



SPECIMEN MUNICIPAL ANNUAL FINANCIAL STATEMENTS

National Treasury
June 2005

SPECIMEN MUNICIPAL ANNUAL FINANCIAL STATEMENTS

1 Purpose of the Specimen Annual Financial Statements

- 1.1 The purpose of the specimen annual financial statements is:
 - a. to ensure that there is consistency amongst all municipalities in the presentation of annual financial statements;
 - b. to ensure that there is the greatest possible consistency with the specimen annual financial statements of other spheres of government;
 - c. to provide guidance on the application of Standards of Generally Recognised Accounting Practice (GRAP) and Standards of Generally Accepted Municipal Accounting Practice (GAMAP);
 - d. to incorporate the requirements of the Municipal Finance Management Act (MFMA) that relate specifically to matters to be disclosed in municipal annual financial statements;
 - e. to demonstrate the annual financial statement disclosure of the new budget formats.
- 1.2 Although these specimen annual financial statements are written as a guide, all municipalities are required to prepare annual financial statements in accordance with GRAP 1,2 and 3, the 8 GAMAP standards, National Treasury formats and the capacity levels reflecting High, Medium and Low capacity in terms of the MFMA implementation strategy.
- 1.3 These specimen annual financial statements also illustrate the first-time implementation of GAMAP. The “Guidelines for the implementation of accounting Standards of Generally Recognised Accounting Practice”, issued by National Treasury, should also be referred to for GAMAP implementation assistance.

2 Basis used to prepare these Specimen Financial Statements

- 2.1 The specimen annual financial statements have been prepared from the following sources:
 - a. Standards of GRAP approved by the Accounting Standards Board. These are GRAP 1, GRAP 2, and GRAP 3 and the 8 GAMAP standards.
 - b. The new budget formats prescribed by National Treasury.
 - c. Budget circulars issued by the National Treasury.
 - d. The Municipal Finance Management Act.
 - e. The Division of Revenue Act.
- 2.2 It should be noted that while these specimen annual financial statements are intended as a source of reference, preparers of annual financial statements must ensure that they have a thorough understanding of the Standards of GRAP and GAMAP, the new budget formats and relevant municipal legislation.
- 2.3 The above-mentioned standards can be viewed on the website of the Accounting Standards Board: <http://www.asb.co.za>

3 Timeframes

- 3.1 Standards of GRAP change continually. These specimen annual financial statements are based on GRAP standards that will apply during the financial year ending on 30 June 2005. It should be noted that only municipalities who are beneficiaries of the Financial Management Grant are required to prepare annual financial statements in terms of this specimen. All other municipalities are only required to prepare financial statements in terms of the capacity levels reflecting High, Medium and Low capacity set out in the MFMA implementation strategy.
- 3.2 National Treasury will issue new specimen annual financial statements annually to take into account any new Standards of GRAP that have been issued by the Accounting Standards Board and that will apply in future reporting periods.

4 Using this specimen

- 4.1 This specimen applies to all municipalities, and municipal entities whose financial results are consolidated into municipal annual financial statements. Explanatory notes are given in italics for ease of reference.
- 4.2 It is important that GRAP 1 is studied in conjunction with this specimen. GRAP 1 provides guidance on current versus non-current classifications, offsetting, rounding and information to be included on each page in a set of annual financial statements, amongst other information.
- 4.3 Despite the comment in paragraph 1.2 above, it should be noted that accounting policies are municipality specific and are not generic. Although accounting policies are set out in the specimen financial statements, these are for guidance purposes only. For example, the accounting policy on inventories included in these specimen financial statements incorporates a first-in, first-out method of determining cost. In some municipalities, the basis of determining the cost of inventories will be the weighted average method. Those municipalities that use the weighted average method will need to draft an appropriate accounting policy accordingly.
- 4.4 Where material activities of municipalities and/or municipal entities have not been addressed by these specimen annual financial statements guidance on appropriate accounting policies should be obtained from the relevant accounting Standards or through consultation with the National Treasury.

5 Content of the specimen

- 5.1 This specimen sets out an example of municipal annual financial statements. Explanatory notes are provided for each matter in the specimen.
- 5.2 This specimen is not intended to explain accounting entries or provide information on accounting principles. It merely provides information on the content and format of annual financial statements and highlights changes in relation to previous prescribed formats.
- 5.3 In terms of the Municipal Finance Management Act, annual financial statements will form part of the annual report. The annual report will contain organisational, service delivery, performance and other information and there is therefore no longer a need for a Municipal Manager's or Political Executive report to be included in the annual financial statements.

6 Consolidated specimen annual financial statements

- 6.1 Separate consolidated specimen annual financial statements have been prepared by National Treasury and will be issued to municipalities once finalised.

PROTEA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS

for the year ended

30 June 2005

I am responsible for the preparation of these annual financial statements, which are set out on pages x to x, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 23 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

(Name)
Municipal Manager

Date

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Explanatory Notes: Statement of Financial Position

The table below sets out examples of the various account balances for each of the new sub-headings to be shown on the face of the Statement of Financial Position.

Line item on face of Statement of Financial Position	Examples
■ Under Net Assets	
a. Housing development fund	<i>Housing Development Fund</i>
b. Capital replacement reserve	<i>Cash backed reserve established to finance future acquisitions of PPE.</i>
c. Capitalisation reserve	<i>Reserve established on the implementation of GAMAP.</i>
d. Government grant reserve	<i>Ring fencing of government grant funding</i>
e. Donations and public contribution reserve	<i>Ring fencing of donations and public contribution funding.</i>
f. Self-insurance reserve	<i>Reserve established to fund self-insurance risks</i>
g. Revaluation reserve	<i>Reserves arising from the revaluation of assets.</i>
h. Accumulated surplus/(deficit)	<i>Funds not earmarked for any specific purpose.</i>
■ Under Non-Current Liabilities	
a. Long-term liabilities	<i>These are external loans that are not repayable over the next 12 months</i>
b. Non-current provisions	<i>Provisions for expenses that are not repayable over the next 12 months</i>
■ Under Current Liabilities	
a. Consumer deposits	<i>Deposits held in lieu of providing municipal services on credit</i>
b. Provisions	<i>Provision for expenses that will be incurred within the next 12 months</i>
c. Creditors	<i>Trade creditors and staff leave accrual</i>
d. Unspent conditional government grants	<i>Grants that have been received but the conditions of the grant have not yet been fulfilled</i>
e. VAT	<i>Net VAT liability. If income tax is payable, together with VAT, these amounts will be disclosed as "taxes" on the Statement of Financial Position</i>
f. Short-term loans	<i>Short-term borrowings that are repayable over the next 12 months</i>
g. Current portion of long-term liabilities	<i>The current portion of long-term liabilities, repayable over the next 12 months</i>
h. Bank overdrafts	<i>Negative/unfavourable cash book balances (not to be offset against positive cash book balances)</i>
■ Under Non-Current Assets	
a. Property, plant and equipment	<i>Carrying value of property, plant and equipment, net of accumulated depreciation and accumulated impairment losses.</i>
b. Investment property	<i>Property held for capital appreciation or rental income.</i>
c. Investments	<i>These constitute securities, shares and investments that will not mature in the next 12 months. Will also include shares in associates and investments in municipal entities in unconsolidated financial statements.</i>
d. Long-term receivables	<i>Receivables that are not receivable over the next 12 months for example, housing loans and staff car loans, net of the provision for bad debts, that are not receivable over the next 12 months</i>
■ Under Current Assets	
a. Inventories	<i>Stores and unsold water, net of obsolescence provision</i>
b. Consumer debtors (arising from exchange and non-exchange transactions)	<i>Amounts billed to consumers, net of the provision for bad debts</i>
c. Other debtors (arising from exchange and non-exchange transactions but excluding billing transactions to consumers of municipal services)	<i>Amounts owed by levy-payers, financial institutions in respect of interest on investments and sundry debtors; could also include deposits made by the municipality</i>
d. Current portion of long-term debtors	<i>Amounts that will be recoverable from long-term debtors in the next 12 months</i>
e. VAT	<i>Net VAT recoverable from SARS. If income tax is recoverable, together with VAT, these amounts will be disclosed as "taxes" on the Statement of Financial Position</i>
f. Call investment deposits	<i>These are short-term investments that will mature within 12 months</i>
g. Bank balances and cash	<i>Positive/favourable cash book balances (not to be offset against overdraft balances), petty cash and investments that will mature within 12 months</i>

Trust Funds: - Trust Funds are separate legal entities where the Municipality is trustee. As separate legal entities, separate financial statements should be prepared for each Trust Fund. The various Trust Funds must be included in the consolidated financial statements of the municipality where the municipality controls the various Trust Funds. See the GAMAP Implementation Guidelines for further information.

All comparative balances must be restated in the Statement of Financial Position when there is a change in accounting policy, including the first-time implementation of GAMAP.

PROTEA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2005

	Note	2005 R	2004 R
NET ASSETS AND LIABILITIES			
Net assets			
Housing Development Fund	1	63 037 963	55 397 707
Capital replacement reserve		6 190 003	4 894 265
Capitalisation reserve		9 134 193	10 405 960
Government grant reserve		27 033 213	27 467 013
Donations and public contribution reserves		13 179 748	9 832 256
Self-insurance reserve		171 053	85 651
Revaluation reserve		2 622 500	1 795 832
Accumulated Surplus/(Deficit)		4 068 942	4 931 937
		638 311	(4 015 207)
Non-current liabilities		7 592 858	7 071 273
Long-term liabilities	2	7 142 368	6 696 368
Non-current provisions	3	450 490	374 905
Current liabilities		29 982 561	26 140 040
Consumer deposits	4	2 837 553	2 819 376
Provisions	5	193 510	168 678
Creditors	6	17 096 464	13 938 967
Unspent conditional grants and receipts	7	448 541	565 199
VAT	8	69 551	61 659
Short-term loans	9	1 600 000	1 650 000
Bank overdraft	18	6 541 542	6 350 965
Current portion of long-term liabilities	2	1 195 400	585 196
Total Net Assets and Liabilities		100 613 382	88 609 020
ASSETS			
Non-current assets			
Property, plant and equipment	10	74 639 359	62 798 837
Investment property	11	57 854 786	52 894 099
Investments	12	1 000 000	850 000
Long-term receivables	13	11 495 746	6 721 414
		4 288 827	2 333 324
Current assets		25 974 023	25 810 183
Inventory	14	959 765	1 013 468
Consumer debtors	15	4 747 691	3 057 914
Other debtors	16	5 299 090	3 259 775
Current portion of long-term debtors	13	198 393	244 811
Call investment deposits	17	14 766 450	18 230 728
Bank balances and cash	18	2 634	3 487
Total Assets		100 613 382	88 609 020

Explanatory Notes: Statement of Financial Performance

This Statement of Financial Performance is in accordance with the new budget formats, with the exception of working capital, which is referred to as "bad debts" in the Statement of Financial Performance.

Important notes to take into account when preparing the Statement of Financial Performance: -

- *Inter-departmental charges must be excluded from both revenue and expenditure.*
- *Where "other income" is greater than 5% of total revenue, a breakdown must be included in a note to this Statement.*
- *Where there is abnormally high or low revenue, details should be included in a note.*
- *Where there is abnormally high or low expenditure, details should be included in a note.*
- *The budget columns should reflect the original budget approved by Council.*

"Income for agency services" is the fee generated by acting as an agent for another sphere of Government. It excludes the revenue collected as an agent for a third party.

"In-kind donations and assistance" may not be reliably measurable in certain circumstances and cannot therefore be included in the Statement of Financial Performance. Such information is provided by way of note (see note 41)

In respect of the first-time implementation of GAMAP, there must be compliance with the requirements of GRAP 3. This standard requires that the effect of the change in accounting policy must be applied retrospectively.

If this is not possible, then the specimen Alternative Statement of Financial Performance must be used for guidance together with the explanatory notes thereon. The Alternative Statement of Financial Performance is attached as an Annexure One to these specimen financial statements.

PROTEA LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2005

Budget				Actual	
2004	2005			2005	2004
R	R			R	R
REVENUE					
11,253,950	12,056,395	Property rates	19	11 263 864	9 338 460
200,550	250,800	Property rates - penalties imposed and collection charges		390 829	290 113
41,000,000	43,000,000	Service charges	20	44 520 794	33 701 409
425,000	450,000	Regional Services Levies – turnover		462 439	409 390
655,500	700,000	Regional Services Levies - remuneration		593 659	489 031
1,175,000	1,250,000	Rental of facilities and equipment		1 087 453	997 412
3,600,500	4,000,000	Interest earned - external investments		3 875 462	1 987 819
1,335,000	1,400,000	Interest earned - outstanding debtors		1 087 453	997 412
122,800	200,000	Dividends received		186 500	122 800
1,100,000	1,450,000	Fines		1 504 328	1 100 145
100	100	Licences and permits		0	0
800,000	2,200,000	Income for agency services		2 029 623	761 853
2,500,000	6,500,000	Government grants and subsidies	21	6 423 669	2 385 734
100,000	225,500	Other income	22	226 859	153 679
		Public contributions, donated and contributed property, plant and equipment			
75,000	400,000			130 216	111 082
1,000	80,000	Gains on disposal of property, plant and equipment		124 794	101 233
64 344 400	74 162 795	Total Revenue		73 907 942	52 947 572
EXPENDITURE					
14,397,530	18,345,077	Employee related costs	23	18 100 547	16 847 395
5,550,000	7,000,000	Remuneration of Councillors	24	7 133 461	6 420 115
250,000	1,100,000	Bad debts		1 093 265	1 190 243
400,000	550,000	Collection costs		452 767	318 743
4,500,318	4,491,056	Depreciation		4 377 480	5 100 931
620,000	790,000	Repairs and maintenance		1 720 217	1 064 258
2,400,000	2,295,000	Interest paid	25	2 273 908	2 372 549
26,000,222	26,195,207	Bulk purchases	26	28 329 746	25 511 090
1,400,000	1,900,000	Contracted services		1 875 088	1 438 754
630,000	650,000	Grants and subsidies paid	27	651 887	629 812
2,210,743	245,000	General expenses	28	268 320	2 627 946
1,000	1,000	Loss on disposal of property, plant and equipment		0	0
58 359 813	63 562 340	Total Expenditure		66 276 686	63 521 836
5 984 587	10 600 455	SURPLUS/(DEFICIT)		7 631 256	(10 574 264)
		Share of surplus/(deficit) of associate accounted for under the equity method	29	9 000	2 000
5 984 587	10 600 455	SURPLUS/(DEFICIT) FOR THE YEAR		7 640 256	(10 572 264)

Refer to Appendix E(1) for explanation of variances

Explanatory Notes: Statement of Changes in Net Assets

The purpose of this Statement is to disclose all the transactions that have been processed in relation to the various components of Net Assets included in the Statement of Financial Position.

It is also used to record the distribution of dividends by Municipal Entities to the controlling Municipality.

It should also be noted that prior year adjustments arising from:

- Changes in accounting policies
- Correction of errors in previous financial statements

are shown as a restated adjustment against the opening balance. GRAP 3 should be referred to when such adjustments are required.

Also refer to [Mandatory] Accounting Policy 5 for more information on the following:

- The Housing Development Fund – transactions of this Fund are included in the Statement of Financial Performance. Adjustments are made to transfer the net amount of the transactions included in the Statement of Financial Performance to the Fund.
- Capital Replacement Reserve (CRR) – this is the cash-backed reserve created on implementation of GAMAP, being the consolidation of the various statutory funds previously permitted in the Provincial Ordinances and is used to finance new acquisitions of Property, Plant and Equipment. Municipalities may set aside amounts in the CRR to finance items of Property, Plant and Equipment. Once used for this purpose, a transfer is made from the CRR to the accumulated surplus/(deficit).
- Capitalisation Reserve were the amounts that were used to finance items of Property, Plant and Equipment prior to the implementation of GAMAP in the form of internal loans or advances. It must be created to ensure community equity in that these funds are only transferred to the accumulated surplus/(deficit) over the useful lives of the Property, Plant and Equipment financed from internal loans or advances.
- Government Grant Reserve – all government grants used to acquire items of Property, Plant and Equipment are included in revenue in the Statement of Financial Performance. A corresponding transfer is made from unappropriated surpluses to the Government Grant Reserve in this Statement in the financial year that the revenue is recognised. This reserve is subsequently used to offset future depreciation charges attributable to the item of property, plant and equipment through a transfer from the Reserve to the accumulated surplus/(deficit). The purpose is to ensure that communities receive the benefit of all government grants over the useful life of such items of property, plant and equipment financed there from.
- Donations and Public Contribution Reserve – all donations and public contributions used to acquire items of Property, Plant and Equipment are included in revenue in the Statement of Financial Performance. A corresponding transfer is made from unappropriated surpluses to the Donations and Public Contribution Reserve in this Statement in the financial year that the revenue is recognised. This reserve is subsequently used to offset future depreciation charges attributable to the item of property, plant and equipment through a transfer from the Reserve to the accumulated surplus/(deficit). The purpose is to promote community equity.
- Self-Insurance Reserve - This reserve is used to offset the impact of losses when a municipality has self-insurance. The reserve is increased by transfers from the accumulated surplus. When claims are funded from the Self-Insurance Reserve, transfers are made to the unappropriated surplus.
- Revaluation Reserve - This reserve is used to account for the revaluation of Property, Plant and Equipment. It must always reconcile to the revalued amounts included in the Fixed Assets Register. Transfers are made from the reserve to the unappropriated surplus/(deficit) to correspond with the additional depreciation on the revalued amount of property, plant and equipment revalued.

First-time Implementation of GAMAP

In respect of the first-time implementation of GAMAP, there must be compliance with the requirements of GRAP 3. This standard requires that the effect of the change in accounting policy must be applied retrospectively.

If this is not possible, then the specimen **Alternative** Statement of Changes in Net Assets must be used for guidance together with the explanatory notes. The **Alternative** Statement of Changes in Net Assets is attached as an Annexure One to these specimen financial statements.

PROTEA LOCAL MUNICIPALITY
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2005

	<u>Pre-GAMAP Reserves and Funds</u> <u>R</u>	<u>Housing Development Fund</u> <u>R</u>	<u>Capital Replacement Reserve</u> <u>R</u>	<u>Capitalisation Reserve</u> <u>R</u>	<u>Government Grant Reserve</u> <u>R</u>	<u>Donations and Public Contribution Reserve</u> <u>R</u>	<u>Self- Insurance Reserve</u> <u>R</u>	<u>Revaluation Reserve</u> <u>R</u>	<u>Accumulated Surplus/ (Deficit)</u> <u>R</u>	<u>Total</u> <u>R</u>
2004										
Balance at 1 July 2003	38 173 702	3 985 854		0	0	0	1 045 832	5 875 045	2 591 454	51 671 887
Implementation of GAMAP (Note 30)	(38 173 702)		9 675 388	28 145 334	10 571 712				2 854 298	13 073 030
Change in accounting policy (Note 31)									6 930	6 930
Restated balance	0	3 985 854	9 675 388	28 145 334	10 571 712	0	1 045 832	5 875 045	5 452 682	64 751 847
Surplus/(deficit) for the year									(10 572 264)	(10 572 264)
Transfer to CRR			2 167 811						(2 167 811)	-
Property, plant and equipment purchased			(1 437 239)						1 437 239	-
Capital grants used to purchase PPE					53 955				(53 955)	-
Donated/contributed PPE						111 082			(111 082)	-
Contribution to Insurance Reserve							876 078		(876 078)	-
Insurance claims processed							(126 078)		126 078	-
Transfer to Housing Development Fund		908 411		(678 321)	(793 411)	(25 431)			(908 411)	-
Offsetting of depreciation								(943 108)	2 440 271	-
Balance at 30 June 2004	0	4 894 265	10 405 960	27 467 013	9 832 256	85 651	1 795 832	4 931 937	(5 233 331)	54 179 583
2005										
Correction of error (Note 32)									1 100 000	1 100 000
Change in accounting policy (Note 31)									118 124	118 124
Restated balance	0	4 894 265	10 405 960	27 467 013	9 832 256	85 651	1 795 832	4 931 937	(4 015 207)	55 397 707
Surplus/(deficit) for the year									7 640 256	7 640 256
Transfer to CRR			2 917 831						(2 917 831)	-
Property, plant and equipment purchased			(4 189 598)						4 189 598	-
Capital grants used to purchase PPE					4 161 238				(4 161 238)	-
Donated/contributed PPE						130 216			(130 216)	-
Contribution to Insurance Reserve							1 311 917		(1 311 917)	-
Insurance claims processed							(485 249)		485 249	-
Transfer to Housing Development Fund		1 295 738			(16 146)				(1 295 738)	-
Asset disposals				(433 800)	(797 600)	(44 814)			16 146	-
Offsetting of depreciation								(862 995)	2 139 209	-
Balance at 30 June 2005	0	6 190 003	9 134 193	27 033 213	13 179 748	171 053	2 622 500	4 068 942	638 311	63 037 963

Explanatory Notes: Cash-Flow Statement

This statement is prepared in terms of GRAP 2. The basis of preparation is not significantly different from the previous cash flow statement presented in Municipal Financial Statements. The only difference is that previously the indirect method was shown on the cash-flow statement whereas GRAP 2 states that municipalities must use the direct method.

As indicated, the direct method is prescribed for inclusion on the face of the Cash Flow Statement to determine "Cash generated from operations". Municipalities must ensure that they will be in a position to extract operating receipts and payments in order to obtain figures for cash generated from operations.

The following treatment is recommended for:

- *Increases or decreases in consumer deposits are deemed to be a financing activity*
- *Conditional "capital" government grants, donations and public contributions are deemed to be an operating activity*

PROTEA LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 R	2004 R
CASH FLOW FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and other		64 073 954	48 093 773
Cash paid to suppliers and employees		(55 405 260)	(52 284 773)
Cash generated from/(utilised in) operations	33	8 482 194	(4 313 800)
Dividends received		186 500	122 800
Interest received		4 962 915	3 985 231
Interest paid		(2 273 908)	(2 372 549)
NET CASH FROM OPERATING ACTIVITIES		11 357 701	(2 578 318)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(9 587 473)	(2 342 198)
Proceeds on disposal of property, plant and equipment		374 100	56 032
Increase in investment properties		(150 000)	-
(Increase)/decrease in non-current receivables		(1 909 085)	155 673
Increase in non-current investments		(4 765 332)	(3 295 605)
Decrease in call investment deposits		3 464 278	-
NET CASH FROM INVESTING ACTIVITIES		(12 573 512)	(5 426 098)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loans raised/(repaid)		1 056 204	(1 954 210)
Increase in consumer deposits		18 177	19 217
Decrease/(increase) in short-term loans		(50 000)	2 956
NET CASH FROM FINANCING ACTIVITIES		1 024 381	(1 932 037)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(191 430))	(9 936 453)
Cash and cash equivalents at the beginning of the year		(6 347 478)	3 588 975
Cash and cash equivalents at the end of the year	34	(6 538 908)	(6 347 478)

Explanatory Notes: Mandatory Accounting Policies**Background Information**

Accounting policies set out the basis of recognition and measurement of **material** transactions, balances and events in the annual financial statements.

There are two sets of accounting policies included in these specimen financial statements. One is referred to as the Mandatory Accounting Policies whereas the other is referred to as Encouraged Accounting Policies.

It is important to note that municipalities may have material events and transactions that are not covered by either the mandatory or encouraged accounting policies. Municipalities must draft appropriate accounting policies setting out how they recognise and measure such transactions, balances and events. The following extract from the Preface to the Standards of Generally Accepted Municipal Accounting Practice issued by the Accounting Standards Board must be noted in this regard.

"14. The Board recognises that the scope of new GAMAP is incomplete and that users will seek guidance in respect of those issues not considered. The attention of preparers is drawn to the following paragraph in the exposure draft of the Standard of Generally Recognised Accounting Practice on Accounting Policies, Changes in Accounting Estimates and Errors" (now GRAP 3 paragraph .07):

"In the absence of a particular Standard of Generally Recognised Accounting Practice that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) relevant to the economic decision-making needs of users; and

(b) reliable in that the financial statements:

(i) represent faithfully the financial position, financial performance and cash flows of the entity;

(ii) reflect the economic substance of transactions, other events and conditions, and not merely the legal form;

(iii) are neutral, i.e. free from bias;

(iv) are prudent; and

(v) are complete in all material respects.

In making the judgement described in the paragraph above, management shall refer to and consider the applicability of the following sources in descending order:

(a) the requirements and guidance in the Standards of Generally Recognised Accounting Practice, dealing with similar and related issues; and

(b) the definitions, recognition criteria and measurement concepts for assets, liabilities, revenue and expenses set out in the Framework for the Preparation and Presentation of Financial Statements.

In making the judgement prescribed ... above, management may also consider the most recent pronouncements of other standard setting bodies and accepted public or private sector practices to the extent, but only to the extent, that these are consistent with the requirements in the paragraph above. For example, pronouncements of, in descending order, the International Federation of Accountants - Public Sector Committee, International Accounting Standards Board (including the Framework for the Preparation and Presentation of Financial Statements), the South African Accounting Practices Board and the South African Institute of Chartered Accountants' Accounting Practices Committee."

Transitional Provisions: Year ending 30 June 2005

Municipalities that have to convert to GAMAP have to comply with GRAP 1, GRAP 2 and GRAP 3 and all the GAMAP Standards unless exemption from a standard of GAMAP, or a specific requirement within a GAMAP standard, is obtained from the Minister of Finance (National Treasury administers the process of applying for exemptions).

The GRAP and GAMAP Standards are summarised in the table below.

Presentation of Financial Statements (Preface to GAAP Statements) (GRAP 1)
Cash flow statements: (GRAP 2)
Accounting policies, Changes in Accounting Estimates and Errors: (GRAP 3)
Effects of changes in foreign exchange rates: (GAMAP 4)
Consolidated Financial Statements and Subsidiaries (GAMAP 6)
Investments in associates: (GAMAP 7)
Joint ventures: (GAMAP 8)
Inventories: (GAMAP 12)
Property, plant and equipment: (GAMAP 17)
Provisions, contingent liabilities and assets: (GAMAP 19)
Revenue (GAMAP 9)

Although these Standards are mandatory, it is only to the extent that they are applicable to the municipality and/or municipal entity.

It should be noted that these are transitional provisions and only apply for the year ending 30 June 2005. Each year the number of mandatory standards that all municipalities must comply with will increase.

Municipalities should comply with the specimen Encouraged Accounting Policies also illustrated in these specimen annual financial statements to the extent possible and where they are applicable to the municipality and/or municipal entity.

Explanatory Notes: Mandatory Accounting Policies (continued)***Specimen Accounting Policies***

The accounting policies included in the specimen annual financial statements are for guidance purposes only. The accounting policies support the transactions, balances and events included in the specimen annual financial statements.

Accounting policies are specific to individual municipalities and it is therefore not possible to provide generic accounting policies.

Comments on Specific Mandatory Accounting Policies

- **Note 1: Basis of Presentation**

There are two different scenarios to consider when preparing this note.

Firstly, there will be municipalities who will implement GAMAP/GRAP for the first time in the year ending 30 June 2005. These municipalities should use the basis of presentation as set out under "**First-time implementation of GAMAP/GRAP**".

Secondly, there will be municipalities that have implemented GAMAP/GRAP in the year ended 30 June 2004 or in an earlier financial year. These municipalities should use the basis of presentation as set out under "**Where a municipality has previously adopted GAMAP**".

If there are changes in accounting policies, these must be disclosed in the introductory paragraph, as illustrated in the Specimen Accounting Policies. There must be compliance with the requirements of GRAP 3. Two changes in accounting policies are illustrated in the Specimen annual Financial Statements (the implementation of GAMAP and a change in the accounting policy relating to the recognition of levy income).

Should the entity have an exemption from a Standard it should be included in an accounting policy note, listing the name of the Standard and by when it will be implemented by the municipality (if possible).

- **Note 6: Property, Plant and Equipment**

The depreciation rates included are illustrative only. The depreciation rates to be used by municipalities must take into account those factors set out in GAMAP 17 or any circulars that may be issued by National Treasury.

- **Note 7: Revaluation of Buildings**

This is an illustration of GAMAP 17 and will apply to municipalities that have revalued buildings. The revaluation of buildings is an allowed alternative in GAMAP 17. If buildings are revalued both note 6 and 7 are required.

GAMAP 17 paragraph 63 should be consulted when calculating any impairment losses on property, plant & equipment (including buildings).

- **Note 12: Revenue Recognition**

An estimate should be made of the revenue to be collected from spot fines and summonses based on past experience of amount collected. Only if a reliable estimate cannot be made, should the revenue be recognised on a receipts basis. For the purpose of this specimen the revenue is recognised on the receipt basis.

If applicable a revenue accounting policy may be required for the recovery of unauthorised, irregular, fruitless and wasteful expenditure, if such amounts are material, as illustrated in the mandatory accounting policies.

PROTEA LOCAL MUNICIPALITY
MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, except for the revaluation of land and buildings, which are carried at fair value.

[First – time Implementation of GAMAP/GRAP]

In accordance with section 122(3) of the Municipal Finance Management Act (Act No. 56 of 2003), the Municipality has adopted Standards of GAMAP and GRAP issued by the Accounting Standards Board during the financial year, with the exception of GAMAP and GRAP standards are fundamentally different to the fund accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible. The effect of the change in accounting policy arising from the implementation of GAMAP and GRAP is set out in Note 30. Furthermore, the Municipality has changed its accounting policy in respect of Regional Council Levies as set out in Note 31.

Exemption from complying with was obtained from the Minister of Finance until (date).

The Municipality may have transactions, events or balances that are outside the ambit of GAMAP and GRAP but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

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

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

[Where a municipality has previously adopted GAMAP]

These annual financial statements have been prepared in accordance with Generally Accepted Municipal Accounting Practices (GAMAP) and Generally Recognised Accounting Practice (GRAP), with the exception of issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003). These accounting policies are consistent with those of the previous financial year, except as indicated in Note 31.

Exemption from complying with was obtained from the Minister of Finance until (date).

The Municipality may have transactions, events or balances that are outside the ambit of the accounting standards referred to above but which are included in Standards of International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants – Public Sector Committee, International Accounting Standards (IAS) issued by the International Accounting Standards Board or Generally Accepted Accounting Practice issued by the South African Accounting Practices Board and the South African Institute of Chartered Accountants' Accounting Practices Committee. The Municipality has not complied with the measurement, recognition and disclosure requirements of those accounting standards.

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

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

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). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. 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.

PROTEA LOCAL MUNICIPALITY
MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005 (continued)

5. RESERVES

5.1 Capital Replacement Reserve (CRR)

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

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

5.2 Capitalisation Reserve

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

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

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

5.3 Government Grant Reserve

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

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

5.4 Donations and Public Contributions Reserve

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

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

5.5 Self-Insurance Reserve

The Municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally (adapt to specific circumstances). The balance of the Self-Insurance Reserve is determined based on 5% of the insurance risk carried by the Municipality (state basis of determining balance of self-insurance reserve) and past claims history in terms of a Council Resolution XX and is reinstated or increased by a transfer from the accumulated surplus/(deficit). The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

5.6 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/(deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

PROTEA LOCAL MUNICIPALITY
MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005 (continued)

44 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, is stated at cost, less accumulated depreciation and accumulated impairment losses, except land and buildings, which are revalued as indicated below. 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.

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

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 capitalised when the recognition and measurement criteria of an asset 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:-

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

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 recognised in the Statement of Financial Performance.

The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. Provision is made for this obligation in accordance with the Municipality's accounting policy on non-current provisions – see Accounting Policy 14 on Provisions.

Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

44 REVALUATION OF LAND AND BUILDINGS

Land and buildings are stated at revalued amounts, being the fair value at the date of revaluation less subsequent accumulated depreciation and impairment losses on the buildings.

44 INVESTMENTS

44.0.0.0.0.0.000 • Financial Instruments

Financial instruments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits 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 recognised 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.

44.0.0.0.0.0.000 • Investment in Associate

An associate is an entity over which the Municipality is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying value of the investment in associates is adjusted for the municipality's share of operating surpluses/(deficits) less any dividends received.

Where the Municipality or its Municipal Entities transact with an associate, unrealised gains and losses are eliminated to the extent of the Municipality's or its Municipal Entities' interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Where the Municipality is no longer able to exercise significant influence over the associate the equity method of accounting is discontinued.

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

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received but the municipality has not met the condition, a liability is recognised

12.2 Revenue from non-exchange transactions

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.

PROTEA LOCAL MUNICIPALITY
MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005 (continued)

12. REVENUE RECOGNITION (continued)

Revenue from Regional Levies, both those based on turnover as well as those based on remuneration, is recognised on the payment due basis. Where declarations have not been submitted, estimated levies based on average data is accrued. Estimates are reviewed regularly to ensure that average data is appropriate.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

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

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

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.

44 CONDITIONAL GRANTS AND RECEIPTS

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

44 PROVISIONS

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

44 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.

44 UNAUTHORISED EXPENDITURE

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

44 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.

44 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.

44 FOREIGN CURRENCIES

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

**PROTEA LOCAL MUNICIPALITY
MANDATORY ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005 (continued)**

44 COMPARATIVE INFORMATION

20.1 Current year comparatives:

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

20.2 Prior year comparatives:

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

Explanatory Notes: Encouraged Accounting Policies

■ **Note 1: Investment Property**

This is an illustration of IPSAS 16 and will apply to municipalities that hold investment property to earn market related rental income or for capital appreciation. It excludes owner-occupied properties. The specimen accounting policy is based on the allowed alternative accounting treatment of investment property.

■ **Note 2: Investments**

The accounting policy also illustrates the disclosure requirements of Investments in Securities and Investments in Derivative Financial Instruments. If the accounting policy is to use fair values, it will be appropriate to also develop a separate accounting policy on the impairment of assets. Guidance can be obtained from GAMAP 17 paragraphs .63 to .69.

■ **Note 3: Leases**

This note is divided into 2 parts. The first part relates to the acquisition of an item of property, plant and equipment by way of a finance lease or hire purchase agreement.

The second part relates to municipalities that lease an item of property, plant and equipment to a third party. In most municipalities, this would relate to the sale of housing by way of a hire purchase agreement or finance lease agreement.

Municipalities capitalising finance leases are encouraged to apply IPSAS 13.

■ **Note 4: Retirement Benefits**

Municipalities that recognise such benefits are encouraged to apply AC116 on defined benefit plans.

■ **Note 5: Segmental Information**

This is merely an example based on historical segment reporting. Municipalities are encouraged to consider IPSAS 18.

PROTEA LOCAL MUNICIPALITY
ENCOURAGED ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

44 INVESTMENT PROPERTY

Investment property, which is property held to earn rental revenue or for capital appreciation, is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is 50 years.

44 INVESTMENTS

44.0.0.0.0.0.000 Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

44.0.0.0.0.0.000 *Investments in Securities*

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available for sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

44.0.0.0.0.0.000E Investments in Derivative Financial Instruments

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in accumulated surpluses/(deficits). Amounts deferred in net assets are recognised in the Statement of Financial Performance in the same period in which the hedged firm commitment or forecasted transaction affects net surplus/(deficit).

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Statement of Financial Performance as they arise."

44 LEASES

The Municipality as Lessee

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

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.

The Municipality as Lessor

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

44 RETIREMENT BENEFITS

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

44 BORROWING COSTS

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

Explanatory Notes: Notes to the Financial Statements**General Notes**

- Every note disclosing financial information must set out a comparative amount.
- Every page must be headed with the name of the municipality, the heading of this part of the annual financial statements and set out the year end.

Note 1: Housing Development Fund (HDF)

The establishment and operation of a Housing Development Fund occurs in terms of the Housing Act, 1997. It should be noted that the Housing Operating Account is included in the Statement of Financial Performance. The net result of the Housing Operating Account is then transferred from/to the accumulated surplus/(deficit).

The amount included on the face of the Statement of Financial Position is the accumulated fund of the HDF.

This includes the following:

- Accumulated surplus/(deficit)
- Loans extinguished on 1 April 1998

The note must also indicate the current and non-current assets as well as the current and non-current liabilities of the HDF included elsewhere under appropriate balances in the Statement of Financial Position.

The balance of the HDF must agree with the Statement of Changes in Net Assets.

Note 2: Long-term liabilities

There is no change in the disclosure requirements.

It should be noted that a Municipality cannot include a stock loan certificate as a loan when the municipality has repurchased the loan instrument prior to redemption, even if such certificate has been acquired as an "investment by the Capital Replacement Reserve" or any other fund or reserve.

Any loan certificate repurchased prior to redemption is decreased by its original face value. Any difference between the amount paid and the original value of the certificate is recognised as a gain or loss in the Statement of Financial Performance.

Note 3: Non-Current Provisions and Note 5 : Provisions

Provisions must be disclosed in terms of GAMAP 19.

Where a contract entered into by a municipality becomes onerous (in other words, where the selling price of a service such as electricity or water is lower than the cost that the municipality pays for the service) as part of an incentive for economic development or for other reasons, a provision is recognised for the full liability regardless of the duration of the contract.

Reference should also be made to GAMAP 19 paragraph .96 which sets out additional information that should be disclosed.

Furthermore, a municipality may elect to make provision for social benefits for services it will render but does not receive sufficient compensation from the recipients of such services. If provision is made, then the disclosure information set out in Notes 3 and 5 will apply to such provision (see GAMAP 19 paragraph. 97)

Note 4: Consumer Deposits

An accrual of interest payable on consumer deposits is raised on a time proportionate basis, which applies only to those municipalities that in terms of their policies, pay interest on consumer deposits. The corresponding entry will be interest paid.

Note 6: Creditors

The breakdown of creditors included in this note is the minimum information that should be disclosed. Payments received in advance represent amounts invoiced or received by the Municipality where services still have to be rendered.

Note 7: Unspent Conditional Grants and Receipts

Conditional Grants and Receipts are split into two components:

- Conditional grants from other spheres of government

The amounts to be disclosed in this note are grants received from national and provincial government, other municipalities as well as other organs of state but the municipality has not fulfilled the conditions associated with such grants. These amounts represent the obligation of the municipality to comply with the conditions of the grant.

These amounts are determined when preparing the reconciliation illustrated in note 21.

- Other conditional receipts

Explanatory Notes: Notes to the Financial Statements

These amounts represent contributions from developers and public contributions to construct a specific item of property, plant and equipment within a certain time period. These amounts represent the obligation of the municipality to comply with the conditions of the receipt.

It should be noted that these amounts are excluded from the reconciliation in note 21 as they are not inter-governmental and therefore not subject to the disclosure requirements required in terms of the Municipal Finance Management Act.

These receipts exclude general developers' contributions and endowments, which must be used for a general purpose. In other words, these general contributions can be used to expand the electricity or water network. However, the municipality does not have an obligation to construct a specific item of property, plant and equipment within a specified time period. These receipts should be included as revenue in the Statement of Financial Performance (other income)

Note 10: Property, plant and equipment

The reconciliation required by GAMAP 17 is illustrated to show the movement in the carrying value of property, plant and equipment.

Note 12: Investments

Where a municipality has entered into a joint venture arrangement, additional information on the contingent liabilities, contingent assets and commitments must be disclosed in accordance with GAMAP 8 .48(a), 48(b) and .49 respectively. These disclosures will be included under notes 39,40 and 37 respectively.

Note 13: Long-term Receivables

The provisions of Section 164(1)© of the Municipal Finance Management Act must be considered.

Note 14: Inventory

Consumables, maintenance and spare parts can be aggregated if the amounts involved are immaterial or cannot be easily determined using existing systems.

Where inventory is pledged as security, this must be disclosed in the note.

Where there is a reversal of a write-down of inventory, such reversal must be disclosed in accordance with GAMAP 12 .41©.

Note 15: Consumer Debtors

Current debtors must be classified between:

- Consumer debtors (as illustrated in this note); and
- Other debtors (as illustrated in Note 16).

The following should be disclosed: -

- Ageing of debtors by major revenue source as illustrated in the specimen financial statements;
- Where consolidated billing systems prevent the ageing of debtors by major revenue sources, then a total ageing will be acceptable;
- The classification of debtors as far as possible into:

- Consumers
- Industrial and commercial
- National and Provincial Governments (split if possible)

The following should be noted:-

- Ageing parameters are dependent on individual IT system capabilities. The parameters set out in the specimen financial statements are for illustrative purposes only.
- Where there is a Housing Development Fund and Housing Operating Account in terms of the Housing Act, 1997, the above information must be provided in respect of housing rentals.

Note 16: Other Debtors

Sufficient information must be provided to enable users of financial statements to gain an understanding of the nature of non-consumer debtors. The use of "miscellaneous" or "other" should be limited to immaterial balances included in other debtors.

Note that if there is unauthorised, irregular, fruitless or wasteful expenditure (see note 35) which is recoverable from an individual, this should be specified in other debtors only if there is virtual certainty. If an amount is to be recovered from an individual but it is not virtually certain, a debtor is not raised. Instead, there is a contingent asset (see note 40 for further information).

Note 18: Bank, Cash and Overdraft Balances

The information required on bank accounts in accordance with Section 125(2)(a) of the Municipal Finance Management Act must be included in the annual financial statements. This note illustrates this legal requirement.

Explanatory Notes: Notes to the Financial Statements

This information must be disclosed for all bank accounts. The primary bank account referred to in Section 8 of the Municipal Finance Management Act must be identified.

Note 19: Property Rates

The specimen financial statements set out the minimum information to be presented on property rates. This information will enable a user to benchmark this information with other municipalities.

Note 21: Government Grants and Subsidies

In terms of GAMAP 9.62(b), significant decreases expected in the level of government grants should also be set out in this note.

Note 23: Employee Related Costs

The note must include the information set out in the budget formats. This is essentially a reconciliation of employee related costs, together with the Municipality's contributions to medical aids and pension fund, amongst others, in accordance with the payroll to the amount included in the Statement of Financial Performance. This enables accurate benchmarking between municipalities.

The remuneration (salaries, allowances and benefits) of the Municipal Manager, Chief Finance Officer and every senior employee must also be set out in terms of Section 124(1)(c) of the Municipal Finance Management Act. This note illustrates this legal requirement.

Note 24: Remuneration of Councillors

This note illustrates the information required in terms of Section 124(1)(a) of the Municipal Finance Management Act. In certain instances, the benefits of councillors cannot be quantified in monetary terms. However, a description of such benefits must still be provided as illustrated in this note.

Note 26: Bulk Purchases

This note provides more detail of information summarised on the face of the Statement of Financial Performance.

Note 27: Grants and Subsidies Paid

The grants paid to other Municipalities must be separately disclosed in terms of Section 123(1)(b) of the Municipal Finance Management Act. The information set out in this note illustrates this legal requirement and sets out other information that will support compliance with Section 67 of the Act.

Note 28: General Expenses

This is an illustration of an abnormal expense that has been highlighted to be separately disclosed. .

Note 30: Change in Accounting Policy: Implementation of GAMAP

The purpose of this note is to show the changes in the Statement of Financial Position that arise from the implementation of GAMAP. It reconciles balances reported in the previous financial statements prior to the balances arising from the implementation of GAMAP.

This note supports the adjustments made in the Statement of Changes in Net Assets.

Note 32: Correction of Error

It should be noted that this note will only be included if the error is material.

Note 34: Utilisation of Long-term Liabilities Reconciliation

A reconciliation of non-current long-term liabilities must be included in the notes to the financial statements to ensure that external long-term debt has only been used for the purposes specified in Section 46(1) of the Municipal Finance Management Act.

The reconciliation must set out how much cash has been set aside for the repayment of long-term liabilities.

The total of the reconciliation, which is the sum of

- the difference between long-term liabilities raised and used to finance acquisitions of property, plant and equipment, and
- the amount set aside for the repayment of long-term liabilities

should be supported by cash and investments as allocated in Notes 12 and 17.

Note 35: Unauthorised, Fruitless and Wasteful Expenditure Disallowed

The reconciliations of unauthorised expenditure as well as Fruitless and Wasteful Expenditure Disallowed, together with the explanatory information, set out in this note are in terms of Section 125(2)(d) of the Municipal Finance Management Act.

Note 36: Additional Disclosures in terms of the Municipal Finance Management Act

A separate note is required to set out disclosure requirements required in terms of Sections 124 and 125 of the Municipal Finance Management Act.

These additional disclosures are: -

Explanatory Notes: Notes to the Financial Statements

- *Total amount of contributions to organised local government together with the amount of outstanding contributions;*
- *The total amounts paid in audit fees, taxes (income tax and PAYE), levies, duties, pension and medical aid contributions and whether any amounts were outstanding at the end of the financial year.*
- *Information on councillors whose arrears in respect of municipal services were outstanding for greater than 90 days at any time during the financial year.*

The specimen financial statements illustrate the required disclosure in the financial statements.

Note 39: Contingent Liability

Section 125(2)© of the Municipal Finance Management Act requires disclosure of all contingent liabilities.

GAMAP 19 defines contingent liabilities and indicates the information to be disclosed. Reference should be made to GAMAP 19 .98 and .106 in this regard.

Note 41: In-kind Donations and Assistance

Municipalities may receive in-kind donations and assistance which, although it constitutes revenue, cannot be measured and therefore included in the Statement of Financial Performance. The financial statements will be incomplete without at least a description of the in-kind donation and assistance. This note requires details of in-kind donations and assistance to be described.

Common examples of in-kind donations and assistance are donor assistance, travel tours, assistance from twinning agreements and the placement of International Finance Advisors at certain municipalities by National Treasury.

Note 42: Public Private Partnerships

Where a municipality has entered into a Public Private Partnership, the information in this note should be set out to the extent to which it is applicable.

PROTEA LOCAL MUNICIPALITY
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 R	2004 R
1. HOUSING DEVELOPMENT FUND		
Housing Development Fund	6 190 003	4 894 265
Unappropriated Surplus	2 690 003	1 394 265
Loans extinguished by Government on 1 April 1998	3 500 000	3 500 000
The Housing Development Fund is represented by the following assets and liabilities		
Property, plant and equipment (see note 10)	3 429 597	3 616 670
Housing selling scheme loans (see note 13)	3 054 199	1 095 223
Housing Rental Debtors (see note 15)	112 476	136 528
Unauthorised use of cash for other purposes	393 710	328 397
Bank and cash	109 754	213 557
Sub-total	7 099 736	5 390 375
Creditors	(909 733)	(496 110)
Total Housing Development Fund Assets and Liabilities	6 190 003	4 894 265
2. LONG-TERM LIABILITIES		
Local Registered Stock Loans	4 447 780	4 747 780
Annuity Loans	977 916	1 095 005
Capitalised Lease Liability	1 496 000	-
Government Loans : Other	1 416 072	1 438 779
Sub-total	8 337 768	7 281 564
Less : Current portion transferred to current liabilities	(1 195 400)	(585 196)
Local Registered Stock Loans	-	(445 400)
Annuity Loans	(449 400)	(117 089)
Capitalised Lease Liability	(746 000)	-
Government Loans : Other	-	(22 707)
Total External Loans	7 142 368	6 696 368

Refer to Appendix A for more detail on long-term liabilities.

The □nauthorise lease liability is secured over the item of infrastructure leased.

R2,920,486 (2004: R2,552,159) has been invested specifically in a ring-fenced account for the repayment of long-term liabilities. See note 34 for more detail.

3. NON-CURRENT PROVISIONS

Provision for reclamation of refuse landfill site	329 543	295 107
Provision for long-service	120 947	79 798
Total Non-Current Provisions	450 490	374 905

In terms of the licencing of the landfill refuse site, council will incur rehabilitation costs of R1.5 million to restore the site at the end of its useful life, estimated to be in 2008. Provision has been made for the net present value of this cost using the average cost of borrowing interest rate.

The long-service award is payable after every 5 years of continuous service. The provision is an estimate of the long-service based on historical staff turnover

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

3. NON-CURRENT PROVISIONS

	<u>Landfill</u>	<u>Long-service</u>
The movement in the non-current provisions are reconciled as follows: -		

30 June 2005

Balance at beginning of year	295 107	79 798
Contributions to provision	-	96 149
Expenditure incurred	-	-
Increase in provision due to discounting	34 436	-
Transfer to current provisions	-	(55 000)
Balance at end of year	329 543	120 947

30 June 2004

Balance at beginning of year	263 564	110 784
Contributions to provision	-	34 014
Expenditure incurred	-	-
Increase in provision due to discounting	31 543	-
Transfer to current provisions	0	(65 000)
Balance at end of year	295 107	79 798

2005	2004
R	R

4. CONSUMER DEPOSITS

Electricity and Water	2 771 241	2 759 669
Interest paid	66 312	59 707
Total Consumer Deposits	2 837 553	2 819 376

Included in deposits is an accrual of interest at an effective interest rate of 8% per annum (2004: 8%) which is paid to consumers when deposits are refunded.

Guarantees held in lieu of Electricity and Water Deposits	4 310 556	3 125 080
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5. PROVISIONS

Performance bonus	138 510	103 678
Current portion of long-service provision (see note 3 above)	55 000	65 000
Total Provisions	193 510	168 678

Performance bonuses accrue to employees on a quarterly basis, subject to certain conditions. The provision is an estimate of the amount due to staff at the reporting date.

PROTEA LOCAL MUNICIPALITY**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005****5. PROVISIONS (continued)**

The movement in current provisions are reconciled as follows: -

30 June 2005

	<u>Performance Bonus</u>	<u>Current portion Long-service</u>

Balance at beginning of year	103 678	65 000
Transfer from non-current	-	55 000
Contributions to provision	306 120	-
Expenditure incurred	(271 288)	(65 000)
Balance at end of year	138 510	55 000

30 June 2004

Balance at beginning of year	264 636	8 254
Transfer from non-current	-	65 000
Contributions to provision	63 109	-
Expenditure incurred	(224 067)	(8 254)
Balance at end of year	103 678	65 000

2005	2004
R	R

6. CREDITORS

Trade creditors	15 883 771	12 879 031
Payments received in advance	160 617	106 617
Retentions	86 105	71 231
Staff leave	885 217	798 319
Other creditors	80 754	83 769
Total Creditors	17 096 464	13 938 967

7. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

7.1 Conditional Grants from other spheres of Government	263 291	156 032
MIG Grants (see note 21)	234 860	-
Provincial LED Projects (see note 21)	28 431	156 032
7.2 Other Conditional Receipts	185 250	409 167
Developers Contributions – Electricity	185 250	172 067
Public contributions	-	237 100
Total Conditional Grants and Receipts	448 541	565 199

See Note 21 for reconciliation of grants from other spheres of government. These amounts are invested in a ring-fenced investment until utilized.

PROTEA LOCAL MUNICIPALITY**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005**

2005	2004
R	R

8. VAT

VAT payable	69 551	61 659
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VAT is payable on the receipts basis. Only once payment is received from debtors is VAT paid over to SARS.

9. SHORT-TERM LOANS

Call Bonds

1 600 0001 650 000

The call bonds are repayable on demand and are used as bridging finance for the period May to August each year pending the levying of assessment rates. The rate of interest payable on the call bonds is 150 basis points over the current overdraft rate, which is currently 10.5% per annum (2004: 13.5% per annum)

10. PROPERTY, PLANT AND EQUIPMENT

30 June 2005

Reconciliation of Carrying Value	Carrying values at 1 July 2004		Land and Buildings	Infrastructure	Community	Heritage	Other	Housing Develop. Fund	Leased infrastructure	Total
	R	R	R	R	R	R	R	R	R	R
	14 201 956	20 012 655	5 945 191	2 757 277	6 360 350	3 616 670				52 894 099
Cost	11 797 950	34 264 294	9 771 190	2 757 277	10 194 745	6 656 618				75 442 074
Correction of error (note 32)	-	-	1 100 000	-	-	-				1 100 000
Revaluation	5 875 045	-	-	-	-	-				5 875 045
Accumulated depreciation	(3 471 039)	(14 251 639)	(4 925 999)	-	(3 834 395)	(3 039 948)				(29 523 020)
- Cost	(2 527 931)	(14 251 639)	(4 925 999)	-	(3 834 395)	(3 039 948)				(28 579 912)
- Revaluation	(943 108)	-	-	-	-	-				(943 108)
Acquisitions	105 238	1 539 436	2 428 044	312 033	3 218 081			1 350 000		8 952 832
Capital under Construction	22 954	512 564	99 123	-	-					634 641
Increases/decreases in revaluation	-	-	-	-	-					-
Depreciation	(1 414 333)	(891 086)	(636 707)	-	(1 023 311)	(187 073)	(224 970)			(4 377 480)
- based on cost	(551 338)	(891 086)	(636 707)	-	(1 023 311)	(187 073)	(224 970)			(3 514 485)
- based on revaluation	(862 995)	-	-	-	-	-	-			(862 995)
Carrying value of disposals	-	-	(87 968)	(71 710)	(89 628)					(249 306)
Cost/revaluation	-	(4 757)	(511 793)	(71 710)	(853 429)	(194 640)				(1 636 329)
Accumulated depreciation	-	4 757	423 825	-	763 801	194 640				1 387 023
Impairment losses	-	-	-	-	-	-				-
Other movements	-	-	-	-	-	-				-
Carrying values at 30 June 2005	12 915 815	21 173 569	7 747 683	2 997 600	8 465 492	3 429 597	1 125 030			57 854 786
Cost	11 926 142	36 311 537	12 886 564	2 997 600	12 559 397	6 461 978	1 350 000			84 493 218
Revaluation	5 875 045	-	-	-	-	-	-			5 875 045
Accumulated depreciation	(4 885 372)	(15 137 968)	(5 138 881)	-	(4 093 905)	(3 032 381)	(224 970)			(32 513 477)
- Cost	(3 079 269)	(15 137 968)	(5 138 881)	-	(4 093 905)	(3 032 381)	(224 970)			(30 707 374)
- Revaluation	(1 806 103)	-	-	-	-	-	-			(1 806 103))

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

10. PROPERTY, PLANT AND EQUIPMENT (continued)

30 June 2004

Reconciliation of Carrying Value	Carrying Land and Buildings	Infrastructure	Community	Heritage	Other	Housing Develop. Fund	Leased infrastructure	Total
	R	R	R	R	R	R	R	R
Carrying values at 1 July 2003	15 291 689	20 476 755	5 924 838	2 757 277	6 158 766	3 998 305		54 607 631
Cost	11 603 101	33 965 125	9 133 480	2 757 277	9 152 707	6 656 618		73 268 308
Revaluation	5 875 045	-	-	-	-	-		5 875 045
Accumulated depreciation	(2 186 457)	(13 488 369)	(3 208 642)	-	(2 993 941)	(2 658 313)		(24 535 722)
- Cost	(2 186 457)	(13 488 369)	(3 208 642)	-	(2 993 941)	(2 658 313)		(24 535 722)
- Revaluation	-	-	-	-	-	-		-
Acquisitions	-	201 745	605 235	-	1 210 470	-		2 017 450
Capital under construction	194 849	97 424	32 475	-	-	-		324 748
Increases/decreases in revaluation	-	-	-	-	-	-		-
Depreciation	(1 284 582)	(763 270)	(1 717 357)	-	(954 087)	(381 635)		(5 100 931)
- based on cost	(341 474)	(763 270)	(1 717 357)	-	(954 087)	(381 635)		(4 157 823)
- based on revaluation	(943 108)	-	-	-	-	-		(943 108)
Carrying value of disposals	-	-	-	-	(54 799)	-		(54 799)
Cost/revaluation	-	-	-	-	(168 432)	-		(168 432)
Accumulated depreciation	-	-	-	-	113 633	-		113 633
Impairment losses	-	-	-	-	-	-		-
Other movements	-	-	-	-	-	-		-
Carrying values at 30 June 2004	14 201 956	20 012 655	5 945 191	2 757 277	6 360 350	3 616 670		52 894 099
Cost	11 797 950	34 264 294	9 771 190	2 757 277	10 194 745	6 656 618		75 442 074
Correction of error (note 32)	-	-	1 100 000	-	-	-		1 100 000
Revaluation	5 875 045	-	-	-	-	-		5 875 045
Accumulated depreciation	(3 471 039)	(14 251 639)	(4 925 999)	-	(3 834 395)	(3 039 948)		(29 523 020)
- Cost	(2 527 931)	(14 251 639)	(4 925 999)	-	(3 834 395)	(3 039 948)		(28 579 912)
- Revaluation	(943 108)	-	-	-	-	-		(943 108)

Land and buildings were revalued to fair value by using depreciated replacement values. The effective date of the revaluation was 30 June 2003. The revaluation was done by ABS Property Valuators, registered and independent valuers. The NHBR indices, which indicate current building costs, were used to determine replacement values

The revaluation surplus is reconciled as follows: -

	2005	2004
	R	R
Balance at beginning of year	4 931 937	5 875 045
Surplus realised	(862 995)	(943 108)
Balance at end of year	<u>4 068 942</u>	<u>4 931 937</u>

Refer to Appendix B for more detail on property, plant and equipment, including those in the course of construction.

The leased property, plant and equipment is secured as set out in Note 2.

Provision has been made for the estimated costs of restoring refuse landfill sites, included in other assets, as described in note 3.

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

The Municipality has taken advantage of the transitional provisions set out in GAMAP 17. The Municipality is in the process of itemizing all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2007. At present depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records. Furthermore, the Municipality has not assessed whether items of property, plant and equipment are impaired. It is expected that an assessment of impairments will be done by 30 June 2007.

	2005	2004
	R	R

11. INVESTMENT PROPERTY

Cost	1 000 000	850 000
Total Investment Property	1 000 000	850 000

No revenue was earned from the investment property as the property is vacant land held for long-term capital appreciation.

12. INVESTMENTS

Listed

RSA Government Stock	3 335 366	3 270 034
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Unlisted

Investment in Municipal Entities – at cost	250 000	250 000
Investment in Associate – equity	54 000	45 000
Investment in ABC (Proprietary) Limited – at cost	50 000	50 000
XYZ Local Municipal 2008 Stock	2 556 380	106 380
Total Unlisted	2 910 380	451 380

Financial Instruments

Fixed Deposits	5 250 000	3 000 000
Total Cash Investments	5 250 000	3 000 000
Total Investments	11 495 746	6 721 414

Fixed deposits of R 2 622 500 (2004: R1 795 832) are ring-fenced and attributable to the Self-Insurance Reserve.

Market valuation of listed investments

RSA Government Stock	3 455 890	3 225 776
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Council's valuation of unlisted investments

Investment in Municipal Entities	250 000	250 000
Investment in Associate	54 000	45 000
Provincial Government Joint Venture	50 000	50 000
XYZ Municipal Stock	2 556 380	106 380
2 910 380	451 380	

<i>Investment in Municipal Entities</i>	<i>Electricity Co</i>	<i>Fresh Market</i>
30th June 2005		

Issued Share Capital ®	175 000	75 000
Percentage owned by Council (%)	100%	100%
Indebtness of Municipal Entities ®	172 580	73 963
Dividend received ®	186 500	-
Management fees received ®	-	-
Administration fees received ®	-	-

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

30th June 2004

Issued Share Capital ®
 Percentage owned by Council (%)
 Indebtness of Municipal Entities ®
 Dividend received ®
 Management fees received ®
 Administration fees received ®

	<u>Electricity Co</u>	<u>Fresh Market</u>
Issued Share Capital ®	175 000	75 000
Percentage owned by Council (%)	100%	100%
Indebtness of Municipal Entities ®	201 204	86 230
Dividend received ®	122 800	-
Management fees received ®	-	-
Administration fees received ®	-	-

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 R	2004 R
12. INVESTMENTS (continued)		

Investment in District Fire Service (Associate)

The District Municipality has a multi-jurisdictional fire service. Council has one-third of the shares of the District Fire Service, which represents its ownership interest.

Carrying value of investment

Cost price	40 000	40 000
Cumulative post-establishment equity – end of year	14 000	5 000
Cumulative post-establishment equity – beginning of year	5 000	3 000
Current year	9 000	2 000
Total Carrying Value	54 000	45 000

ABC Convention Centre (Pty) Ltd (Joint Venture)

The Municipality has jointly invested with the Provincial Government in the construction and operation of a Convention Centre. In terms of the joint venture agreement, both will jointly control the company.

Construction of the Convention Centre will commence on 1 April 2005. The joint venture company is dormant and has not yet commenced operations.

The investment to date represents the Municipality's contribution to the share capital of ABC Convention Centre (Pty) Ltd

Pledged Investments

A fixed deposit amounting to R250 000 has been invested with Amalgamated Banking as security for the lease of a sewerage purification plant.

13. LONG-TERM RECEIVABLES

Loans to controlled Municipal Entities	246 543	287 434
Car loans	478 486	530 625
Sewerage connection loans	589	500
Electricity appliance purchase scheme	707 403	664 353
Housing selling scheme loans	3 054 199	1 095 223
	<hr/>	<hr/>
Less : Current portion transferred to current receivables	198 393	244 811
Car loans	52 633	74 288
Sewerage connection loans	65	70
Electricity appliance purchase scheme	77 816	93 009
Housing selling scheme loans	67 879	77 444
	<hr/>	<hr/>
Total	4 288 827	2 333 324

LOANS TO MUNICIPAL ENTITIES

The loans to controlled Municipal Entities are interest free and have no fixed repayment date.

CAR LOANS

Senior staff are entitled to car loans which attract interest at 8% per annum and which are repayable over a maximum period of 6 years. These loans are repayable in the year 2009.

SEWERAGE CONNECTION LOANS

To encourage property owners to connect to the reticulation system, low interest rate loans are made to provide the necessary financial assistance. These loans attract interest at a rate of 5% per annum and are repayable over a maximum period of 4 years. Loans with balances of R259 (2004: R300) are repayable in 2007 whilst loans with balances of R330 (2004: R200) are repayable in 2008.

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R

ELECTRICITY ASSISTANCE SCHEME

To encourage tenants to connect to the electricity service, low interest loans are granted to finance the cost to consumers. These loans attract interest of 2% per annum and are repayable over five years. These loans will be repayable by the year 2008.

HOUSING SELLING SCHEME LOANS

Housing loans are granted to qualifying individuals in terms of the provincial administrations housing programme. These loans attract interest of 7% per annum and are repayable over 10 years. These loans will be repaid by the year 2008.

14. INVENTORY

Consumable stores – at cost	36 103	96 384
Maintenance materials – at cost	143 052	164 255
Spare parts – at <input type="checkbox"/> nauthoriz value	47 684	82 128
Water – at cost	576 839	428 512
Other goods held for resale – at cost	-	-
Unsold properties held for resale – at <input type="checkbox"/> nauthoriz value	156 087	242 189
Total Inventory	959 765	1 013 468

Included in the carrying value of unsold properties is a reversal of a write-down raised in previous financial years amounting to R56 209. The reason for the reversal is due to the increase in property prices, which has resulted in higher selling prices being obtained in relation to the previous financial year.

Included in maintenance materials is an amount of R50 000 pledged as security for an outsourced maintenance contract.

15. CONSUMER DEBTORS**As at 30 June 2005**

	Gross Balances	Provision for Bad Debts	Net Balance
Service debtors	5 096 934	(1 248 702)	3 848 232
Rates	1 199 279	(124 870)	1 074 409
Electricity	1 499 098	(624 351)	874 747
Water	1 798 918	(312 176)	1 486 742
Sewerage	599 639	(187 305)	412 334
Regional Service Levies	786 984	0	786 984
Housing rentals	112 475	0	112 475
Total	5 996 393	(1 248 702)	4 747 691

As at 30 June 2004

	Gross Balances	Provision for Bad Debts	Net Balance
Service debtors	3 642 876	(1 227 823)	2 415 053
Rates	857 147	(184 173)	672 974
Electricity	1 071 434	(306 956)	764 478
Water	1 285 721	(491 129)	794 592
Sewerage	428 574	(245 565)	183 009
Regional Service Levies	506 333	0	506 333
Housing rentals	136 528	0	136 528
Total	4 285 737	(1 227 823)	3 057 914

Rates: Ageing

Current (0 – 30 days)	22 821	16 973
31 – 60 Days	45 643	33 947
61 – 90 Days	68 465	50 920

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

91 – 120 Days	91 286	67 894
121 – 365 Days	859 423	585 718
+ 365 Days	111 641	101 695
Total	1 199 279	857 147

(Electricity, Water and Sewerage): Ageing

Current (0 – 30 days)	2 728 359	2 005 725
31 – 60 Days	389 765	222 858
61 – 90 Days	194 883	167 144
91 – 120 Days	233 859	195 001
121 – 365 Days	272 836	139 286
+ 365 Days	77 953	55 715
Total	3 897 655	2 785 729

2005 2004

15. CONSUMER DEBTORS (continued)

R R

Regional Services Levies: Ageing

Current (0 – 30 days)	550 889	364 562
31 – 60 Days	78 698	41 294
61 – 90 Days	39 349	30 379
91 – 120 Days	47 219	35 444
121 – 365 Days	55 089	25 317
+ 365 Days	15 740	9 337
Total	786 984	506 333

Housing rentals: Ageing

Current (0 – 30 days)	78 733	98 300
31 – 60 Days	11 248	11 135
61 – 90 Days	5 624	8 192
91 – 120 Days	6 748	9 557
121 – 365 Days	7 873	6 826
+ 365 Days	2 249	2 518
Total	112 475	136 528

Summary of Debtors by Customer Classification

30 June 2005

	<u>Consumers</u>	<u>Industrial/ Commercial</u>	<u>National and Provincial Government</u>
	R	R	R
Current (0 – 30 days)	1 352 321	1 690 401	338 080
31 – 60 Days	210 142	262 677	52 535
61 – 90 Days	123 328	154 161	30 832
91 – 120 Days	151 645	189 556	37 911
121 – 365 Days	478 088	597 611	119 522
+ 365 Days	83 033	103 792	20 758
Sub-total	2 398 557	2 998 198	599 638
Less: Provision for bad debts	(749 221)	(499 481)	-
Total debtors by customer classification	1 649 336	2 498 717	599 638

Summary of Debtors by Customer Classification

30 June 2004

	<u>Consumers</u>	<u>Industrial/ Commercial</u>	<u>National and Provincial Government</u>
	R	R	R
Current	994 223	1 242 777	248 558
Current (0 – 30 days)	123 694	154 617	30 923
31 – 60 Days	102 654	128 318	25 663

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

61 – 90 Days	123 158	153 948	30 790
91 – 120 Days	302 859	378 574	75 714
121 – 365 Days	67 707	84 634	16 926
Sub-total	1 714 295	2 142 868	428 574
Less: Provision for bad debts	(749 221)	(478 602)	-
Total debtors by customer classification	965 074	1 664 266	428 574

16. OTHER DEBTORS	2005	2004
	R	R
Payments made in advance	32 475	56 085
Unauthorized expenditure (see Note 36.1)	-	44 671
Fruitless and wasteful expenditure (see Note 36.1)	-	-
Insurance claims	1 062 045	949 438
Government subsidies	4 204 570	2 209 581
Total Other Debtors	5 299 090	3 259 775

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R
17. CALL INVESTMENT DEPOSITS		

Other Deposits	<u>14 766 450</u>	<u>18 230 728</u>
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Other deposits of R9 134 193 (2004: R10 405 960) are ring-fenced and attributable to the Capital Replacement Reserve. Fixed deposits amounting to R2 749 680 (2004: R595 361) have also been ring-fenced for the purposes of repaying long-term liabilities as set out in Note 34.

18. BANK, CASH AND OVERDRAFT BALANCES

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

SA Bank Limited – Wanderers Branch

Account Number 07532986

Cash book balance at beginning of year – overdrawn	<u>6 350 965</u>	<u>1 083 275</u>
Cash book balance at end of year – overdrawn	<u>6 541 542</u>	<u>5 250 965</u>
Bank statement balance at beginning of year – (overdrawn)	<u>(1 053 280)</u>	<u>312 854</u>
Bank statement balance at end of year – (overdrawn)	<u>4 186 420</u>	<u>(1 053 280)</u>

Savings Account

SA Bank Limited – Wanderers Branch

Account Number 105630987

Cash book balance	<u>2 634</u>	<u>3 487</u>
Bank statement balance	<u>2 634</u>	<u>3 487</u>

19. PROPERTY RATES**Actual**

Residential	5 631 940	4 469 230
Commercial	4 223 943	3 651 931
State	<u>1 407 981</u>	<u>1 217 299</u>
Total Assessment Rates	<u>11 263 864</u>	<u>9 338 460</u>

Valuations

	<u><i>July 2004</i></u>	<u><i>July 2003</i></u>
	<u><i>R000's</i></u>	<u><i>R000's</i></u>
Residential	355 481	279 550
Commercial	266 610	209 663
State	88 870	69 887
Municipal	<u>177 742</u>	<u>139 775</u>
Total Property Valuations	<u>888 703</u>	<u>698 875</u>

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R
20. SERVICE CHARGES		
Sale of electricity	23 334 357	15 165 634
Sale of water	13 482 278	11 795 493
Refuse removal	1 926 040	1 685 070
Sewerage and sanitation charges	5 778 119	5 055 212
Total Service Charges	44 520 794	33 701 409

21. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	1 087 423	1 315 087
Provincial LED Projects	196 234	185 056
Provincial health subsidies	978 774	831 636
MIG Grant	4 161 238	53 955
Total Government Grant and Subsidies	6 423 669	2 385 734

21.1 Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of R112 (2004: R101), which is funded from this grant.

21.2 Provincial Health Subsidies

Balance unspent at beginning of year	-	-
Current year receipts – included in public health vote	978 774	831 636
Conditions met – transferred to revenue	<u>(978 774)</u>	<u>(831 636)</u>
Conditions still to be met – transferred to liabilities (see note 7)	<u>-</u>	<u>-</u>

The Municipality renders health services on behalf of the Provincial Government and is refunded approximately 80% of total expenditure incurred. This grant has been used exclusively to fund clinic services (included in the public health vote in Appendix D).

The conditions of the grant have been met. There was no delay or withholding of the subsidy

21.3 MIG Grant

Balance unspent at beginning of year	-	-
Current year receipts	4 396 098	53 955
Conditions met – transferred to revenue	<u>(4 161 238)</u>	<u>(53 955)</u>
Conditions still to be met – transferred to liabilities (see note 7)	<u>234 860</u>	<u>-</u>

This grant was used to construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas (included in the roads and sewerage votes in Appendix B). No funds have been withheld.

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R
21. GOVERNMENT GRANTS AND SUBSIDIES (continued)		
21.4 Provincial LED Projects		
Balance unspent at beginning of year	156 032	-
Current year receipts	68 633	341 088
Conditions met – transferred to revenue	<u>(196 234)</u>	<u>(185 056)</u>
Conditions still to be met – transferred to liabilities (see note 7)	<u>28 431</u>	<u>156 032</u>

Provincial LED Projects grants are used to promote Small, Medium and Micro Enterprises. The grant is spent in accordance with a business plan approved by the Provincial Government (included in Council General vote in Appendix D). No funds have been withheld.

21.5 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 1 of 2005), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

22. OTHER INCOME

Sale of housing	205 186	77 305
Other income	21 673	31 703
Recovery of <input checked="" type="checkbox"/> nauthorized, irregular, fruitless and wasteful expenditure (Note 35)	<u>-</u>	<u>44 671</u>
Total Other Income	<u>226 859</u>	<u>153 679</u>

23. EMPLOYEE RELATED COSTS

Employee related costs – Salaries and Wages	15 174 015	14 668 873
Employee related costs – Contributions for UIF, pensions and medical aids	4 394 524	4 157 683
Travel, motor car, accommodation, subsistence and other allowances	3 268 254	2 855 410
Housing benefits and allowances	775 201	707 007
Overtime payments	1 996 428	1 845 129
Performance bonus	306 120	63 109
Long-service awards	96 149	34 014
Less: Employee costs <input checked="" type="checkbox"/> nauthorize to Property, Plant and Equipment	<u>(2 636 715)</u>	<u>(2 494 610)</u>
Less: Employee costs included in other expenses	<u>(5 273 429)</u>	<u>(4 989 220)</u>
Total Employee Related Costs	<u>18 100 547</u>	<u>16 847 395</u>

There were no advances to employees. Loans to employees are set out in note 13.

Remuneration of the Municipal Manager

Annual Remuneration	605 000	550 000
Performance Bonuses	82 500	75 000
Car Allowance	39 600	36 000
Contributions to UIF, Medical and Pension Funds	<u>133 100</u>	<u>121 000</u>
Total	<u>860 200</u>	<u>782 000</u>

Remuneration of the Chief Finance Officer

Annual Remuneration	544 500	495 000
Performance Bonuses	74 250	67 500
Car Allowance	35 640	32 400

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Contributions to UIF, Medical and Pension Funds

119 790

Total

108 900

774 180

703 800

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

23. EMPLOYEE RELATED COSTS (continued)

Remuneration of Individual Executive Directors

30 June 2005

	<u>Technical</u> <u>Services</u>	<u>Corporate</u> <u>Services</u>	<u>Community</u> <u>Services</u>
	R	R	R
Annual Remuneration	490 050	490 050	490 050
Performance Bonuses	66 825	66 825	66 825
Car Allowance	32 076	32 076	32 076
Medical and pension funds	107 811	107 811	107 811
Total	696 762	696 762	696 762

30 June 2004

	<u>Technical</u> <u>Services</u>	<u>Corporate</u> <u>Services</u>	<u>Community</u> <u>Services</u>
	R	R	R
Annual Remuneration	445 500	445 500	445 500
Performance Bonuses	60 750	60 750	60 750
Car Allowance	29 160	29 160	29 160
Medical and pension funds	98 010	98 010	98 010
Total	633 420	633 420	633 420

2005
R2004
R

24. REMUNERATION OF COUNCILLORS

Executive Mayor	497 640	447 876
Deputy Executive Mayor	443 750	399 375
Speaker	433 500	390 150
Mayoral Committee Members	2 465 700	2 219 130
Councillors	2 670 850	2 403 765
Councillors' pension contribution	622 021	559 819
Total Councillors' Remuneration	7 133 461	6 420 115

In-kind Benefits

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

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

The Executive Mayor has two full-time bodyguards.

25. INTEREST PAID

Long-term liabilities	2 041 770	2 329 438
Consumer deposits	7 802	6 843
Finance leases	199 406	-
Bank overdrafts	24 930	36 268
Total Interest on External Borrowings	2 273 908	2 372 549

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005 R	2004 R
26. BULK PURCHASES		
Electricity	16 997 848	15 306 654
Water	11 331 898	10 204 436
Total Bulk Purchases	<u>28 329 746</u>	<u>25 511 090</u>

27. GRANTS AND SUBSIDIES PAID

Grant paid to XYZ Local Municipality	408 623	450 812
Grant to Childcare	243 264	179 000
Total Grants and Subsidies	<u>651 887</u>	<u>629 812</u>

The grant paid to XYZ Municipality is to construct a new road network in terms of the District Municipality's Integrated Development Plan. The Municipality has contracted and paid for the construction of the road. The road will be under the control of the XYZ Municipality once construction is completed.

The subsidy to Childcare is to assist this registered charity undertake its tasks. The subsidy is paid on a quarterly basis. The Municipal Manager sits on the governing body of Childcare to ensure that the subsidy is used for its intended purpose.

28. GENERAL EXPENSES

Included in general expenses is the following:-

28.1 Flood damage	<u>155 329</u>	-
Flood damage costs resulted from unseasonable floods that occurred in 3 squatting areas. The Municipality had to provide transport, temporary shelter and food aid to affected residents until the flooding subsided and residents were able to return to their homes. The flood damage was unforeseen and has never occurred previously.		
28.2 Net exchange differences	-	16 333
Gain attributable to operating activities – importation of chemicals	-	16 333
28.3 Material losses	-	513 026
Robbery from cash hall	-	513 026

29. SURPLUS OF ASSOCIATE

Share of retained profit on the equity method	<u>9 000</u>	2 000
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PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2004
	R

30. CHANGE IN ACCOUNTING POLICY – IMPLEMENTATION OF GAMAP

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GAMAP: -

30.1 Statutory Funds**Balance previously reported: -**

Capital Development Fund	13 360 796
Land Trust Fund	20 995 536
Parking Development Fund	3 817 370
Total	<u>38 173 702</u>

Implementation of GAMAP

Transferred to the Capital Replacement Reserve	9 675 388
Transferred to the Capitalisation Reserve	28 145 334
Transferred to Accumulated Surplus/(Deficit) (see 30.8 below)	352 980
Total	<u>38 173 702</u>

30.2 Loans Redeemed and Other Capital Receipts**Balance previously reported****11 401 888****Implementation of GAMAP**

Transferred to Government Grant Reserve	10 571 712
Transferred to Donations and Public Contribution Reserve	-
Transferred to Accumulated Surplus/(Deficit) (see 30.8 below)	830 176
Total	<u>11 401 888</u>

30.3 Provisions and Reserves**Balance previously reported**

Infrastructure Replacement Reserve	295 320
Tariff Equalization Reserve	182 051
Valuation Roll Reserve	66 206
Staff Bursary Reserve	55 100
Total	<u>598 677</u>

Implementation of GAMAP

Transferred to Accumulated Surplus/(Deficit) (see 30.8 below)	<u>598 677</u>
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30.4 Inventory**Balance previously reported****708 273****Implementation of GAMAP**

Transferred to Accumulated Surplus/(Deficit) (see 30.8 below)	305 195
Water previously expensed now shown as inventory	428 512
Write-down of spare parts to <input type="checkbox"/> nauthoriz value	(42 975)
Write-down of unsold properties to <input type="checkbox"/> nauthoriz value	(80 342)
Total	<u>1 013 468</u>

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
30. CHANGE IN ACCOUNTING POLICY – IMPLEMENTATION OF GAMAP (continued)		
30.5 Non-current provisions		
Balance previously reported		-
Implementation of GAMAP		
Transferred from Accumulated Surplus/(Deficit) (see 30.8 below)	374 348	
Landfill	263 564	
Long-service	110 784	
Total	<u>374 348</u>	
30.6 Property, plant and equipment		
Balance previously reported	<u>47 590 968</u>	
Implementation of GAMAP		
Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 30.8 below)	25 677 340	
Total	<u>73 268 308</u>	
30.7 Accumulated Depreciation		
Balance previously reported		-
Implementation of GAMAP		
Backlog depreciation: Land and buildings	(2 186 457)	
Backlog depreciation: Infrastructure	(13 488 369)	
Backlog depreciation: Community	(3 208 642)	
Backlog depreciation: Other	(2 993 941)	
Backlog depreciation: Housing Development Fund	(2 658 313)	
Total (debited to Accumulated Surplus/(Deficit)) (see 30.8 below)	<u>(24 535 722)</u>	
30.8 Accumulated Surplus/(Deficit)		
Implementation of GAMAP		
Adjustments to inventory (see 30.4 above)	305 195	
Excessive provisions and reserves no longer permitted (see 30.3 above)	598 677	
Non-current provisions previously not <input checked="" type="checkbox"/> nauthoriz (see 30.5 above)	(374 348)	
Transferred from statutory funds (see 30.1 above)	352 980	
Transferred from Loans Redeemed and Other Capital Receipts (see 30.2 above)	830 176	
Fair value of Property, Plant and Equipment previously not recorded (see 30.6 above)	25 677 340	
Backlog depreciation (see 30.7 above)	(24 535 722)	
Total	<u>2 854 298</u>	

31. CHANGE IN ACCOUNTING POLICY – LEVY INCOME RECOGNITION

During the year, the Municipality changed its accounting policy in respect of Regional Service Levies from the cash received basis to the payment due basis. The reason for the change in accounting policy is to comply with the requirements of GAMAP 9 on revenue recognition which requires municipalities to use the payment due basis.

The comparative amounts have been appropriately restated. The effect of this change in accounting policy is as follows: -

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R
31. CHANGE IN ACCOUNTING POLICY – LEVY INCOME RECOGNITION (continued)		
Increase in Regional Services Levies and surplus/(deficit) for the year	<u>131 462</u>	<u>118 124</u>
The effect of the change in accounting policy at the beginning of the year on the accumulated surplus/(deficit) is as follows: -	<u>118 124</u>	<u>6 930</u>
32. CORRECTION OF ERROR		
During the year ended 30 June 2004, improvements to land were erroneously expensed as repairs and maintenance: -		
The comparative amount has been restated as follows: -		
Corrections of improvements to libraries expensed as repairs and maintenance	-	1 105 000
Depreciation	<u>-</u>	<u>(5 000)</u>
Net effect on surplus/(deficit) for the year	<u>-</u>	<u>1 100 000</u>
33. CASH GENERATED BY OPERATIONS		
Surplus for the year	7 640 256	(10 572 264)
Adjustment for:-		
Depreciation	4 377 480	5 100 931
Gain on disposal of property, plant and equipment	(124 794)	(101 233)
Contribution to provisions – non-current	75 585	28 612
Contribution to provisions – current	152 879	176 278
Contribution to bad debt provision	20 879	68 108
Equity accounted share of associate's surplus	(9 000)	(2 000)
Dividends received	(186 500)	(122 800)
Investment income	(4 962 915)	(3 985 231)
Interest paid	<u>2 273 908</u>	<u>2 372 549</u>
Operating surplus before working capital changes:	9 257 778	(7 037 050)
Decrease in inventories	53 703	32 916
(Increase)/decrease in debtors	(1 710 656)	517 439
(Increase)/decrease in other debtors	(2 039 315)	129 747
(Decrease)/increase in conditional grants and receipts	(116 658)	101 342
Increase in creditors	3 157 497	1 987 302
Decrease in provisions	(128 047)	(54 208)
Increase in VAT	<u>7 892</u>	<u>8 712</u>
Cash generated by/(□nauthor in) operations	<u>8 482 194</u>	<u>(4 313 800)</u>
34. CASH AND CASH EQUIVALENTS		
Cash and cash equivalents included in the cash flow statement comprise the following statement of amounts indicating financial position :		
Bank balances and cash	2 634	3 487
Bank overdraft	<u>(6 541 542)</u>	<u>(6 350 965)</u>
Total cash and cash equivalents	<u>(6 538 908)</u>	<u>(6 347 478)</u>
35. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Long-term liabilities (see Note 2)	8 337 768	7 281 564
Used to finance property, plant and equipment – at cost	<u>8 166 962</u>	<u>5 324 766</u>
Sub- total	170 806	1 956 798
Cash set aside for the repayment of long-term liabilities (see note 17)	<u>2 749 680</u>	<u>595 361</u>
Cash invested for repayment of long-term liabilities	<u>2 920 486</u>	<u>2 552 159</u>

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

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R

36. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

36.1 Unauthorised expenditure

Reconciliation of unauthorized expenditure

Opening balance	4 379	18 432
Unauthorised expenditure current year	-	229 056
Approved by Council or condoned	-	(198 438)
Transfer to receivables for recovery (note 16)	-	(44 671)
Unauthorised expenditure awaiting authorisation	<u>4 379</u>	<u>4 379</u>

Incident	Disciplinary steps/criminal proceedings
<i>Unbudgeted expenditure</i>	<i>Disciplinary hearing held on 7 July 2003</i>

36.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	-	96 089
Fruitless and wasteful expenditure current year	-	-
Condoned or written off by Council	-	-
To be recovered – contingent asset (see note 40)	-	(96 089)
Fruitless and wasteful expenditure awaiting condonement	<u>-</u>	<u>-</u>

Incident	Disciplinary steps/criminal proceedings
<i>Breach of occupational safety rules</i>	<i>Disciplinary hearing on 6 October 2003</i>

36.3 Irregular expenditure

Reconciliation of irregular expenditure

Opening balance	-	-
Fruitless and wasteful expenditure current year	66 078	-
Condoned or written off by Council	(66 078)	-
Transfer to receivables for recovery – not condoned	-	-
Irregular expenditure awaiting condonement	<u>-</u>	<u>-</u>

Incident	Disciplinary steps/criminal proceedings
<i>Theft of fuel</i>	<i>Employee absconded – SAPS case number 34/2002</i>

37. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

37.1 Contributions to organized local government

Opening balance	16 557	-
Council subscriptions	239 510	225 076
Amount paid – current year	(239 510)	(208 519)
Amount paid – previous years	(16 557)	-
Balance unpaid (included in creditors)	<u>-</u>	<u>16 557</u>

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R

37. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE
MANAGEMENT ACT (continued)37.2 Audit fees

Opening balance	-	198 320
Current year audit fee	92 541	88 235
Amount paid – current year	-	(88 235)
Amount paid – previous years	-	(198 320)
Balance unpaid (included in creditors)	92 541	-

The balance unpaid represents the audit fee for an interim audit conducted during May and June 2005 and is payable by 31 July 2005

37.3 VAT

VAT inputs receivables and VAT outputs receivables are shown in note
44 All VAT returns have been submitted by the due date throughout the year.

37.4 PAYE and UIF

Opening balance	118 089	88 452
Current year payroll deductions	1 295 431	1 069 154
Amount paid – current year	(1 000 523)	(951 065)
Amount paid – previous years	(118 452)	(88 452)
Balance unpaid (included in creditors)	294 545	118 089

The balance represents PAYE and UIF deducted from the June 2005 payroll. These amounts were paid during July 2005.

37.5 Pension and Medical Aid Deductions

Opening balance	43 406	22 965
Current year payroll deductions and Council Contributions	495 111	418 510
Amount paid – current year	(429 510)	(375 104)
Amount paid – previous years	(43 406)	(22 965)
Balance unpaid (included in creditors)	65 601	43 406

The balance represents pension and medical aid contributions deducted from employees in the June 2005 payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 2005.

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R

37. ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE
MANAGEMENT ACT (continued)**37.6 Councillor's arrear consumer accounts**

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

30th June 2005

	<u>Total</u>	<u>Outstanding</u>	<u>Outstanding</u>
	<u>less than 90</u>	<u>more than</u>	<u>90</u>
	<u>days</u>	<u>days</u>	<u>days</u>
Councillor Smith	5 910	2 854	3 056
Councillor Ntini	12 950	5 205	7 745
Councillor Sheza	3 068	1 185	1 883
Total Councillor Arrear Consumer Accounts	21 928	9 244	12 684

30th June 2004

	<u>Total</u>	<u>Outstanding</u>	<u>Outstanding</u>
	<u>less than 90</u>	<u>more than</u>	<u>90</u>
	<u>days</u>	<u>days</u>	<u>days</u>
Councillor Smith	8 605	3 396	5 209
Councillor Conradie	10 794	4 108	6 686
Councillor Nkosi	6 394	2 288	4 106
Total Councillor Arrear Consumer Accounts	25 793	9 792	16 001

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

30th June 2005

	<u>Highest</u>	<u>Ageing</u>
	<u>Amount</u>	
	<u>Outstanding</u>	
Councillor Adams	4 591	120 days
Councillor Zuma	3 981	150 days
Councillor Phiri	6 610	120 days
Councillor Khumalo	5 683	150 days

30th June 2004

Councillor Adams	2 371	120 days
Councillor Zuma	529	150 days
Councillor Fourie	6 789	120 days
Councillor Khumalo	3 865	150 days

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

The Municipality has not developed a supply chain management policy due to (reason)

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

	2005	2004
	R	R
38. CAPITAL COMMITMENTS		
Commitments in respect of capital expenditure:		
- Approved and contracted for		
<i>Infrastructure</i>	8 318 833	6 647 982
<i>Community</i>	3 945 609	3 461 987
<i>Heritage</i>	2 287 540	1 855 207
<i>Other</i>	44 600	22 100
<i>Housing Development Fund</i>	1 873 240	1 118 954
<i>Investment Properties</i>	22 764	33 834
	145 080	155 900
- Approved but not yet contracted for		
<i>Infrastructure</i>	2 436 520	1 648 449
<i>Community</i>	1 076 543	555 190
<i>Heritage</i>	119 545	295 421
<i>Other</i>	-	33 500
<i>Housing Development Fund</i>	1 195 432	621 945
<i>Investment Properties</i>	45 000	22 943
	-	119 450
Total	10 755 353	8 296 431

This expenditure will be financed from:

- External Loans	1 613 303	1 244 465
- Capital Replacement Reserve	2 151 071	1 659 286
- Government Grants	4 839 909	3 733 394
- Own resources	967 982	746 679
- District Council Grants	1 183 089	912 607
	10 755 353	8 296 431

39. RETIREMENT BENEFIT INFORMATION

All Councillors and employees belong to 3 defined benefit retirement funds administered by the Provincial Pension Fund. These funds are subject to a triennial actuarial valuation. The last valuation was performed in 2003. These valuations indicate that the funds are in a sound financial position. The estimated liability of the funds is R200,7 million which is adequately financed by assets of R255,4 million.

An amount of R2,3 million (2004 : R1,9 million) was contributed by Council in respect of Councillor and employees retirement funding. These contributions have been expensed.

40. CONTINGENT LIABILITY

Claim for damages	2 500 000	2 500 000
-------------------	------------------	------------------

The Municipality is being sued by a ratepayer due to damages arising from flooding. Council is contesting the claim based on legal advice. A court date has not yet been set. The contingent liability includes legal costs of R500 000. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from

PROTEA LOCAL MUNICIPALITY**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005****41. CONTINGENT ASSET**

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 36.2, civil proceedings have commenced against the employee concerned to recover an amount of R96 089. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is not virtually certain.

42. IN-KIND DONATIONS AND ASSISTANCE

The Municipality received the following in-kind donations and assistance

Description

- Secondment of International Finance Advisor by National Treasury for 2 years
- Development of Integrated Development Plan by donor agency

43. PRIVATE PUBLIC PARTNERSHIPS

(Record the following information to the extent possible)

- Disclose a description of the arrangement
- Set out significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows
- Provide information on the nature and extent of:
 1. rights to use specified assets
 2. obligations to provide or rights to expect provisions of services
 3. obligations to acquire or build items of property, plant and equipment
 4. obligations to deliver or rights to receive specified assets at the end of the concession period
 5. renewal and termination options
 6. other rights and obligations (e.g. major overhauls)
- Describe any Changes in the arrangement occurring during the period

44. EVENTS AFTER THE REPORTING DATE

The Municipality has agreed in principle to transfer its electricity function to the new Regional Electricity Distributor (RED) – Region AB. The date of transfer is proposed for 1 July 2007. The financial effect of this transfer is not yet known as the Municipality is uncertain as to what its share of the revenues of the RED will be or what the terms and conditions of the transfer will be. There are ongoing discussions with the management of RED – Region AB and EDI Holdings, which is the responsible authority for the implementation of REDS nationally.

45. The accounting officer deviated from the Supply Chain management policy of the municipality by acquiring goods in an emergency (refer Regulation 36(2) of the SCM Regulations)

46. A contract to the value of > R2000 has been awarded to Joe Soap, son of Tom Soap, who has been employed by DWAF for the past 8 months as a deputy director in water resource division (Section 45 of SCM Regulations).

EXPLANATORY NOTES: APPENDIX A

This Appendix sets out more detailed information on loans which would otherwise have to be disclosed in Note 2 to the financial statements.

This Appendix should only include information on long-term liabilities.

In addition, the Appendix requires the carrying value of Property, Plant and Equipment acquired by such loans to be disclosed. Should there still be a loan outstanding where the carrying value of Property, Plant and Equipment is zero, this will indicate non-compliance with Section 46 of the Municipal Finance Management Act.

The Municipal Finance Management Act permits certain costs to be funded from long-term debt that may not qualify as Property, Plant and Equipment in terms of GAMAP 17. Such amounts should be disclosed in the column "Other Costs in accordance with the MFMA" column.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX A
PROTEA LOCAL MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2005

EXTERNAL LOANS	Loan Number	Redeemable	Balance at 30/06/04	Received during the period	Redeemed written off during the period	Balance at 30/06/05	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
							R	R
LONG-TERM LOANS								
Stock Loan @ 11.60%	28	2003/06/30	300 000	-	300 000	-	-	-
Stock Loan @ 12.75%	29	2005/06/30	-	300 000		300 000	203,612	2,145
Stock Loan @ 12.00%	30	2007/06/30	22 700	-	22 700	-	-	-
Stock Loan @ 12.00%	32	2007/06/30	100 000	-	100 000	-	-	-
Stock Loan @ 12.00%	33	2007/06/30	22 700	-	22 700	-	-	-
Stock Loan @ 12.75%	35	2007/12/31	300 000	-	300 000	-	-	-
Stock Loan @ 12.00%	37	2009/06/30	2 000	-	-	2 000	1,200	-
Stock Loan @ 10.00%	41	2009/06/30	11 000	-	-	11 000	6,850	-
Stock Loan @ 10.00%	43	2009/06/30	21 780	-	-	21 780	11,264	-
Stock Loan @ 10.00%	44	2009/06/30	10 000	-	-	10 000	7,000	-
Stock Loan @ 10.00%	45	2010/06/30	2 600	-	-	2 600	2,180	-
Stock Loan @ 10.00%	46	2005/06/30	500	-	-	500	375	-
Stock Loan @ 13.00%	50	2005/12/31	500 000	-	-	500 000	412,754	33,764
Stock Loan @ 12.00%	54	2012/12/31	900	-	-	900	666	-
Stock Loan @ 14.00%	58	2012/12/31	3 500	-	-	3 500	2,288	-
Stock Loan @ 14.00%	61	2014/12/31	100	-	-	100	84	-
Stock Loan @ 15.25%	62	2019/12/31	1 000 000	-	-	1 000 000	854,989	9,655
Stock Loan @ 13.75%	103	2021/12/31	500 000	-	-	500 000	419,331	-
Stock Loan @ 13.75%	105	2021/12/31	250 000	-	-	250 000	210,723	-
Stock Loan @ 12.75%	108	2021/12/31	2 000 000	-	-	2 000 000	1,543,970	41,982
Stock Loan @ 12.00%	112	2027/06/30	-	22 700	-	22 700	18,903	-
Stock Loan @ 12.00%	114	2027/06/30	-	100 000	-	100 000	91,878	-
Stock Loan @ 12.00%	115	2029/06/30	-	22 700	-	22 700	19,632	-
Total long-term loans			4 747 780	445 400	745 400	4 447 780	3,807,699	87,546
ANNUITY LOAN								
Sanlam @ 8%	38	2007/06/30	1 095 005		117 089	977 916	1,027,436	-
GOVERNMENT LOANS								
- Other @2-5%	70	2019/06/30	1 438 779	-	22 707	1 416 072	1,143,208	-
Total Government Loans			1 438 779		22 707	1 416 072	2,170,644	-
LEASE LIABILITY								
Infrastructure @18%	116	2009/06/30	0	2 242 000	746 000	1 496 000	1,125,030	-
TOTAL EXTERNAL LOANS			7 281 564	2 687 400	1 631 196	8 337 768	7,103,373	87,546

EXPLANATORY NOTES: APPENDIX B

This Appendix sets out more information on Property, Plant and Equipment (note 10).

It serves as the reconciliation of Property, Plant and Equipment referred to in GAMAP 17.

The original budget must also be included in this Appendix as illustrated.

If IAS 36 is applied, an additional column should be included under Accumulated Depreciation called "Impairment Losses" and included in the calculation of the closing balance of accumulated depreciation at 30 June 2005.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX B

PROTEA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2005

	Cost/Revaluation					Accumulated Depreciation				Carrying Value	Budget Additions 2005
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance		
Land and Buildings											
Land	5 015 134	78 250	22 954	-	5 116 338	-	-	-	-	5 116 338	100 000
Buildings	12 657 861	26 988	-	-	12 684 849	3 471 039	1 414 333	-	4 885 372	7 799 477	46 000
	17 672 995	105 238	22 954	-	17 801 187	3 471 039	1 414 333	-	4 885 372	12 915 815	146 000
Infrastructure											
Drains	1 258 123	22 650	-	-	1 280 773	251 463	19 544	-	271 007	1 009 766	21,856
Roads	4 106 501	45 224	67 908	-	4 219 633	1 451 774	156 578	-	1 608 352	2 611 281	114,200
Beach Improvements	962 094	80 964	-	599	1 042 459	116 177	9 029	599	124 607	917 852	79,000
Sewerage Mains & Purif	2 442 239	728 673	354 327	-	3 525 239	1 387 006	118 767	-	1 505 773	2 019 466	2,000,000
Electricity Mains	3 330 326	104 818	-	-	3 435 144	2 369 383	73 626	-	2 443 009	992 135	150,000
Electricity Peak Load Equip	4 698 559	91 927	-	-	4 790 486	3 025 378	168 383	-	3 193 761	1 596 725	92,000
Water Mains & Purification	12 063 920	104 750	15 329	4 158	12 179 841	4 013 601	217 995	4 158	4 227 438	7 952 403	126,000
Reservoirs – Water	2 738 268	72 650	-	-	2 810 918	708 315	55 052	-	763 367	2 047 551	70,000
Water Meters	1 184 118	228 613	75 000	-	1 487 731	459 194	35 631	-	494 825	992 906	600,000
Water Mains	1 480 146	59 167	-	-	1 539 313	469 348	36 481	-	505 829	1 033 484	100,000
	34 264 294	1 539 436	512 564	4 757	36 311 537	14 251 639	891 086	4 757	15 137 868	21 173 569	3,353,056
Community Assets											
Parks & Gardens	2 051 950	1 008 184	99 123	109 643	3 049 614	1 109 259	188 244	104 121	1 293 382	1 756 232	750,000
Libraries	3 640 509*	713 584	-	220 854	4 133 239	1 657 487	181 533*	142 754	1 996 266	2 136 973	2,500,000
Recreation Grounds	1 074 833	562 717	-	0	1 637 550	397 800	67 568	-	465 368	1 172 182	450,000
Civic Buildings	4 103 898	143 559	-	181 296	4 066 161	1 761 453	199 362	176 950	1 883 865	1 982 296	150,000
	10 871 190	2 428 044	99 123	511 793	12 886 564	4 925 999	636 707	423 825	5 138 881	7 747 683	3,850,000
Heritage Assets											
Historical Buildings	1 563 998	-	-	-	1 563 998	-	-	-	-	1 563 998	96,800
Painting & Art Galleries	1 193 279	312 033	-	71 710	1 433 602	-	-	-	-	1 433 602	300,000
	2 757 277	312 033	-	71 710	2 997 600	-	-	-	-	2 997 600	396,800
Total carried forward	65 565 756	4 384 751	634 641	588 260	69 996 888	22 648 677	2 942 126	428 582	25 162 221	44 834 667	7 745 856

* Includes correction of error referred to in Note 32.

APPENDIX B

PROTEA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2005

	Cost					Accumulated Depreciation				Carrying Value	Budget Additions 2005
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance		
Total brought forward	65 565 756	4 384 751	634 641	588 260	69 996 888	22 648 677	2 942 126	428 582	25 162 221	44 834 667	7 745 856
Housing Rental Stock											
Housing Rental 1	1 664 155	-	-	48 660	1 615 495	1 509 987	49 916	48 660	1 511 243	104 252	25,000
Housing Rental 2	4 992 463	-	-	145 980	4 846 483	1 529 961	137 157	145 980	1 521 138	3 325 345	-
	6 656 618	-	-	194 640	6 461 978	3 039 948	187 073	194 640	3 032 381	3 429 597	25,000
Leased Assets (Infrastructure)											
Sewerage Mains & Purify	-	1 350 000	-	-	1 350 000	-	224 970	-	224 970	1 125 030	1,350,000
	-	1 350 000	-	-	1 350 000	-	224 970	-	224 970	1 125 030	1,350,000
Other Assets											
Landfill sites	3 903 708	-	-	171 843	3 731 865	982 711	200 945	171 843	1 011 813	2 720 052	45,000
Office Equipment	811 289	483 619	-	346 242	948 666	324 667	98 078*	46 554	376 191	572 475	475,000
Furniture & Fittings	585 073	353 030	-	94 257	843 846	688 461	187 277	106 936	768 802	75 044	352,900
Bins and Containers	136 333	296 912	-	-	433 245	129 974	93 638	53 467	170 145	263 100	295,000
Emergency Equipment	837 859	624 361	-	37 173	1 425 047	296 861	131 931	75 333	353 459	1 071 588	623,450
Motor vehicles	418 930	312 180	-	63 587	667 523	148 430	65 965	37 666	176 729	490 794	315,000
Fire engines	68 167	206 770	-	-	274 937	64 987	46 819	26 734	85 072	189 865	209,000
Refuse tankers	542 537	176 515	-	22 129	696 923	344 231	93 639	53 468	384 402	312 521	175,500
Computer equipment	255 645	341 810	-	48 121	549 334	162 333	64 651	23 278	203 706	345 628	340,000
Councillors Regalia	490 734	13 494	-	-	504 228	217 363	16 894	-	234 257	269 971	15,000
Conservancy tankers	586 272	0	-	-	586 272	-	-	-	-	586 272	22,000
Watercraft	1 558 198	409 390	-	70 077	1 897 511	474 377	223 474	168 522	529 329	1 368 182	408,790
	10 194 745	3 218 081	-	853 429	12 559 395	3 834 395	1 023 311	763 801	4 093 905	8 465 492	3,276,640
Total	82 417 119	8 952 832	634 641	1 636 329	90 368 263	29 523 020	4 377 480	1 387 023	32 513 477	57 854 786	12 397 496

EXPLANATORY NOTES: APPENDIX C

This is a segmental analysis of Property, Plant and Equipment. The standard GFS classifications set out in the Budget Reforms have been used. However, the segments used can be the organisational structure of the Municipality.

The totals of Appendix C must agree to those in Appendix B.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX C

PROTEA LOCAL MUNICIPALITY: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2005

	Cost					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Under Construction	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
Executive & Council	2 032 928	251 321	15 866	(40 908)	2 259 207	738 076	109 437	(34 676)	812 837	1 446 370
Finance & Admin	2 846 099	351 849	22 212	(57 272)	3 162 889	1 033 306	153 212	(48 546)	1 137 972	2 024 918
Planning & Development	2 439 514	301 585	19 039	(49 090)	2 711 048	885 691	131 324	(41 611)	975 404	1 735 644
Health	4 879 027	603 170	38 078	(98 180)	5 422 096	1 771 381	262 649	(83 221)	1 950 809	3 471 287
Community & Social Services	4 879 027	603 170	38 078	(98 180)	5 422 096	1 771 381	262 649	(83 221)	1 950 809	3 471 287
Housing	5 692 198	703 698	44 425	(114 543)	6 325 778	2 066 611	306 424	(97 092)	2 275 943	4 049 835
Public Safety	6 505 370	804 227	50 771	(130 906)	7 229 461	2 361 842	350 198	(110 962)	2 601 078	4 628 383
Sport & Recreation	1 626 342	201 057	12 693	(32 727)	1 807 365	590 460	87 550	(27 740)	650 270	1 157 096
Environmental Protection	1 219 757	150 792	9 520	(24 545)	1 355 524	442 845	65 662	(20 805)	487 702	867 822
Waste Management	7 318 541	904 755	57 118	(147 270)	8 133 144	2 657 072	393 973	(124 832)	2 926 213	5 206 931
Road Transport	8 131 712	1 005 283	63 464	(163 633)	9 036 826	2 952 302	437 748	(138 702)	3 251 348	5 785 479
Water	21 429 280	1 413 208	158 660	(409 082)	22 592 066	7 380 755	1 094 370	(346 756)	8 128 369	14 463 697
Electricity	13 010 739	1 608 453	101 543	(261 813)	14 458 922	4 723 683	700 397	(221 924)	5 202 156	9 256 766
Other	406 586	50 264	3 173	(8 182)	451 841	147 615	21 887	(6 935)	162 567	289 274
TOTAL	82 417 119	8 952 832	634 641	(1 636 329)	90 368 263	29 523 020	4 377 480	(1 387 023)	32 513 477	57 854 786

EXPLANATORY NOTES: APPENDIX D

This is a segmental income statement. The standard GFS classifications set out in the Budget Reforms have been used. However, the segments used can be the organisational structure of the Municipality.

The totals of Appendix D must agree to the total included in the Statement of Financial Performance.

A reconciling item will be inter-departmental charges. These are included in the various functions or segments but are deducted in order to reconcile to the totals shown on the face of the Statement of Financial Performance.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX D

PROTEA LOCAL MUNICIPALITY: SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED

30 JUNE 2005

2004 Actual Income	2004 Actual Expenditure	2004 Surplus/ (Deficit)		2005 Actual Income	2005 Actual Expenditure	2005 Surplus/ (Deficit)
R	R	R		R	R	R
0	6 352 184	(6 352 184)	Executive & Council	0	6 627 669	(6 627 669)
3 441 592	9 528 276	(6 086 684)	Finance & Admin	4 804 016	9 941 503	(5 137 487)
1 588 427	3 176 092	(1 587 665)	Planning & Development	2 217 238	3 313 834	(1 096 596)
1 853 165	5 081 747	(3 228 582)	Health	2 586 778	5 302 135	(2 715 357)
1 058 951	4 446 529	(3 387 577)	Community & Social Services	1 478 159	4 639 368	(3 161 209)
1 323 689	2 540 874	(1 217 184)	Housing	1 847 699	2 651 067	(803 369)
2 117 903	5 716 966	(3 599 063)	Public Safety	2 956 318	5 964 902	(3 008 584)
529 476	635 218	(105 743)	Sport & Recreation	739 079	662 767	76 313
264 738	1 905 655	(1 640 917)	Environmental Protection	369 540	1 988 301	(1 618 761)
10 854 252	6 987 402	3 866 850	Waste Management	15 151 128	7 290 435	7 860 693
794 214	7 622 621	(6 828 407)	Road Transport	1 108 619	7 953 202	(6 844 583)
8 471 612	8 257 839	213 772	Water	11 825 271	8 615 969	3 209 302
20 120 077	22 232 644	(2 112 566)	Electricity	28 085 018	23 196 840	4 888 178
529 476	635 215	(105 740)	Other	739 079	662 767	76 313
52 947 572	85 119 261	(32 171 689)	Sub Total	73 907 942	88 810 759	(14 902 817)
-	(21 597 425)	21 597 425	Less Inter-Dep Charges	-	(22 534 073)	22 534 073
52 947 572	63 521 836	(10 574 264)	Total	73 907 942	65 276 686	7 631 256
		<u>2 000</u>	Add: Share of Associate		<u>9 000</u>	
		<u>(10 572 264)</u>			<u>7 640 256</u>	

EXPLANATORY NOTES: APPENDIX E(1)

This Appendix is a summary of budget variances and an explanation of major variances and is based on the Statement of Financial Performance.

Variances, both monetary and percentage, have been calculated on actual in relation to budget.

Comments on variances should be provided where the variance percentage is greater than 10.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX E(1)

PROTEA LOCAL MUNICIPALITY: ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2005

REVENUE	2005 Actual (R)	2005 Budget (R)	2005 Variance (R)	2005 Variance (%)	Explanation of Significant Variances greater than 10% versus Budget
Property rates	11 263 864	12,056,395	(792,531)	-7	<i>(Explanations to be recorded)</i>
Property rates - penalties imposed and collection charges	390 829	250,800	140,029	56	
Service charges	44 520 794	43,000,000	1,520,794	4	
Regional Services Levies - turnover	462 439	450,000	12,439	3	
Regional Services Levies - remuneration	593 659	700,000	(106,341)	-15	
Rental of facilities and equipment	1 087 453	1,250,000	(162,547)	-13	
Interest earned - external investments	3 875 462	4,000,000	(124,538)	-3	
Interest earned - outstanding debtors	1 087 453	1,400,000	(312,547)	-22	
Dividends received	186 500	200,000	(13,500)	-7	
Fines	1 504 328	1,450,000	54,328	4	
Licences and permits	-	100	(100)	-100	
Income for agency services	2 029 623	2,200,000	(170,377)	-8	
Government grants and subsidies	6 423 669	6,500,000	(76,331)	-1	
Other income	226 859	225,500	1,359	1	
Public contributions, donated/contributed PPE	130 216	400,000	(269,784)	-67	
Gains on disposal of property, plant and equipment	124 794	80,000	44,794	56	
Total Revenue	73 907 942	74 162 795	(254 853)	0	
EXPENDITURE					
Employee related costs	18 100 547	18 345 077	(244 530)	-1	
Remuneration of Councillors	7 133 461	7 000 000	133 461	2	
Bad debts	1 093 265	1 100 000	(6 735)	-1	
Collection costs	452 767	550 000	(97 233)	-18	
Depreciation	4 377 480	4 491 056	(113 576)	-3	
Repairs and maintenance	1 720 217	790 000	930 217	118	
Interest on external borrowings	2 273 908	2 295 000	(21 092)	-1	
Bulk purchases	28 329 746	26 195 207	2 134 539	8	
Contracted services	1 875 088	1 900 000	(24 912)	-1	
Grants and subsidies paid	651 887	650 000	1 887	-	
General expenses - other	268 320	245 000	23 320	10	
Loss on disposal of property, plant and equipment	-	1 000	(1 000)	-100	
Total Expenditure	66 276 686	63 562 340	1 148 846	4	
NET SURPLUS/(DEFICIT) FOR THE YEAR	7 631 256	10 600 455	(1 403 699)	-28	

EXPLANATORY NOTES: APPENDIX E(2)

This Appendix is a summary of budget variances and an explanation of major variances and is based on Appendix B.

Variances, both monetary and percentage, have been calculated on actual in relation to budget.

Comments on variances should be provided where the variance percentage is greater than 5.

This Appendix is part of the annual financial statements and is subject to audit.

APPENDIX E(2)

PROTEA LOCAL MUNICIPALITY: ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT) FOR THE YEAR ENDED 30 JUNE 2005

	<u>2005</u> <u>Actual</u>	<u>2005</u> <u>Under</u>	<u>2005</u> <u>Total</u>	<u>2005</u> <u>Budget</u>	<u>2005</u> <u>Variance</u>	<u>2005</u> <u>Variance</u>	<u>Explanation of Significant Variances</u> <u>greater than 5% versus Budget</u>
	Construction		Additions				
	R	R	R	R	R	%	(<i>Explanations to be recorded</i>)
Land and Buildings							
Land	78 250	22 954	101 204	100 000	1 204	2	
Buildings	26 988	-	26 988	46 000	(19 012)	(82)	
	105 238	22 954	128 192	146 000	(17 808)	(12)	
Infrastructure							
Drains	22,650	-	22,650	21,856	794	7	
Roads	45,224	67,908	113,132	114,200	(1,068)	(2)	
Beach Improvements	80,964	-	80,964	79,000	1,964	5	
Sewerage Mains & Purif	728,673	354,327	1,083,000	2,000,000	(917,000)	(91)	
Electricity Mains	104,818	-	104,818	150,000	(45,182)	(60)	
Electricity Peak Load Equip	91,927	-	91,927	92,000	(73)	(0)	
Water Mains & Purification	104,750	15,329	120,079	126,000	(5,921)	(9)	
Reservoirs - Water	72,650	-	72,650	70,000	2,650	8	
Water Meters	228,613	75,000	303,613	600,000	(296,387)	(98)	
Water Mains	59,167	-	59,167	100,000	(40,833)	(81)	
	1,539,436	512,564	2,052,000	3,353,056	(1,301,056)	(77)	
Community Assets							
Parks & Gardens	1,008,184	99,123	1,107,307	750,000	357,307	95	
Libraries	1,813,584	-	1,813,584	2,500,000	(686,416)	(55)	
Recreation Grounds	562,717	-	562,717	450,000	112,717	50	
Civic Buildings	143,559	-	143,559	150,000	(6,441)	(9)	
	3,528,044	99,123	3,627,167	3,850,000	(222,833)	(12)	
Heritage Assets							
Historical Buildings	-	-	-	96,800	(96,800)	(199)	
Painting & Art Galleries	312,033	-	312,033	300,000	12,033	8	
	312,033	-	312,033	396,800	(84,767)	(43)	
Total carried forward	5 484 751	634 641	6 119 392	7 745 856	(1 626 464)		

APPENDIX E(2)

PROTEA LOCAL MUNICIPALITY: ACTUAL VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2005

	<u>2005</u> <u>Actual</u>	<u>2005</u> <u>Under</u> <u>Construction</u>	<u>2005</u> <u>Total</u> <u>Additions</u>	<u>2005</u> <u>Budget</u>	<u>2005</u> <u>Variance</u>	<u>2005</u> <u>Variance</u>	<u>Explanation of Significant Variances</u> <u>greater than 5% versus Budget</u>
	R	R	R	R	R	%	
Total brought forward	5 484 751	634 641	6 119 392	7 745 856	(1 626 464)		
Housing Rental Stock							
Housing Rental 1	-	-	-	25,000	(25,000)	(199)	
Housing Rental 2	-	-	-	-	-	-	
	-	-	-	25,000	(25,000)	(199)	
Leased Assets (Infrastructure)	-	-	-				
Sewerage Mains & Purify	1,350,000	-	1,350,000	1,350,000	-	-	
	1,350,000	-	1,350,000	1,350,000	-	-	
Other Assets							
Land	78,250	22,954	101,204	100,000	1,204	2	
Buildings	26,988	-	26,988	46,000	(19,012)	(82)	
Landfill sites	-	-	-	45,000	(45,000)	(199)	
Office Equipment	483,619	-	483,619	475,000	8,619	4	
Furniture & Fittings	353,030	-	353,030	352,900	130	0	
Bins and Containers	296,912	-	296,912	295,000	1,912	1	
Emergency Equipment	624,361	-	624,361	623,450	911	0	
Motor vehicles	312,180	-	312,180	315,000	(2,820)	(2)	
Fire engines	206,770	-	206,770	209,000	(2,230)	(2)	
Refuse tankers	176,515	-	176,515	175,500	1,015	1	
Computer equipment	341,810	-	341,810	340,000	1,810	1	
Councillors Regalia	13,494	-	13,494	15,000	(1,506)	(20)	
Conservancy tankers	-	-	-	22,000	(22,000)	(199)	
Watercraft	409,390	-	409,390	408,790	600	0	
	3,323,319	22,954	3,346,273	3,422,640	(76,367)	(4)	
Total	10,052,832	634,641	10,687,473	12,397,496	(1,710,023)	(14)	

APPENDIX F

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant and Subsidies Received

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	
		March	June	Sept	Dec	March	March	June	Sept	Dec	March	March	June	Sept	Dec	March	Yes / No			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

ANNEXURE ONE TO THE SPECIMEN MUNICIPAL ANNUAL FINANCIAL STATEMENTS

Background: Explanatory Notes

In respect of the first-time implementation of GAMAP, there must be compliance with the requirements of GRAP 3. In other words, the implementation of GAMAP must be applied retrospectively.

If this is not possible, then this fact must be stated as required by GRAP 3. This may apply where, for example, fixed asset costs cannot be established, non-performance of the reconciliation of loans redeemed and other capital receipts and internal loans to property, plant and equipment as well as the unbundling of statutory funds cannot be done retrospectively. Instead, these tasks can only be performed at the beginning of the financial year in which the implementation of GAMAP is done.

In these circumstances, it may not be possible to restate comparative amounts.

GRAP 3.28 determines that when initial application of a Standard of GRAP has an effect on the current period or any other period, but it is impracticable to determine the amount of the adjustment, the municipality shall disclose:

- (a) *the title of the Standard;*
- (b) *when applicable, that the change in accounting policy is made in accordance with its transitional provisions;*
- (c) *the nature of the change in accounting policy;*
- (d) *when applicable, a description of the transitional provisions;*
- (e) *when applicable, the transitional provisions that might have an effect on future periods;*
- (f) *for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected; and*
- (g) *the amount of the adjustment relating to periods before those presented, to the extent practicable; and*
- (h) *if retrospective application required by paragraph 19(a) or (b) is impracticable for a particular prior period, or for periods before those presented, the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.*

Annexure One has been attached to these specimen annual financial statements to provide guidance where municipalities are unable to restate comparatives due to the first time implementation of the standards of GAMAP and GRAP. It should be noted that it will only be exceptional circumstances where comparatives cannot be restated,

Certain parts of the specimen financial statements will have to be substituted by the information included in this Annexure.

This is a once-off concession and only applies, if necessary, in the year of first-time implementation.

Explanatory Notes: (Alternative) Statement of Financial Performance

The revenue and expenditure as included in the prior financial statements must be restated and shown as comparatives to the extent possible. Adjustments to revenue and expenditure that was either previously excluded from the Statement of Financial Performance or no longer meet the criteria of revenue and expenditure are shown as adjustments in the Statement of Changes in Net Assets.

In other words, the accumulated surplus/deficit for the year as previously reported in the annual financial statements must equal the amount shown as the accumulated surplus/deficit as at 30 June 2004, after taking into account the change in accounting policy relating to the Regional Service Council levies, in the Statement of Changes in Net Assets.

The alternative Statement of Financial Performance will vary from one municipality to the next. The following points to illustrate the restatement of comparatives are summarised below:-

External Interest: In the prior annual financial statements, certain components of external interest received will have been credited to the Statement of Financial Performance and the remaining to funds, reserves or unspent government grants. The total external interest should be included in the Alternative Statement of Financial Performance comparative and the amount allocated to funds, reserves and government grants shown as a movement in Net Assets.

Public Contributions, donated and contributed property, plant and equipment will have been allocated to loans redeemed and other capital receipts in the prior annual financial statements. The total public contributions, donated and contributed property, plant and equipment should now be included in the Alternative Statement of Financial Performance comparative and the amount allocated to Pre-GAMAP funds and reserves in the Statement of Changes in Net Assets.

Government grants and subsidies used to finance property, plant and equipment will have been allocated to loans redeemed and other capital receipts in the prior annual financial statements. The total government grant and subsidies property, plant and equipment should now be included in the Alternative Statement of Financial Performance comparative and the amount allocated to Pre-GAMAP funds and reserves in the Statement of Changes in Net Assets.

The same principles could apply to transfers of interest between the unappropriated surplus/deficit to funds and reserves, expenditure such as repairs and maintenance expenditure charged directly against funds and reserves rather than included as expenditure and internal interest and redemption. These are also illustrated in the Statement of Changes in Net Assets.

Reference should be made to the Implementation Guidelines for further information.

PROTEA LOCAL MUNICIPALITY
(ALTERNATIVE) STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30th JUNE 2005

Budget		Actual	
2004	2005	Note	2005
R	R		R
11,253,950	12,056,395		11 263 864
200,550	250,800		390 829
41,000,000	43,000,000	x	44 520 794
425,000	450,000		462 439
655,500	700,000		593 659
1,175,000	1,250,000		1 087 453
3,600,500	4,000,000		3 875 462
1,335,000	1,400,000		1 087 453
122,800	200,000		186 500
1,100,000	1,450,000		1 504 328
100	100		-
800,000	2,200,000		2 029 623
2,500,000	6,500,000	x	6 423 669
100,000	225,500	x	226 859
76,000	400,000		130 216
-	80,000		124 794
64 344 400	74 162 795		73 907 942
			52 891 378
EXPENDITURE			
14,397,530	18,345,077	x	18 100 547
5,550,000	7,000,000	x	7 133 461
250,000	1,100,000		1 093 265
400,000	550,000		452 767
-	4,491,056	x	4 377 480
620,000	790,000		1 720 217
2,400,000	2,295,000	x	2 273 908
26,000,222	26,195,207	x	28 329 746
1,400,000	1,900,000		1 875 088
630,000	650,000	x	651 887
2,210,743	245 000	x	268 320
1 000	1,000		-
58 359 813	63 562 340		66 276 686
			58 420 905
5 984 587	10 600 455		7 631 256
			(5 473 333)
5 984 587	10 600 455	x	9 000
			2 000
			7 640 256
			(5 471 333)
SURPLUS/(DEFICIT)			
Share of surplus/(deficit) of associate accounted for under the equity method			
SURPLUS/(DEFICIT) FOR THE YEAR			

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

Explanatory Notes: Alternative Statement of Changes in Net Assets

In respect of the first-time implementation of GAMAP, there must be compliance with the requirements of GRAP 3. This standard requires that the change in accounting policy must be applied retrospectively.

*If this is not possible, then the specimen **Alternative Statement of Changes in Net Assets** must be used for guidance together with these explanatory notes.*

*This will result in the 2004 amounts that appeared in the previous financial statements being restated to show the movement between Net Assets and the Statement of Financial Performance. Reference should be made to the **Explanatory Notes: Alternative Statement of Financial Performance**.*

Additional guidance is also set out in the GAMAP Implementation Guidelines issued by National Treasury.

PROTEA LOCAL MUNICIPALITY
(ALTERNATIVE) STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2005

	<u>Pre-GAMAP</u> <u>Reserves</u> <u>and</u> <u>Funds</u> <u>R</u>	<u>Capital</u> <u>Replacement</u> <u>Reserve</u> <u>(CRR)</u> <u>R</u>	<u>Housing</u> <u>Development</u> <u>Fund</u> <u>R</u>	<u>Capitalisation</u> <u>Reserve</u> <u>R</u>	<u>Government</u> <u>Grant</u> <u>Reserve</u> <u>R</u>	<u>Donations</u> <u>and Public</u> <u>Contribution</u> <u>Reserve</u> <u>R</u>	<u>Self-</u> <u>Insurance</u> <u>Reserve</u> <u>R</u>	<u>Revaluation</u> <u>Reserve</u> <u>R</u>	<u>Accumulated</u> <u>Surplus/</u> <u>(Deficit)</u> <u>R</u>	<u>Total Net</u> <u>Assets</u> <u>R</u>
2004										
Balance at 1 July 2003	37 420 690	-	3 985 854	-	-	-	1 045 832	5 875 045	2 591 454	49 918 875
Change in accounting policy (Note x)									6 930	6 930
Restated balance	37 420 690	-	3 985 854	-	-	-	1 045 832	5 875 045	2 608 384	49 925 805
Surplus/(deficit) for the year									(5 471 333)	(5 471 333)
Reallocation of government grants (Note 29)	1 070 647								(1 070 647)	
Reallocation of public contributions (Note 29)	111 082								(111 082)	
Reallocation of interest (Note 29)	(1 226 967)								1 226 967	
Capital charges (Note 29)	798 250			908 411					(798 250)	
Contribution to Housing Development Fund (Note 29)									(908 411)	
Contribution to Insurance Reserve (Note 29)							876 078		(876 078)	
Insurance claims processed (Note 29)							(126 078)		126 078	
Balance at 30 June 2004	38 173 702	-	4 894 265	-	-	-	1 795 832	5 875 045	(5 284 372)	44 454 472
2005										
Implementation of GAMAP (Note 30)	(38 173 702)	10 405 960		25 467 013	8 832 256	85 651		(943 108)	3 051 041	8 725 111
Correction of error (Note x)									1 100 000	1 100 000
Change in accounting policy (Note x)									118 124	118 124
Restated balance	0	10 405 960	4 894 265	26 904 252	8 832 256	85 651	1 795 832	4 931 937	(1 015 207)	54 397 707
Surplus/(deficit) for the year									7 640 256	7 640 256
Transfer to CRR		2 917 831							(2 917 831)	
Property, plant and equipment purchased		(4 189 598)							4 189 598	
Capital grants used to purchase PPE					4 161 238				(4 161 238)	
Donated/contributed PPE						130 216			(130 216)	
Contribution to Insurance Reserve							1 311 917		(1 311 917)	
Insurance claims processed				1 295 738			(485 249)		485 249	
Transfer to Housing Development Fund					(16 146)				(1 295 738)	
Asset disposals				(2 433 800)	(1 597 600)	(44 814)			16 146	
Offsetting of depreciation								(1 862 995)	4 939 209	5 939 209
Balance at 30 June 2005	0	9 134 193	6 190 003	23 033 213	11 379 748	171 053	2 622 500	4 068 942	6 438 311	63 037 963

Explanatory Notes: Checklist of Matters to take into account in the Specimen Municipal Annual Financial Statements

This checklist sets out changes that should be made to the Specimen Municipal Annual Financial Statements.

Cash-Flow Statement

If it is not possible to restate comparative amounts in the Statement of Financial Performance and the Statement of Changes in Net Assets, then the comparative amounts in the cash flow statement included in the pre-GAMAP implementation financial statements should be reclassified and used as comparative amounts when preparing Note 33..

The following wording should be used (include under Note 33): -

“Cash Flow Statement

Due to the inability of the Municipality to restate the comparatives in the Statements of Financial Performance and Changes in Net Assets, the comparative amounts in the cash flow statement are based on the cash generated from operations previously reported.”

Mandatory Accounting Policies

20.2 Prior year comparatives:

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified as set out in Note 29. The nature and reason for the reclassification should be disclosed.

Change in Accounting Policy – Implementation of GAMAP

See attached Note 30.

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

RESTATEMENT OF COMPARATIVE AMOUNTS	2005	2004
	R	R

A reconciliation of the surplus/(deficit) reported in the previous year's annual financial statements to the restated comparative amounts included in the Statement of Financial Performance is set out below: -

Deficit as currently reported	5 471 333
Government Grants	(1070 647)
Public contributions	(111 082)
Interest	1 226 967
Capital charges	(798 250)
Contribution to Housing Development Fund	(908 411)
Contribution to Insurance Reserve	(876 078)
Insurance claims processed	126 078
	<u>(7 882 756)</u>
Deficit previously reported	<u><u></u></u>

In the previous year's annual financial statements, these transactions were not included in the Statement of Financial Performance due to different recognition criteria. Instead these amounts were recorded as revenue or expenses in the pre-GAMAP Reserves and Funds. Adjustments have been made in the Statement of Change in Net Assets to restate the comparative Net Assets to those previously reported.

CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GAMAP

2005
R

The following adjustments were made to amounts previously reported in the annual financial statements of the Municipality arising from the implementation of GAMAP: -

Statutory Funds**Balance previously reported: -**

Capital Development Fund	13 360 796
Land Trust Fund	20 995 536
Parking Development Fund	<u>3 817 370</u>
Total	<u>38 173 702</u>

Implementation of GAMAP

Transferred to the Capital Replacement Reserve	10 405 960
Transferred to the Capitalisation Reserve	25 467 013
Transferred to Accumulated Surplus/(Deficit) (see 30.4 below)	<u>2 300 729</u>
Total	<u>38 173 702</u>

Loans Redeemed and Other Capital Receipts**Balance previously reported**8 940 185**Implementation of GAMAP**

Transferred to Government Grant Reserve	8 832 256
Transferred to Donations and Public Contribution Reserve	85 651
Transferred to Accumulated Surplus/(Deficit) (see 30.4 below)	<u>22 278</u>
Total	<u>8 940 185</u>

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

Provisions and Reserves**Balance previously reported**

Infrastructure Replacement Reserve	295 320
Tariff Equalization Reserve	182 051
Valuation Roll Reserve	66 206
Staff Bursary Reserve	55 100
Total	598 677

Implementation of GAMAP

Transferred to Accumulated Surplus/(Deficit) (see 30.4 below)

598 677***Inventory*****Balance previously reported****708 273****Implementation of GAMAP**

Transferred to Accumulated Surplus/(Deficit) (see 30.8 below)

305 195

Water previously expensed now shown as inventory

428 512

Write-down of spare parts to realisable value

(42 975)

Write-down of unsold properties to realisable value

(80 342)

Total**1 013 468**

PROTEA LOCAL MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

CHANGE IN ACCOUNTING POLICY - IMPLEMENTATION OF GAMAP (continued)

Non-current provisions**Balance previously reported****Implementation of GAMAP**

Transferred from Accumulated Surplus/(Deficit) (see 30.8 below)	374 348
Landfill	263 564
Long-service	110 784
Total	374 348

Property, plant and equipment

Balance previously reported	47 590 968
Implementation of GAMAP	
Infrastructure previously not recorded credited to Accumulated Surplus/(Deficit) (see 30.8 below)	25 677 340

Total	73 268 308
--------------	-------------------

Accumulated Depreciation

Balance previously reported	-
Implementation of GAMAP	
Backlog depreciation: Land and buildings	(2 186 457)
Backlog depreciation: Infrastructure	(13 488 369)
Backlog depreciation: Community	(3 208 642)
Backlog depreciation: Other	(2 993 941)
Backlog depreciation: Housing Development Fund	(2 658 313)
Total (debited to Accumulated Surplus/(Deficit)) (see 30.8 below)	(24 535 722)

Accumulated Surplus/(Deficit)**Implementation of GAMAP**

Adjustments to inventory (see 30.4 above)	305 195
Excessive provisions and reserves no longer permitted (see 30.3 above)	598 677
Non-current provisions previously not recognised (see 30.5 above)	(374 348)
Transferred from statutory funds (see 30.1 above)	352 980
Transferred from Loans Redeemed and Other Capital Receipts (see 30.2 above)	830 176
Fair value of Property, Plant and Equipment previously not recorded (see 30.6 above)	25 677 340
Backlog depreciation (see 30.7 above)	(24 535 722)
Total	2 854 298

The Municipality was unable to determine the effect of the change resulting from the implementation of GAMAP retrospectively due to the following reasons: -

The Municipality was unable to determine depreciation for the year ended 30 June 2004 as a number of significant adjustments were made to property, plant and equipment as at 30 June 2004. It was not possible to determine the period to which these adjustments related. As a result, the provisions of GAMAP 17 could only be applied from 1 July 2004.

Certain balances and transactions, specifically those relating to statutory funds and reserves, could not be unbundled prior to 30 June 2004 as inadequate accounting records were maintained. Certain of these balances and transactions do not meet the criteria of assets, liabilities, revenue and expenses contained in the Accounting Framework on which Standards of GAMAP and GRAP are based. The comparative amounts have not been restated as it was not possible to identify all the balances and transactions included in statutory funds and reserves. The Accounting Framework has been applied from 1 July 2004 in respect of these balances and transactions.