209	-254,209	-620,320
23,726,528	26,280,334	-2,553,806	Financial Services : Administration	20,188,750	65,874,657	-45,685,907	-42,640,340
984,584	351,798	632,786	Stores and Purchasing	19,677	1,284,201	-1,264,524	-803,430
51,794,403	0	51,794,403	Assessment Rates	59,700,333	0	59,700,333	59,848,200
0	885,743	-885,743	Director : Economic Dev. & Planning	0	580,106	-580,106	-1,629,510
0	557,757	-557,757	Housing prop. & Urban Plan. : Administration	0	492,599	-492,599	0
28	1,083,708	-1,083,680	Property Administration	12,799	1,013,925	-1,001,126	-2,317,650
710,754	2,451,857	-1,741,103	Urban Planning	1,109,134	2,816,068	-1,706,934	-744,770
0	822,883	-822,883	Econ. Development : Administration	2,840	467,143	-464,303	-1,583,700
0	47,498	-47,498	Marketing and Tourism	0	0	0	-70,400
0	0	0	Public Relations	0	0	0	-71,920

1,042,255	14,316,049	-13,273,794	Subsidised Services	1,309,389	14,830,832	-13,521,443	-14,802,380
0	5,421,732	-5,421,732	Fire Protection Services	6	6,054,928	-6,054,922	-4,661,230
693,642	1,199,691	-506,049	Etienne Rousseau Theatre	985,471	985,748	-277	-946,920
70	0	70	Zamdela Arts and Culture Centre	838	0	838	-20,770
1,214	3,763	-2,549	Refengkgotso Hall	70	0	70	4,030
12,638	18,659	-6,021	Metsimaholo Hall	12,638	13,735	-1,097	17,340
11,333	281,785	-270,452	Zamdela Community Hall	11,498	377,706	-366,208	-555,080
63,896	1,737,175	-1,673,279	D P de Villiers Stadium	48,930	2,126,092	-2,077,162	-1,885,100
789	352,994	-352,205	Moses Kotoane Stadium	0	445,018	-445,018	-661,040
0	7,484	-7,484	Refengkgotso Stadium	0	1,795	-1,795	-18,440
0	4,000	-4,000	Metsimaholo Stadium	0	5,103	-5,103	-53,540
35,579	1,004,398	-968,819	Penny Heyns Swimming pool	47,718	960,232	-912,514	-1,399,010
5,000	64,796	-65,796	Zamdela Swimming pool	5,000	371,922	-366,922	-460,140
70,350	438,002	-367,652	Sasolburg Cemetery	64,212	147,274	-83,062	-317,000
20,606	254,076	-233,470	Zamdela Cemetery	12,620	152,440	-139,820	-379,540
0	51,850	-51,850	Deneysville Cemetery	0	58,672	-58,672	-13,910
0	2,599	-2,599	Oranjeville Cemetery	0	0	0	-11,880
90,098	2,195,686	-2,105,588	Sasolburg Library	85,702	2,209,087	-2,123,385	-2,333,810
37,040	433,414	-396,374	Zamdela Library	34,686	506,337	-471,651	-404,910
0	263,221	-263,221	Deneysville Library	0	340,764	-340,764	-291,500
0	3,724	-3,724	Oranjeville Library	0	61,157	-61,157	-68,180
0	0	0	Refengkgotso Library	0	12,822	-12,822	-341,750
32,435,402	38,028,074	-5,593,572	Economical Services	37,076,332	42,636,392	-4,660,060	-5,734,070
13,724,396	15,057,605	-1,333,209	Cleansing Services	15,949,358	17,945,152	-1,995,794	-3,536,430
1,363,834	2,520,321	-1,156,487	Abrahamsrust Holiday Resort	1,777,022	2,046,999	-269,977	-2,000,780
0	26,732	-26,732	Deneysville Shore facility	69,070	10,672	58,398	80,030
0	1,233	-1,233	Oranjeville Shore facility	42,146	846	41,300	86,890
17,347,172	20,423,083	-3,075,911	Sewerage	20,138,736	22,632,723	-2,493,987	-363,780
363,599	1,640,926	-1,277,327	Housing Services	389,367	2,187,620	-1,798,253	-3,074,740
363,599	1,640,926	-1,277,327	Housing Administration	389,367	2,187,620	-1,798,253	-3,074,740
154,003,416	148,025,917	5,977,499	Trading Services	225,487,249	156,276,884	69,210,364	71,843,510
69,515,463	56,698,156	12,817,308	Electricity - Administration	84,615,337	57,749,898	26,865,439	6,739,300
980,760	15,322,296	-14,341,536	Electricity - Distribution	1,209,528	15,635,302	-14,425,774	-12,233,110
70,496,223	72,020,451	-1,524,228	Electricity	85,824,865	73,385,200	12,439,665	-5,493,810
83,507,193	76,005,466	7,501,727	Water Service	139,662,384	82,891,686	56,770,699	77,337,320
303,798,845	318,698,185	-14,899,340	Total	370,809,366	374,203,956	-3,392,590	-9,908,300

METSIMAHOLO LOCAL MUNICIPALITY					APPENDIX E(1)
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2008					
	2008	2008	2008	2008	Explanation of significant variance greater than 10% versus budget
	Actual (R)	Budget (R)	Variance (R)	Variance (%)	
Revenue					
Property rates	56,917,298	57,437,760	(520,462)	(1)	
Service charges	215,910,287	233,243,510	(17,333,223)	(7)	
Tariff charges	7,694,369	5,840,390	1,853,979	32	1*
Fines	20,384,366	6,510,930	13,873,436	213	2*
Government grant and subsidies	41,066,903	40,773,000	293,903	1	
Interest earned - external investments	1,807,683	300,000	1,507,683	503	3*
Interest earned - outstanding debtors	14,585,301	12,243,000	2,342,301	19	4*
Rental facilities and equipment	1,288,598	1,292,910	(4,312)	(0)	
Licenses and permits	63,320	90,000	(26,680)	(30)	5*
Profit sale of assets	183,218	-	183,218	100	6*
Other income	1,237,186	7,333,990	(6,096,804)	(83)	7*
Capital grants and subsidies	9,658,929	10,770,670	(1,111,741)	(10)	8*
Total revenue	370,797,458	375,836,160	(5,038,702)	(1)	
Expenditure					
Employee related costs	93,947,023	101,920,820	(7,973,797)	(8)	
Remuneration of Councillors	7,627,974	8,205,560	(577,586)	(7)	
Bad debts	27,000,000	27,000,000	-	-	
Collection cost	27,101,150	26,685,670	415,480	2	
Depreciation	27,101,150	26,685,670	415,480	2	
Repairs and maintenance	8,533,073	17,952,270	(9,419,197)	(52)	9*
Interest on external borrowings	1,429,467	1,915,200	(485,733)	(25)	10*
Bulk purchases	-	121,858,650	(121,858,650)	(100)	11*
Contracted services	17,201,356	9,177,730	8,023,626	87	12*
Grants and subsidies paid	11,051,274	6,543,600	4,507,674	69	13*
General expenses - Other	44,899,325	64,491,740	(19,592,415)	(30)	14*
Contributions to/(transfers from) provisions	1,170,757	(6,780)	1,177,537	100	15*
Loss on disposal of property, plant and equipment	297,508	-	297,508	100	16*
	267,062,549	412,430,130	(145,367,581)	(35)	
TOTAL EXPENDITURE					
	103,734,909	(36,593,970)	140,328,879		
Net surplus / (deficit) for the year	1,081,783	4,136,290	-	-	
Less : Capital Grants					
	102,653,126	(40,730,260)	140,328,879		
Net surplus / (deficit) for the year	1,081,783	4,136,290	-		

METSIMAHOLO LOCAL MUNICIPALITY
Explanation of Significant Variance greater than 10% Versus Budget

1 Tariff charges

More consumers were cut due to non payment and many developments took place where connection fees are payable.

2 Fines

Provision was made for outstanding traffic fines since 2001 as Council has a contract with a service provider.

3 Interest earned - external investments

The interest rate increased and the overdraft was reduced and monies were invested on call accounts from which withdrawals can be made easily.

4 Interest earned - outstanding receivables

The interest rates increased and given the outstanding receivables it will have an influence on interest earned.

5 Licences and permits

Lesser traders applied and received licences than anticipated.

6 Surplus on sale of assets

Money received for equipment damaged in fire incident during October 2007.

7 Other income

Contributions from the public did not materialise as anticipated and fundraising also did not materialise.

8 Capital grants and subsidies

No allocation was received from Department of Public Works, Roads and Transport.

9 Repairs and maintenance

Due to cash flow problems repairs and maintenance expenditure were limited. No maintenance was performed on road infrastructure.

10 Interest on external borrowings

The amount budget was not sufficient.

11 Bulk purchases

For electricity too much provision was made for price increase by Eskom. The reticulation networks did not expand as envisaged.

12 Contracted services

Provision was made for outstanding traffic fines (50%) to a service provider.

13 Grants and subsidies paid

Allocation of unspent equitable share was made to provision for bad debt.

14 General expenses - Other

Due to serious cash flow problems lesser monies were committed to expenditure.

15 Contributions to / transfers

Contributions to leave accruals and bonus accruals were made in order to avoid understatement.

16 Loss on disposal of property, plant and equipment

Annual verification revealed shortages.

METSIMAHOLO LOCAL MUNICIPALITY
ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2007

	2008 Actual	2008 Under construction	2008 Total additions	2008 Budget	2008 Variance (R)	2008 Variance (%)	Explanation of significant variances greater than 5% versus budget
Land and buildings							
Land							
Buildings	-		-	9,908,400	(9,908,400)	(100)	1*
	-	-	-	9,908,400	(9,908,400)	(100)	
Infrastructure							
Stormwater	6,142,943		6,142,943	5,000,000	1,142,943	23	2*
Roads	-		-	7,863,450	(7,863,450)	(100)	1*
Sewerage mains & purification	10,227,033		10,227,033	8,807,000	1,420,033	16	2*
Electricity mains	15,370,446		15,370,446	17,408,000	(2,037,554)	(12)	3*
Electricity peak load equipment	-		-	-	-	-	
Water mains & purification	8,130,605		8,130,605	11,900,000	(3,769,395)	(32)	2*
Reservoirs - water	-		-	-	-	-	
Water meters	-		-	-	-	-	
Refuse dumps	-		-	1,500,000	(1,500,000)	(100)	1*
	39,871,027	-	39,871,027	52,478,450	(12,607,423)	(24)	
Community Assets							
Parks	-		-	-	-	-	
Libraries	-		-	-	-	-	
Stadiums	-		-	-	-	-	
Halls	-		-	1,192,000	(1,192,000)	(100)	2*
Theatre	-		-	-	-	-	
Swimming pools	-		-	-	-	-	
Recreation facilities	-		-	-	-	-	
Cemeteries	-		-	-	-	-	
	-	-	-	1,192,000	(1,192,000)	(100)	

METSIMAHOLO LOCAL MUNICIPALITY
Explanation of Significant Variance greater than 5% Versus Budget

- 1 Funds were not secured therefore assets was not acquired. Projects funded by District Municipality amounts to R4 225 502 as projects budgeted for R13,6 million. Projects to be funded by Anglo Coal, R3,8 million and SCI, R1,5 million did not realise. Provision was made for projects / items to be financed via new Loans, R6,3 million and no new loans were taken up.
- 2 Funds were redistributed from MIG to accommodate more fully service even.
- 3 Electricity project on Network Strengthening of R1 700 000 from own funds were not done.
- 4 Due to severe cashflow problems only real essential property, plant and equipment were aquired.

METSIMAHOLO LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

GRANTS AND SUBSIDIES RECEIVED FOR YEAR ENDED 30 JUNE 2008

Name of grants	Name of organ of state or municipal entity	Quarterly receipts				Quarterly expenditure				Grants and subsidies delayed/withheld				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance	
		Sept	Dec	March	June	Sept	Dec	March	June	Sept	Dec	March	June				Yes/No
Financial Management Grant		500,000						49,324	319,328								
Municipal Infrastructure Grant		1,148,000	11,025,000			740,000	391,000							Unspent	Yes		
Department of Minerals & Energy			12,173,000				6,775,000										
Department of Water Affair and Forrestry					358,000				358,000								
Municipal System Improvement Grant		367,000			367,000				734,000								

CHAPTER 5

PERFORMANCE AND SERVICE DELIVERY REPORTING

OFFICE OF THE MUNICIPAL MANAGER

Overview

The main objective of the Office of the Municipal Manager is to provide institutional leadership and strategic management to the municipal administration and executive support and advice to the Executive Mayor and Council.

Description of the activity

The following main functions have been identified:

- IDP and Strategic Planning
- Financial Governance and Reporting
- Organisational Performance Management
- Internal Audit and Corporate Governance
- Supply chain management
- Security management

The strategic objectives of the finance department are to –

- Enhance a culture of performance and service delivery excellence
- Provide sound strategic planning and strategic management advice and support
- Ensure sound financial governance and management
- Ensure effective and efficient management of intergovernmental relations;
- Effective internal and external communication

The key issues for 2006-2008 were:

- Implementing a financial management turnaround strategy to improve the municipality's cash flow position
- Improve corporate governance through the establishment of an internal audit unit and better annual audit compliance;
- Ensuring improvements in compliance in contract management in accordance with the municipality's supply chain management policy.

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREA: GOVERNANCE AND ADMINISTRATION

Performance information: 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Public participation meetings conducted	No. of meetings	30	36	48	IDP meetings and ward committee consultations on the new municipal logo held
Newsletters produced and distributed	No. of newsletters	8	10	4	Newsletters done in conjunction with Rejuvenation
Performance agreements signed	No. of agreements signed on time	4	5	5	All performance agreements were concluded
Reviewed system of delegations	Report submitted to Council by December 2006	40%	100%	80%	Sub-delegations on housing allocations were finalised
Annual review of IDP completed	In terms of MSA and MFMA provisions	100%	100%	100%	Revised IDP was tabled and adopted by Council
Compiled Annual Report in terms of MFMA & NT guidelines	Annual report submitted to Council end of January 2007	50%	100%	75%	Annual Report compiled but not tabled and adopted by Council

Performance Information: 2007/08

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Key issues (IDP, Budget, By-laws, etc.) consulted over with community members prior to decisions	Percentage key issues consulted over in formal public participatory processes	100%	100%	100%	Community consultations on IDP and Budget were conducted
Improved internal and external communication with stakeholders	No. of newsletters produced and distributed	7	6	0	No newsletters were produced and distributed
Compliant Performance agreements signed	No. of performance agreements signed by end of July 2007 with all Directors	5	5	0	Concluding of performance agreements were hampered by resignations and new appointments
Reviewed system of delegations	Report submitted to Council by end of September 2007	50%	100%	60%	Report compiled but not yet submitted to Council
Approved legislatively compliant Integrated Development Plan (IDP)	IDP approved by Council In terms of MSA and MFMA provisions by end of March 2008	100%	100%	100%	Revised IDP 2008-2012 was tabled and adopted by Council
Compiled Annual Report in terms of MFMA & NT guidelines	Annual report submitted to Council by end of January 2008	75%	100%	0%	Annual Report was not compiled
Finalise municipal performance scorecard	Percentage of performance scorecard developed and approved by Council	0%	100%	0%	Process linked to finalisation of Corporate Strategic Plan and PMS
Procurement budget spent on BEE	Percentage of procurement budget spent on BEE	0%	25%	0%	Targets on procurement spent not finalised
Capital budget spent in terms of approved MTREF	Percentage of capital budget spent to achieve set outcomes	31%	95%	59%	Capital spending was negatively affected by cash flow problems
Operating budget spent in terms of approved MTREF	Percentage of operating budget spent to achieve set outcomes	90%	95%	65%	Operating budget expenditure was constraint by cash flow problems experienced by the municipality
Resolved Auditor-General formal queries	Percentage queries responded to within 10 working days	50%	100%	75%	Some queries not resolved mainly relating to fixed assets due to legacy issues
Improved audit report from disclaimer to qualified report	Percentage contribution to qualified audit report	0%	100%	100%	Municipality received a qualified report for 2006/07 financial year
Implemented Employment Equity (EE) Plan	Percentage implementation of EE Plan	50%	75%	75%	All EE targets and issues were implemented during the financial year

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
In-house fully functional internal audit unit established	Percentage of internal audit unit established	25%	100%	25%	Internal Auditor appointed; Need to improve unit's capacity
Developed risk management plan	Percentage of risk management plan developed	0%	100%	0%	Risk management plan to be developed in new financial year

FINANCIAL SERVICES

Overview

The main objective of the finance department is to provide a comprehensive and sound financial management service to the municipality.

Description of the activity

The following main functions have been identified:

- Budget and Expenditure management
- Financial Statements and Asset management
- Revenue collection and management

The strategic objectives of the finance department are to –

- Formulate and implement medium and long-term financial policy;
- Formulate and implement policies, by-laws and regulations;
- Formulate and implement asset management and investment policies;
- Plan and budget for implementation of costing systems;
- Budget preparation and implementation.
- Maintain and implement tariff policies and by-laws;
- Maintain and implement credit control, debt collection and indigent policies; and
- General Reporting obligations in terms of the MFMA

The key issues for 2006-2008 were:

- Ensuring affordable and competitive tariff structure;
- Upgrading of pay points and pre-paid vending machines;
- Upgrading information and accounting systems;
- Implementation of GRAP ;
- Review of the debt collection and credit control policy; and
- Improved billing through repairs of meters and leaks.
- Compilation of the Asset Register

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREA: GOVERNANCE AND ADMINISTRATION

Performance information: 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Percentage creditor payments within 30 days	No. paid/ Total no.	100%	100%	70%	Cash flow problems experienced during financial year resulted in some payments being made after 30 days
Compiled Annual Financial Statements	Percentage GAMAP/GRAP compliance	50%	75%	60%	Exemptions granted on the implementation plan
Submitted Annual Financial Statements (AFS)	AFS submitted to Auditor-General by 31 August 2006	100%	100%	100%	AFS submitted to Auditor-General on time
Percentage debtors revenue collected	Total payments/ Total levies	90%	95%	84.4%	Unemployment and outdated debt collection policy & no debt collection strategy
Percentage of statutory financial reporting	In terms of MFMA and Division of Revenue Act (DoRA)	90%	95%	95%	Monthly and quarterly reports submitted
Percentage MTREF (Medium Term Revenue and Expenditure Framework) budget completed	Budget completed in terms of MFMA and GAMAP requirements	80%	90%	90%	MTREF format and contents not fully compliant with National Treasury guidelines

Performance information: 2007/08

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Percentage creditor payments within 30 days	No. paid/ Total no.	75%	100%	90%	Cash flow problems caused delay in some payments
Compliant Annual Financial Statements compiled	Percentage GRAP/IAS compliance	60%	90%	60%	Staffing-related challenges hampered progress in this regard
Annual Financial Statements submitted on time	AFS submitted to Auditor-General by 31 August 2008	100%	100%	100%	AFS submitted to Auditor-General on time.
Percentage debtors revenue collected	Total payments/ Total levies	93%	97%	83.5%	High unemployment levels impacted negatively on residents ability to pay for services
Reduced municipal debt older than 90 days	Percentage reduction of municipal debt older than 90 days	10%	35%	0%	Non performance of old debt collectors and implementation of the new contract
Illegal water and electricity connections addressed	Percentage of illegal connections addressed through audits and complaints	100%	100%	100%	Service provider appointed to ensure audits take place
Timely and accurate financial reports compiled and submitted	In terms of MFMA and DORA	95%	100%	100%	Monthly and quarterly reports and returns submitted
Supply chain management compliance	Percentage compliance with approved SCM policy	20%	80%	50%	Policy and bid committees in place; Statutory reporting not yet done
Percentage budget completed	Budget completed in terms of MFMA and GRAP requirements	90%	100%	90%	Vacancies in top management impacted on implementation.
Compliant general valuation roll implemented	Percentage of valuation roll implemented by 30 June 2008	40%	100%	60%	Property Rates Act implemented only from 1 July 2008
Completed action plan to address issues raised by AG reports	Percentage of action plan addressed by 31 August 2007	45%	90%	50%	A delay in finalizing the legacy issues (take-on balances for fixed assets, etc.)
Resolved Auditor-General formal queries	Percentage queries responded to within 10 working days	50%	100%	60%	Directorates not always responding on time

ORGANISATIONAL DEVELOPMENT AND CORPORATE SERVICES

Overview

The main activities of this Directorate relate to –

- Human resource management
- Organisational development
- Administrative support services
- Information technology

Description of the activity

The strategic objectives of the Directorate are –

Human resource management

- Formulate, maintain and execute the employment equity plan;
- Formulate, maintain and execute the skills development plan;
- Formulate, maintain and execute individual performance management system;
- Manage and handle general human resource administration, including labour relations.

Organisational development

- Manage and maintain the strategic organisational imperatives of the municipality to ensure effective implementation of the IDP and service delivery priorities.
- Develop, implement and maintain effective OD interventions, systems and policies.

Administrative and legal support services

- Ensure efficient running of the municipal administration
- Ensure professional legal support services to council and its structures

Key Performance Areas include:

- Training and development
- Employment equity
- Performance management
- Human resource administration

- Talent management
- Employee wellness
- Provision of legal assistance to departments, council and its structures
- Handling of labour relations aspects (collective bargaining, disciplinary and grievance cases)
- Delivery of council meeting agendas
- Logging and tracking of council resolutions

The key issues for 2006-2008 were:

- Ensuring the timely compilation and submission of the municipality's employment equity plan
- Ensuring the timely compilation and submission of the workplace skills plan
- Finalisation of the individual performance management system
- Finalisation of travelling and subsistence allowance policy;
- Investment in the human capital (bursaries and training of workforce)
- Implementation of job evaluation system as per approved plan
- Finalisation of grievance and disciplinary cases within 90 days
- Support service rendered to all directorates in relation to disciplinary and grievance procedures
- Provision of sound legal assistance to the departments
- Expedient delivery of council meeting agendas
- Implementation of logging and tracking system of council resolutions

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREA: GOVERNANCE AND ADMINISTRATION

Performance information: 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Finalised By-laws	Number of By-laws finalised	2	4	0	The process of review and rationalisation of by-laws was conducted in the financial year and there was a delay in terms of finalizing the process. The delay was occasioned by the shortage of staff within legal services department
Meeting agendas delivered on time	Percentage Council (48 hrs) and Mayco (24 hrs) agendas delivered	100%	100%	80%	Though there was a challenge of under-staffing the agendas were distributed accordingly.
Resolutions management	% resolutions logged and implementation tracked	100%	100%	50%	The system has been developed but the IT capacity had a negative impact on its implementation
Workplace Skills Plan developed and implemented	WSP implementation report submitted by October 2006	100%	100%	100%	The WSP was submitted to the LGSETA and was fully implemented.
Annual ABET training course delivered	Percentage delivered between Feb and Oct	100%	100%	25%	75% of the students dropped out of classes due to loss of interest.
Employment Equity Act implemented	EE Plan and Report submitted by end of October 2006	100%	100%	100%	The EE Plan and Report submitted to the Dept. of Labour on time.
Performance Management System (PMS) developed	PMS Report submitted to Council by end of September 2006	50%	100%	100%	The PMS was adopted by the council
Occupational Health and Safety Act compliant	Percentage compliance in terms of key provisions	80%	100%	80%	The applicable legislation (Occupational Health and Safety Act, 1993) is adhered to and relevant structures (such as safety committee) are in place
Disciplinary cases completed as per timeframes in conditions of service	Percentage of cases completed on time	90%	100%	90%	All internal disciplinary hearing cases were finalized within the time frame except for cases that were handled externally

Performance information: 2007/08

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Finalised By-laws	Number of By-laws finalised	2	3	0	5 By-laws will be finalized by Council in January 2009 and other 5 By-laws will also be finalized before the end of June 2009
Meeting agendas delivered on time	Percentage agendas delivered 48 hours before all meetings	100%	100%	80%	During the financial year there was a shortage of staff as 5 staff members resigned however the agendas were distributed as required
Resolutions management	% resolutions logged and implementation tracked	100%	100%	80%	The system works but managers will be trained on how to use the software
Approved Customer Care and Relations Management Policy	CRM policy approved by Council	0%	100%	30%	The policy is being finalized and will be adopted by council in March 2009
Integrated HR Strategy	Finalised & submitted to Council	0%	100%	30%	The policy is being finalized and will be adopted by Council in March 2009
Workplace Skills Plan (WSP) developed and implemented	ATR & WSP submitted by September 2007	100%	100%	100%	Submitted to the LGSETA in June 2007 and WSP was fully implemented.
Learners trained on learnerships undertaken	No. of learners	0	130 learners	0	Training on learnerships has not yet commenced due to temporary withdrawal the service provider whose accreditation expired.
Annual ABET training course delivered	% current completion and new intake	100%	100%	50%	Half of the learners dropped out due to lack of interest.
Employment Equity Act implemented	EE Plan and Report submitted by end of October 2007	100%	100%	100%	Report and Plan were submitted to the Dept of Labour on time
Implemented EE Plan	Percentage implementation of EE Plan	50%	75%	95%	Employment Equity plan implemented and targets in most categories were achieved.
Refined approved Performance Management System (PMS) implemented	Refine approved PMS in terms of reward system for other levels by end of December 2007	0%	100%	40%	The Organisational structure is being reviewed and proper to effect the PMS are being put in place. The process will be finalized by June 2009.

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Occupational Health and Safety Act compliant	Percentage compliance in terms of key provisions	80%	100%	90%	The applicable legislation is adhered to and the relevant structures are in place.
OHSA awareness workshops	No. of workshops held	8	12	0	The workshops are scheduled for February 2009.
Implemented Employee Assistance Program (EAP)	EAP developed and approved by 31 December 2007	0%	100%	30%	The policy is being developed and it will be finalized by March 2009.
Disciplinary cases completed as per timeframes in conditions of service	Percentage of cases completed within 90 days	100%	100%	90%	All internal disciplinary hearing cases were finalized within the stipulated time frame except for cases that were handled by the external Attorneys.
Minimised downtime of critical IT systems	Percentage downtime of critical systems as a percentage of total time	80%	90%	60%	The IT downtime has been minimized.
Maximum functionality of workstations maintained	Percentage of workstations on line	60%	75%	60%	The functionality of workstations is maintained
IT service complaints addressed	Percentage of services complaints resolved within 24 hours as a percentage of complaints received	60%	75%	70%	The majority of IT related complaints are resolved within 24 hours.

ECONOMIC DEVELOPMENT AND PLANNING

Overview

The main activities of the department Economic Development and Planning relate to:

- Local Economic Development
- Urban and Regional Planning
- Housing and Property Administration

Description of activity

The strategic objectives of the department are to:

- Manage and control development in such a manner that there is sufficient provision made for industrial, commercial, agricultural and domestic uses; and
- Enhance, promote, maintain and coordinate economic activities in the municipal area to the benefit of all the inhabitants and communities.

Key issues for 2006-2008 were:

- Promotion of broad-based black economic empowerment
- Compilation of the LED strategy
- Development of small scale farming
- Spatial Development Framework review
- Development of the Land use management scheme for Metsimaholo
- Planning of a further 3500 erven

Key Performance Areas of the Directorate are:

- Spatial development
- Building control
- Land-use management
- Local economic development
- Housing construction
- Relocation of informal settlements
- Updating of erf database

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREA: ECONOMIC AND INVESTMENT

Performance information: 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Housing and Planning					
RDP houses constructed	No. of houses	1000	3500	1900	1664 Zamdela 184 Refengkgotso 52 Metsimaholo
Updated Spatial Development framework	Annual updated finalised by 30 June 2007	100%	100%	100%	The SDF updated and adopted by Council and approved by Province
Approval of building plans	Percentage plans approved within 30 days of receipt	100%	100%	100%	207 building plans received and all approved
Updated land use management scheme	Percentage completed by end of September 2006	65%	100%	73%	The final draft completed and the legend still outstanding.
Updated erf database with housing backlogs and community needs	Percentage completed by end of December 2006	85%	100%	100%	Erven updated and housing backlogs quantified and submitted to Province for housing allocations.
Economic development					
Finalise Metsimaholo Economic Development Strategy	Completed by end of December 2006	0%	100%	0%	Funding not received and this project was not budgeted for by the municipality.
Established local business centre	Percentage completion of centre	0%	50%	0%	Funding not received and this project was not budgeted for by the municipality.
Informal LED projects implemented	Percentage of projects implemented	0%	100%	0%	Funding not received and this project was not budgeted for by the municipality.

Performance information: 2007/08

Key Performance Indicator	Unit of measurement	Base-line	Annual target	Actual	Explanation of variance and actual performance
Housing and Planning					
Assisted subsidy applicants in line with allocations	Percentage of subsidy applicants assisted	100%	100%	100%	Applications processed and resolved within 30 days.
Application for housing accreditation	Finalise plan for accreditation to Province by end of October 2007	0%	100%	90%	Province has instituted a moratorium on the accreditation of municipalities.
Land audit funding	Securing funding by end of September 2007	0%	100%	100%	Land Affairs approved funding for the land audit as such the land audit was completed.
Updated Spatial Development framework	Annually updated and finalised by 30 June 2008	100%	100%	100%	The SDF updated and adopted by Council and approved by Province.
Approval of building plans	Percentage plans approved within 30 days of receipt	100%	100%	90%	Building plans approved within 30 days.
Rezoning, sub-divisions and consolidation applications processed	Applications processed by municipality within 30 days	70%	100%	70%	1800 applications were submitted to Province for approval.
Building inspections conducted	Percentage of approved plans inspected as per prescribed standards	100%	100%	100%	Shortage of human capital (building inspectors)
	Percentage of complaints of violations responded	100%	100%	0%	Shortage of human capital (building inspectors)
Updated land use management scheme	Percentage completed by end of December 2007 according to new technical layout requirements	75%	100%	100%	The consultant to include comments from Province
Stands/sites allocated	Number of approved stands allocated	3000	3150	3200	3200 stands were allocated to families in Amelia.
Immovable properties/assets	Percentage of immovable properties sold within 3 months	0%	100%	10%	Stands in Zamdela, Deneysville and Refenggotso residential, business and community facility) were not disposed off; the report was referred back by Council.
	Percentage of sold immovable properties registered	0%	100%	0%	Buyers have not fully paid the transfer costs.
Updated erf database	Percentage of stands captured	100%	100%	100%	The database was updated and even valued.

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Economic development					
Finalised Metsimaholo Economic Development Strategy	LED strategy completed by end of December 2007	25%	100%	40%	The consultant was appointed. Funding was received from DBSA and FDDM.
Business information seminars	Number of business information seminars held	6	8	20%	Only one information seminar was held and conducted by Anglo Coal Zimela.
Jobs created monitoring municipal-wide	Reports on number of jobs created through the municipality's LED projects	0	4	0%	Reporting framework will be developed upon the supply chain policy.
Finalised BBEE procurement targets	BEE targets finalised and approved by Council by end of September 2007	0%	100%	0%	Procurement policy is under review and this target will be incorporated into the revised policy.
Facilitated business linkages (support to SMME's)	Number of linkages facilitated	7	12	70%	20 small businesses were referred to Anglo Coal Zimela for funding. 10 other businesses were referred to both SEDA and FDC for business plan compilation, registration and funding.

SOCIAL SERVICES

Overview

The main activities of the Directorate relate to:

- Parks and Recreation
 - Community and sports facilities
 - Parks and recreational facilities
 - Cemeteries
 - Cultural activities and facilities
 - Providing a clean environment
- Public Safety
 - Traffic services
 - Fire protection
 - Disaster management.
- Waste management (cleansing services), which includes includes collection, disposal and recycling of household, commercial and industrial refuse and waste, management of landfill and disposal sites and street cleaning.

Description of the activity

The strategic objectives of the *Parks and Recreation* division are to –

- Ensure sufficient and accessible burial sites and facilities according to the current and future needs;
- Ensure that all current cemeteries are well managed, maintained and secured and provided with public facilities;
- Create a climate whereby diverse cultures can be accommodated and tolerated
- Ensure that all communities have access to libraries and information centres that are well equipped and maintained and
- Implement a greening plan for the area that will enhance the beauty of the natural environment
- Enhancing and maintaining of sports facilities in communities

The strategic objectives of the **Public Safety** division are to –

- Improve response time to all call-outs
- Provide full service in total municipal area
- Manage and coordinate disaster management with district municipality, local industries and communities
- Improve road safety and reduce accidents

The strategic objectives of the **Waste Management** (Cleansing Services) division include:

- Develop, implement and enforce a comprehensive set of by-laws to regulate the service;
- Develop, implement and maintain an integrated waste management plan; and
- Plan closure and rehabilitation of landfill sites.

The key issues for 2006-2008 were:

Parks and Recreation

- Upgrading of the Highveld Gardens;
- Upgrading of Zamdela/Sasolburg swimming pools;
- Identification of new accessible burial sites and installation of fence and water taps at cemeteries, burial sites and crematorium; and
- Availability of facilities and maintenance thereof.

Public Safety

- Improve conversion of fines into actual revenue;
- Improve visibility and extend services;
- Design and maintenance of disaster management plan; and
- Develop and implement training programmes for volunteers.

Waste management (Cleansing services)

- Review of waste management plan;
- Identification of regional landfill site;
- Awareness campaigns on illegal dumping and pollution; and
- Identification and establishment of control landfill site.

Key performance areas of the Directorate include:

Parks and Recreation

- Sufficient and accessible burial sites and facilities
- Promoting cultural diversity and tolerance
- Sufficient and accessible community facilities

Public Safety

- Efficient and timely response to emergencies
- To provide a safe and secure environment for residents
- Disaster management

Waste management (Cleansing services)

- To provide reliable and affordable door-to-door waste removal services to all households
- To provide reliable affordable waste removal service to all businesses and industries
- To provide a clean and healthy environment

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREAS:

Social and Human Development

Economic and Investment

Safety and Security

Performance information 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Community and Social Services					
New libraries built	No. of libraries completely built	100%	60%	70%	Library in Refengkgotso partially completed
Upgraded libraries	No. of libraries upgraded	2	0	0	No upgrading were planned
Upgraded cemeteries	No. of cemeteries upgraded	3	2	1	Only Refengkgotso cemetery was established
Library holiday programmes and information events	No. of programmes and events	10	15	46	Includes story hours, exhibitions, holiday programs and training session
Theatre and culture development programmes	No. of programmes	20	25	42	Includes all shows related to the Arts.
Health and waste management					
HIV programmes and educational and awareness campaigns	No. of programmes and campaigns	2	6	6	All programmes were held as planned
Identification of landfill sites	No. of sites	2	2	0	Identification process dependent on housing and planning division
Review of waste management plan	Percentage reviewed by end of September 2006	75%	100%	20%	Review of plan was not finalised

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Sport and Recreation					
Upgrading of community facilities	No. of facilities	2	2	8	Additional donations were received to upgrade the facilities
Upgrading of swimming pools	Percentage upgrading completed	75%	100%	100%	Completed
Upgrading and maintenance of day visitors areas	Percentage upgrading completed	0%	100%	0%	Funding was not made available to execute project
Upgrading of Abrahamsrust	Percentage completed upgrading	0%	100%	10%	Jetties were constructed
Public Safety					
Satellite mobile stations	No. of mobile stations	3	4	0	In progress of converting farm house into Satellite Station (Deneysville)
Traffic calming measures	No. of areas	0	6	14	Mainly in Sasolburg, Deneysville, Vaalpark & Zamdela
Tourism and information signs	Percentage completed	20%	100%	0%	Logo not finalised for welcoming signs/boards

Performance information: 2007/08

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Community and Social Services					
New libraries built	Percentage of library built/completed	60%	100%	100%	Refengkgotso taken into use 12 May 2008 opened
Upgraded cemeteries	No. of cemeteries upgraded	2	1	0	50% of Refengkgotso cemetery completed (EIA conducted & layout plan finalised)
Library holiday programmes and information events held	No. of programmes and events held	15	15	54	Includes all shows that related to the arts
Theatre and culture development programmes presented	No. of programmes presented	25	25	53	Includes all theatre programmes
Health and waste management					
HIV programmes and educational and awareness campaigns conducted	No. of programmes and campaigns conducted	6	6	5	Delays were experienced in establishment of the Local Aids Council
Combating of illegal dumping	Number of awareness programmes	0	12	30	Department of Environmental Affairs assisted in running of additional programs
Refuse points serviced	No. of refuse points serviced per day	3500	3500	7000	7 rounds of ± 1000 points serviced daily
Reviewed waste management plan	Percentage reviewed by end of September 2007	75%	100%	60%	Plan not yet finalised; will be submitted to Council for approval in 2008/09

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Sport and Recreation					
Community halls upgraded	No. of halls upgraded	3	3	3	Zamdela, Refengkgotso & Metsimaholo Extension
Completed multi-pupose sports centre in Zamdela	Percentage of multi-purpose centre completed	0%	50%	5%	Awaiting finalisation of re-zoning of land
Upgraded swimming pools	Percentage upgrading completed	75%	100%	50%	Penny Heyns pool upgrading was not completed
Upgraded and maintained day visitors areas	Percentage upgrading completed	0%	100%	0	Awaiting funding to complete projects
Abrahamsrust upgraded	Percentage completed upgrading	0%	100%	20%	Funding for feasibility study not made available
Public Safety					
Improved revenue collected	Amount of traffic fines collected per month	R800k	R960k	R479k	Contract for management of speed cameras expired
Roadside management transgressions	Number of transgressions handled	60,000	72,000	34,447	Shortage of personnel; Excludes speed camera transgressions
By-law transgressions	Finalised enforcement plan by end of Sept 2007	0%	100%	0%	Shortage of personnel impacted negatively on enforcement
Traffic calming measures	No. of speed humps erected	0	6	21	Erected mainly in Zamdela, Refengkgotso, Vaalpark & Sasolburg

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Customer complaints handled	Percentage of complaints relating to traffic signs handled within 2 days	80%	100%	100%	All complaints handled within 2 days
Tourism and information signs erected	Percentage completed	40%	100%	0%	Logo not finalised for welcoming signs/boards

TECHNICAL AND INFRASTRUCTURAL SERVICES

Overview

This Directorate includes the following functions:

- Waste water management
- Water provision
- Electricity
- Roads and storm water
- Building maintenance

Description of the activities

The strategic objectives of the directorate are to –

Waste water management

- Provide waterborne sanitation services in an accountable and sustainable manner;
- Provide waterborne sewerage systems completed with toilet structures to each and every household; and
- Effectively and efficiently convey, dispose and purify wastewater.

Roads and storm water

- Provide roads in an effective, efficient and sustainable manner;
- Ensure the general maintenance and rehabilitation of existing infrastructure; and
- Improve customer care by effectively dealing with service complaints

Water provision

- Provide water in an accountable and sustainable manner;
- Provide potable and running water to each and every household in the municipal area;
- Establish and maintain of assets and equipment; and

- Manage and reduce technical water losses.

Electricity

- Provide all consumers with an electrical connection at an affordable price;
- Cost effective, efficient, affordable and reliable electricity services;
- Distribution of electricity under licence agreement with the NER;
- Establish and maintain of assets and equipment; and
- Manage and reduce technical electricity losses.

Key Performance Areas

Waste water management

New sewer networks and toilets

Roads and storm water

- Construction of new roads and storm water systems
- Upgrading of storm water systems

Water provision

- Provision of free basic water
- Reduction in unaccounted for water
- Provision of new water network and connections

Electricity

- Provision of free basic electricity
- Electrification of residential stands
- Network strengthening and upgrading

The key issues for 2006-2008 were:

Waste water management

- Progressive reduction in sanitation backlogs;
- Maintaining the complete network to ensure that it remains operational; and
- Improved customer care related to sewerage.

Roads and storm water

- Progressive reduction in backlogs;
- Maintaining the complete network to ensure that it remains operational; and
- Improved customer care.

Water provision

- Expansion of water services in terms of minimum levels and standards;
- Addressing the service backlogs whilst keeping the complete network operational; and
- Implementation of strategies to reduce water distribution losses.

Electricity

- Expansion of electricity services in terms of minimum levels and standards;
- Addressing the service backlogs whilst keeping the complete network operational; and
- Implementation of strategies to reduce electricity distribution losses.

PERFORMANCE INFORMATION

MUNICIPAL KEY PERFORMANCE AREA: ECONOMIC AND INVESTMENT

Performance information: 2006/07

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Electricity					
Percentage HH receiving free basic electricity	HH receiving FBE/Total no. of HH	88%	100%	90%	All households on network receive minimum free basic electricity
Reduction in unaccounted for electricity	KwH billed/KwH purchased	10%	10%	10%	Financial Services billing system being updated continuously
Electrification of residential stands	No. of stands	1250	1500	4000	Stands in Gortin electrified
Installation of pre-paid meters	No. of meters	705	400	453	Mainly in Mestimaholo and installed on request
Water and sanitation					
Percentage HH receiving free basic water (FBW)	HH receiving FBW/Total no. of HH	100%	100%	100%	All households on network received minimum FBW
Reduction in unaccounted for water	Kℓ billed/Kℓ purchased (used)	15%	10%	10%	Financial Services billing system being updated continuously
New water connections	No. of connections	3100	2600	1 842	Mainly in the Amelia & Metsimaholo Extension
Eradication of bucket system	No. of stands	250	156	100%	Was completed during this financial year
New sewer networks and toilets	No. of stands	1950	344	375	All households targeted received network and toilet structures
Roads and storm water					
Construction of new storm water management system	Percentage completed	100%	100%	60%	Only 450m was completed; Total was 750m.
Upgrading of storm water system	Percentage upgraded	100%	100%	0%	No upgrading was done- only routine maintenance
Development and upgrading of taxi ranks	No. of taxi ranks	0	3	1	Fencing and toilets for Sasolburg rank; Funding not available for upgrading of other ranks

Performance information: 2007/08

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Electricity					
Percentage HH receiving free basic electricity	HH receiving FBE/Total no. of HH	100%	100%	100%	All households that are connected to network receive FBE.
Reduced unaccounted for electricity	KwH billed/KwH purchased	10%	10%	10%	Financial Services billing system being updated continuously
Electrified residential stands	No. of stands electrified	1250	3000	3 000	Stands located in the Gortin area
Installed pre-paid meters	No. of pre-paid meters installed	791	600	700	Pre-paid meters are installed on request/application
Maintenance and repairs complaints handled	Percentage of complaints handled within 24 hours	80%	100%	60%	Shortage of staff limits capacity to respond timely
Compliance with prescribed standard norms for installation, repair and maintenance of services	Percentage compliance	100%	100%	100%	All norms and standards are complied with.
Water and sanitation					
Percentage HH receiving free basic water	HH receiving FBW/Total no. of HH	100%	100%	100%	All households that are on network receive FBW.
Reduced unaccounted for water	Kl billed/Kl purchased (used)	23%	10%	10%	Financial Services billing system being updated continuously
Installed new water connections	No. of new water connections installed	2400	3200	1 840	Amelia (phase 2) and Metsimholo Ext.6; Not sufficient funds available to meet target
Eradication of bucket system	No. of stands	156	0	100%	Completed in previous financial year.
Completed outfall sewer	6,5km of main outfall sewer line in Gortin	3.1km	6.5km	97%	Only 1 km is not yet done, it will be completed during 2008/09 financial year.
Removed sewer blockages	Percentage of sewer blockages removed within 24 hours	80%	100%	90%	Not adequate staff to have pipe brushing team for prevention.
Maintenance and repairs complaints handled	Percentage of complaints handled within 24 hours	80%	100%	90%	Shortage of personnel

Key Performance Indicator	Unit of measurement	Baseline	Annual target	Actual	Explanation of variance and actual performance
Roads and storm water					
Construction of new storm water culvert	Percentage constructed in Zamdela		100%	60%	From 750m only 450m has been constructed of SW culvert.
Upgrading and maintenance of storm water system	Percentage upgrading and maintenance as and when required	0%	100%	20%	Only maintenance was done
Maintenance of roads	Kilometres of roads gravelled	30 kms	50kms	30 km	Machinery break downs.
Construction/upgrading of taxi ranks in municipal area	Number of taxi ranks	0	2	0	No funds allocated for this project
Customer complaints handled	Percentage of complaints relating to roads handled with 2 days	80%	100%	50%	Dependent on rainfall; Potholes not repaired on time due to shortage of funding for road seal and repairs.