

MOGALAKWENA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2010

REPORT OF THE CHIEF FINANCIAL OFFICER

1. INTRODUCTION

It gives me great pleasure to present the financial position of Mogalakwena Municipality at 30 June 2010 and the results of its operations and cash flows for the year then ended.

These Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003). The standards and pronouncements that form the GRAP Reporting Framework for the 2009/2010 financial period is set out in Directive 4 and Directive 5 issued by the ASB on 11 March 2009.

The Statement of Financial Position at 30 June 2010 indicates an increase in Net Assets, and an increase in Non-current Liabilities and a decrease in Current Liabilities.

The increase in Net Assets is ascribed primarily to the increase in Accumulated Surplus as a result of the surplus generated on the operating account. The increase in Non-current Liabilities is primarily as a result of the increases in Retirement Benefit Liabilities and Long-service Benefits. The decrease in Current Liabilities is primarily as a result of the decrease in Unspent Conditional Grants.

2. KEY FINANCIAL INDICATORS

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

Financial Statement Ratios:

INDICATOR	2010	2009
Surplus / (Deficit) before Appropriations	173 576 740	111 951 731
Surplus / (Deficit) at the end of the Year	862 592 877	689 016 137
Expenditure Categories as a percentage of Total Expenses:		
Employee Related Costs	29.94%	28.71%
Remuneration of Councillors	3.40%	3.59%
Collection Costs	0.03%	0.02%
Depreciation and Amortisation	9.50%	11.32%
Impairment Losses	6.50%	9.04%
Repairs and Maintenance	12.73%	15.50%
Interest Paid	0.00%	0.05%
Bulk Purchases	21.71%	17.35%
Contracted Services	3.98%	4.53%
Grants and Subsidies Paid	8.10%	5.52%
General Expenses	4.13%	4.37%
Current Ratio:		
Creditors Days	51	49
Debtors Days	63	57

3. OPERATING RESULTS

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

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

The overall operating results for the year ended 30 June 2010 are as follows:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income:					
Opening surplus / (deficit)	246 928 627	206 038 768	19.85%	-	-
Operating income for the year	556 063 129	468 959 847	18.57%	566 475 886	(1.84)%
Appropriations for the year	(113 301 622)	(88 956 902)	27.37%	-	-
	689 690 134	586 041 712	17.69%	566 475 886	21.75%
Expenditure:					
Operating expenditure for the year	382 486 389	357 008 115	7.14%	411 200 680	(6.98)%
Sundry transfers	-	(17 895 030)	(100.00)%	-	-
Closing surplus / (deficit)	307 203 745	246 928 627	24.41%	155 275 206	97.84%
	689 690 134	586 041 712	17.69%	566 475 886	21.75%

3.1 Rates and General Services:

Rates and General Services are all types of services rendered by the municipality, excluding those listed below. The main income sources are Assessment Rates and Sundry Fees levied.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	267 314 350	214 096 765	24.86%	277 856 221	(3.79)%
Expenditure	185 872 846	190 500 646	(2.43)%	202 305 092	(8.12)%
Surplus / (Deficit)	81 441 504	23 596 120	245.15%	75 551 129	7.80%
Surplus / (Deficit) as % of total income	30.47%	11.02%		27.19%	

3.2 Housing Services:

Housing Services are services rendered by the municipality to supply housing to the community and includes the rental of units owned by the municipality to public and staff. The main income source is the levying of Housing Rentals.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	126 470	123 508	2.40%	104 000	21.61%
Expenditure	51 027	32 284	58.06%	60 108	(15.11)%
Surplus / (Deficit)	75 443	91 224	(17.30)%	43 892	71.88%
Surplus / (Deficit) as % of total income	59.65%	73.86%		42.20%	

3.3 Waste Management Services:

Waste Management Services are services rendered by the municipality for the collection, disposal and purifying of waste (refuse and sewerage). Income is mainly generated from the levying of fees and tariffs determined by the council.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	39 074 549	47 689 313	(18.06)%	43 383 664	(9.93)%
Expenditure	27 556 513	30 765 766	(10.43)%	27 609 478	(0.19)%
Surplus / (Deficit)	11 518 036	16 923 547	(31.94)%	15 774 186	(26.98)%
Surplus / (Deficit) as % of total income	29.48%	35.49%		36.36%	

3.4 Electricity Services:

Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R66 666 959 (2009: R48 010 619). Tariffs levied for electricity are subject to administered adjustments.

The envisaged introduction of REDS (Regional Electricity Distribution Suppliers), where electricity will be distributed a regional supplier, will impact materially on the Annual Financial Statements of the municipality.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	137 281 749	105 682 632	29.90%	135 827 689	1.07%
Expenditure	99 818 192	73 417 919	35.96%	113 042 884	(11.70)%
Surplus / (Deficit)	37 463 557	32 264 713	16.11%	22 784 805	64.42%
Surplus / (Deficit) as % of total income	27.29%	30.53%		16.77%	

3.5 Water Services:

Water is bought in bulk from Lepelle Northern Water and "Uitloop Water Beleggings" and distributed to the consumers by the municipality. The cost of bulk purchases to the municipality was R16 356 022 (2009: R13 924 861). Tariffs levied for water are subject to administered adjustments.

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Income	112 266 011	101 367 630	10.75%	109 304 312	2.71%
Expenditure	69 187 811	62 291 501	11.07%	68 183 118	1.47%
Surplus / (Deficit)	43 078 200	39 076 128	10.24%	41 121 194	4.76%
Surplus / (Deficit) as % of total income	38.37%	38.55%		37.62%	

4. FINANCING OF CAPITAL EXPENDITURE

The expenditure on Property, Plant and Equipment during the year amounted to R150 824 371 (2009: R154 698 263). Full details of Property, Plant and Equipment are disclosed in Note 9 and appendices "B, C and E (2)" to the Annual Financial Statements.

The capital expenditure of R150 824 371 was financed as follows:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Percentage Variance %	Budgeted 2009/2010 R	Variance actual/ budgeted %
Capital Replacement Reserve	18 423 120	37 429 668	(50.78)%	21 014 856	(12.33)%
Grants and Subsidies	132 026 318	117 114 347	12.73%	151 027 629	(12.58)%
Own Funds (Accumulated Surplus)	374 933	-	-	-	-
	150 824 371	154 544 015	(2.41)%	172 042 485	(12.33)%

Source of funding as a percentage of Total Capital Expenditure:

DETAILS	2010	2009
Capital Replacement Reserve	12.21%	24.22%
Grants and Subsidies	87.54%	75.78%
Own Funds (Accumulated Surplus)	0.25%	-

4. RECONCILIATION OF BUDGET TO ACTUAL

4.1 Operating Budget:

DETAILS	2010	2009
<i>Variance per Category:</i>		
Budgeted surplus before appropriations	155 275 206	79 531 898
Revenue variances	(10 412 757)	31 952 473
Expenditure variances:		
Employee Related Costs	10 734 213	5 213 301
Remuneration of Councillors	433 922	11 125
Collection Costs	183 524	65 661
Depreciation and Amortisation	10 839 061	(2 415 376)
Impairment Losses	(3 376 566)	(12 593 909)
Repairs and Maintenance	(4 189 103)	(1 423 037)
Interest Paid	-	(194 337)
Bulk Purchases	7 174 600	4 779 819
Contracted Services	1 892 309	154 794
Grants and Subsidies Paid	(4 464 805)	992 886
General Expenses	9 487 135	5 876 435
Loss on disposal of Property, Plant and Equipment	-	-
Actual surplus before appropriations	173 576 740	111 951 731

DETAILS	2010	2009
<i>Variance per Service Segment:</i>		
Budgeted surplus before appropriations	155 275 206	79 531 898
Executive and Council	3 374 300	(7 903 270)
Finance and Administration	25 071 054	15 864 537
Planning and Development	2 906 906	(277 583)
Health	29 620	9 167
Community and Social Services	(214 064)	386 404
Housing	31 551	28 110
Public Safety	852 249	1 733 484
Sport and Recreation	(185 721)	1 116 449
Environmental Protection	221 930	16 059
Waste Management	(4 256 150)	6 412 797
Roads and Transport	(25 964 468)	(1 315 527)
Water	1 957 006	2 709 082
Electricity	14 678 752	14 935 354
Other	(201 430)	(1 295 229)
Actual surplus before appropriations	173 576 740	111 951 731

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

4.2 Capital Budget:

DETAILS	Actual 2009/2010 R	Actual 2008/2009 R	Variance actual 2009/10 / 2008/09 R	Budgeted 2009/2010 R	Variance actual/ budgeted R
Executive and Council	322 706	534 117	(211 411)	44 001	278 705
Finance and Administration	584 479	963 457	(378 978)	846 463	(261 984)
Planning and Development	356 212	710 011	(353 799)	533 000	(176 788)
Health	-	42 534	(42 534)	-	-
Community and Social Services	2 572 567	47 501	2 525 066	2 497 859	74 708
Housing	-	468	(468)	-	-
Public Safety	611 286	794 591	(183 306)	652 401	(41 115)
Sport and Recreation	2 206 606	346 036	1 860 570	1 950 216	256 390
Environmental Protection	3 649	-	3 649	5 000	(1 351)
Waste Management	17 843 873	35 233 923	(17 390 051)	21 967 487	(4 123 614)
Roads and Transport	55 980 691	7 330 597	48 650 094	60 284 289	(4 303 598)
Water	87 273 295	15 567 971	71 705 323	59 827 517	27 445 778
Electricity	35 190 328	6 372 543	28 817 785	22 526 974	12 663 354
Other	2 855 458	3 596 189	(740 731)	907 278	1 948 180
	205 801 149	71 539 938	134 261 211	172 042 485	33 758 664

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

5. ACCUMULATED SURPLUS

The balance of the Accumulated Surplus as at 30 June 2010 amounted to R862 592 877 (30 June 2009: R689 016 137) and is made up as follows:

Capital Replacement Reserve	21 049 770
Capitalisation Reserve	97 298 065
Donations and Public Contributions Reserve	553 323
Government Grants Reserve	436 487 973
Accumulated Surplus	<u>307 203 745</u>
	<u>862 592 877</u>

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

The Capitalisation Reserve is utilised to offset the cost of depreciation of assets funded from Internal Advances (not applicable anymore) over the lifespan of such assets.

The Donations and Public Contributions Reserve is utilised to offset the cost of depreciation of assets funded from Contributions from Public over the lifespan of such assets. Amounts equal to the cost of assets acquired from Public Contributions are transferred to the reserve annually.

The Government Grants Reserves are utilised to offset the cost of depreciation of assets funded from Government Grants over the lifespan of such assets. Amounts equal to the cost of assets acquired from Government Grants are transferred to the reserve annually.

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

Refer to Note 21 and the Statement of Change in Net Assets for more detail.

6. RETIREMENT BENEFIT LIABILITIES

The outstanding amount of Retirement Benefit Liabilities as at 30 June 2010 was R30 415 468 (30 June 2009: R29 845 680).

This liability is in respect of continued Health Care Benefits for employees of the municipality after retirement being members of schemes providing for such benefits. This liability is unfunded.

Refer to Note 18 for more detail.

7. NON-CURRENT PROVISIONS

Non-current Provisions amounted R5 955 133 as at 30 June 2010 (30 June 2009: R5 836 412) and is made up as follows:

Provision for Long-term Service	4 115 594
Provision for Rehabilitation of Land-fill Sites	<u>1 839 539</u>
	<u>5 955 133</u>

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

Refer to Note 19 for more detail.

8. CURRENT LIABILITIES

Current Liabilities amounted R108 329 320 as at 30 June 2010 (30 June 2009: R113 782 870) and is made up as follows:

Consumer Deposits	Note 13	13 294 405
Provisions	Note 14	1 899 986
Creditors	Note 15	53 675 492
Unspent Conditional Grants and Receipts	Note 16	39 459 438
		<u>108 329 320</u>

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

Refer to the indicated Notes for more detail.

9. PROPERTY, PLANT AND EQUIPMENT

The net value of Property, Plant and Equipment was R745 973 986 as at 30 June 2010 (30 June 2009: R631 847 613).

An audit of all assets was done during the year during the process of compiling the asset register and to adhere to the GRAP Accounting Standards in terms of the identification, componentising and measurement of assets.

Refer to Note 9 and Appendices "B, C and E (2)" for more detail.

10. INTANGIBLE ASSETS

The net value of Intangible Assets were R1 126 016 as at 30 June 2010 (30 June 2009: R1 988 883).

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

An audit of all assets was done during the year during the process of compiling the asset register and to adhere to the GRAP Accounting Standards in terms of the identification, componentising and measurement of assets.

Refer to Note 10 and Appendix "B" for more detail.

11. INVESTMENT PROPERTIES

The net value of Investment Properties were R4 864 000 as at 30 June 2010 (30 June 2009: R4 864 000).

An audit of all assets was done during the year during the process of compiling the asset register and to adhere to the GRAP Accounting Standards in terms of the identification, componentising and measurement of assets.

Refer to Note 11 and Appendix "B" for more detail.

12. LONG-TERM RECEIVABLES

Long-term Receivables of R2 900 716 at 30 June 2010 (30 June 2009: R56 008) is made up as follows:

Debtors Capitalised Loans	7 081 977
Removal Cost Loans	2 267
Sale of Stand Loans	939 221
Study Cost Loans	58 826
	<u>8 082 291</u>
Less: Short-term portion included in Current Assets	<u>5 181 575</u>
	<u>2 900 716</u>

The increase in the amount for Long-term Receivables is due to the increased amount of debt arrangements entered into with consumer debtors.

Refer to Note 12 for more detail.

13. CURRENT ASSETS

Current Assets amounted R252 428 079 as at 30 June 2010 (30 June 2009: R199 724 596) and is made up as follows:

Inventory	Note 2	5 580 259
Consumer Debtors	Note 4	34 630 399
Other Debtors	Note 5	13 310 734
VAT Receivable	Note 6	8 391 394
Bank Balances and Cash	Note 7	185 253 738
Operating Lease Assets	Note 8	79 980
Current Portion of Long-term Debtors	Note 12	5 181 575
		<u>252 428 079</u>

The increase in the amount for Current Assets is mainly due to the increased amount held in Bank and Cash Equivalents.

Refer to the indicated Notes for more detail.

14. INTER-GOVERNMENTAL GRANTS

The municipality is dependent on financial aid from other government spheres to finance its annual capital programme. Operating grants are utilised to finance indigent assistance and provision of free basic services.

Refer to Notes 16 and 26, and Appendix "F" for more detail.

15. EVENTS AFTER THE REPORTING DATE

Full details of all known events, if any, after the reporting date are disclosed in Note 55.

16. GENERAL RECOGNISED ACCOUNTING PRACTICE (GRAP)

In order to adhere to principles and procedures prescribed by law and the directions of National Treasury, the Annual Financial Statements have been converted to the new reporting GRAP-format.

17. EXPRESSION OF APPRECIATION

We are grateful to the Mayor, members of the Executive Committee, Councillors, the Municipal Manager and Heads of Departments for the support extended during the financial year. A special word of thanks to all staff in the Finance Department, for without their assistance these Annual Financial Statements would not have been possible.

CHIEF FINANCIAL OFFICER

31 August 2010