



Kopanong Local Municipality
Annual Financial Statements
for the year ended 30 June, 2011

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

General Information

Legal form of entity	"Local Municipality" as defined by the Municipal Structures Act
Nature of business and principal activities	Providing municipal services as set out in the Constitution
Mayoral committee	
Executive Mayor	Mr. T.X. Matwa (re - elected 18 May 2011)
Councillors	Mr. P.D. Basholo (elected 18 May 2011) Mrs. W. Coakley (term ended 30 May 2011) Ms. K.E. Dhlomo (re-elected 18 May 2011) Mrs. H.M. Hagenmann (re-elected 18 May 2011) Mrs. M. Khiwanana (term ended 30 April 2011) Mr. J.T. Koyana (re-elected 18 May 2011) Mrs. M.E. Maema (term ended 30 April 2011) Mr. M. Mafata (term ended 30 April 2011) Mrs. M.E. Masana (elected 18 May 2011) Mr. M.M. Matseo (re-elected 18 May 2011) Mr. P. Mdlokovana (term ended 30 April 2011) Mr. M.A. Moeketsi (term ended 30 April 2011) Mrs. N. Mqgaliso (term ended 30 April 2011) Mr. T.A. Phafudi (elected 18 May 2011) Mr. D. Phepheng (elected 18 May 2011) Mr. M. Pholo (term ended 30 April 2011) Mr. A. Rigala (elected 18 May 2011) Mrs. H. Shebe (elected 18 May 2011) Mr. B. Smit (elected 18 May 2011) Mr. S.A. Sola (elected 18 May 2011) Ms N. Spochter (elected 18 May 2011) Mrs. J. Stuurman (elected 18 May 2011)
Grading of local authority	Grade Two Local Authority
Accounting Officer	Mrs. L. Y. Moletsane
Chief Finance Officer (CFO)	Mr. M.J. Monnaruri
Registered office	20 Louw Street Trompsburg 9913
Postal address	P.O. Box 23 Trompsburg 9913
Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Bomela Attorneys - Bloemfontein

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General Information

Relevant legislation

Basic Conditions of Employment Act (Act no. 75 of 1997)
Division of Revenue Act
Electricity Act (Act no. 41 of 1987)
Employment Equity Act (Act. no. 55 of 1998)
Housing Act (Act no. 107 of 1997)
Income Tax Act (Act no 58 of 1962)
Municipal Finance Management Act (Act no. 56 of 2003)
Municipal Planning and Performance Management Regulations
Municipal Property Rates Act (Act no. 6 of 2004)
Municipal Structure Act (Act no. 117 of 1998)
Municipal System Act (Act no. 32 of 2000)
Skills Development Levies Act (Act no. 9 of 1999)
South African Local Bargaining Council Regulations
Supply Chain Management Regulation of 2005
Unemployment Insurance Act (Act no. 30 of 1996)
Value-Added Tax Act (Act no. 89 of 1991)
Water Services Act (Act no. 108 of 1997)

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The reports and statements set out below comprise the annual financial statements presented to the Council:

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 2 September 2011 and were signed on its behalf by:

Mrs. L.Y. Moletsane

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	2	50,942	35,000
Trade receivables from exchange transactions	3	387,793	2,108,199
Other receivables from exchange transactions	4	7,718,814	299,548
Other receivables from non-exchange transactions	5	23,402,248	19,228,417
Cash and cash equivalents	6	2,720,282	2,495,512
Short term portion of long term debtors	7	5,405	5,747
		34,285,484	24,172,423
Non-Current Assets			
Property, plant and equipment	8	362,142,160	330,551,220
Long term debtors	7	1,523	5,072
		362,143,683	330,556,292
Total Assets		396,429,167	354,728,715
Liabilities			
Current Liabilities			
Consumer deposits	9	1,155,390	712,853
Trade and other payables	10	58,940,833	46,037,185
Long-term liabilities	11	258,656	258,656
Finance lease obligation	12	237,667	236,436
Unspent conditional grants and receipts	13	2,196,246	2,776,863
VAT payable	14	4,630,285	3,022,931
Bank overdraft	6	4,995,662	8,554,282
		72,414,739	61,599,206
Non-Current Liabilities			
Long-term liabilities	11	2,332,240	2,590,897
Finance lease obligation	12	397,470	459,458
		2,729,710	3,050,355
Total Liabilities		75,144,449	64,649,561
Net Assets		321,284,718	290,079,154
Net Assets			
Reserves			
Housing Development Fund		511,395	511,395
Accumulated surplus		320,773,323	289,567,759
Total Net Assets		321,284,718	290,079,154

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Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Donations		46,100	-
Fines		129,865	83,955
Government grants & subsidies	20	117,507,526	102,809,803
Interest received	16	3,663,891	2,974,287
Other revenue		2,146,541	2,219,116
Property rates	21	7,515,084	8,189,656
Rental of facilities and equipment		998,130	1,055,816
Sale of goods		36,449	57,433
Service charges	22	52,908,021	46,812,349
Total Revenue		184,951,607	164,202,415
Expenditure			
Administration		(573,120)	(413,180)
Bulk purchases	23	(39,213,167)	(30,032,457)
Debt impairment	24	(14,784,362)	(46,749,178)
Employee related costs	25	(54,129,324)	(43,914,182)
Finance costs	17	(5,307,124)	(3,007,286)
General Expenses	26	(31,497,008)	(32,507,937)
Remuneration of councillors	27	(3,434,136)	(3,235,659)
Repairs and maintenance		(3,680,940)	(2,738,001)
Total Expenditure		(152,619,181)	(162,597,880)
Surplus for the year		32,332,426	1,604,535

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Statement of Changes in Net Assets

Figures in Rand	Housing Development Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	511,395	286,899,938	287,411,333
Adjustments			
Prior year adjustments	-	1,063,286	1,063,286
Balance at 01 July, 2009 as restated	511,395	287,963,224	288,474,619
Changes in net assets			
Surplus for the year	-	1,604,535	1,604,535
Total changes	-	1,604,535	1,604,535
Opening balance as previously reported	511,395	289,567,759	290,079,154
Adjustments			
Prior year adjustments	-	(1,126,862)	(1,126,862)
Balance at 01 July, 2010 as restated	511,395	288,440,897	288,952,292
Changes in net assets			
Surplus for the year	-	32,332,426	32,332,426
Total changes	-	32,332,426	32,332,426
Balance at 30 June, 2011	511,395	320,773,323	321,284,718
Note(s)			

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Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		177,884,719	190,040,433
Interest income		3,663,891	2,974,287
		<u>181,548,610</u>	<u>193,014,720</u>
Payments			
Employee costs		(56,272,519)	46,702,982
Suppliers		(84,508,520)	(227,072,495)
Finance costs		(4,587,600)	(2,923,149)
		<u>(145,368,639)</u>	<u>(183,292,662)</u>
Net cash flows from operating activities	19	<u>36,179,971</u>	<u>9,722,058</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(31,590,940)	(29,422,819)
Purchase of long term debtors		-	28,963
Proceeds from sale of long term debtors		3,549	-
		<u>(31,587,391)</u>	<u>(29,393,856)</u>
Cash flows from financing activities			
Repayment of long-term liabilities		(258,657)	(298,571)
Movement in other liability 1		-	20,202
Finance lease payments		(550,532)	-
Finance lease receipts		-	695,894
		<u>(809,189)</u>	<u>417,525</u>
Net increase/(decrease) in cash and cash equivalents		<u>3,783,391</u>	<u>(19,254,273)</u>
Cash and cash equivalents at the beginning of the year		(6,058,770)	(5,575,705)
Cash and cash equivalents at the end of the year	6	<u>(2,275,379)</u>	<u>(24,829,978)</u>

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Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The standards are summarised as follows:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associate
GRAP 8 Interests in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economics
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the reporting date
GRAP 16 Investment Property
GRAP 17 Property, Plant and Equipment (PPE)
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations
GRAP 101 Agricultural
GRAP 102 Intangible assets
GAMAP 9 Revenue from Government Grants
IGRAP 1 Applying the Probability Test on Initial Recognition of Exchange Revenue
IPSA 20 Related Party Disclosures
IFRS 7 Financial Instruments: Disclosure
IAS 19 Employee Benefits
IAS 32 Financial Instruments: Presentation
IAS 36 Impairment of Assets
IAS 39 Financial Instruments: Recognition and Measurement

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18	Segment Reporting
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions
GRAP 24	Presentation of budget information
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash-generating Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These accounting policies are consistent with the previous period, except for the changes set out in the note of "Changes in accounting policy."

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

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management has made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating surplus note.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

1.2 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all

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Accounting Policies

1.2 Inventories (continued)

inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

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

Initial measurement

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand-by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand-by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Subsequent measurement

Property, plant and equipment are depreciated on a straight line basis over their expected useful lives to their estimated residual value. Land is not depreciated as it is deemed to have an indefinite useful life.

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

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant different and a useful life that is significantly different in relation to the total cost and useful life of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of

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Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit.
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities at fair value through surplus or deficit.
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

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

Financial instruments are measured initially at fair value.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

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Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit exclude dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Trade and other receivables

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Accounting Policies

1.4 Financial instruments (continued)

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

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

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

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Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.4 Financial instruments (continued)

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 Leases

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

Finance leases - lessee

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

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between finance cost and capital repayment using the effective interest rate method. The accounting policies relating to derecognition of financial instrument are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful or the lease term.

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.6 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits are recognised in the period in which the service is rendered and are not discounted.

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.6 Employee benefits (continued)

Defined contribution plans

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

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

1.7 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.8 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.8 Revenue from exchange transactions (continued)

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

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

Rendering of services

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

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

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

Interest

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbusement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.9 Revenue from non-exchange transactions (continued)

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.10 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.11 Comparative figures

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

1.12 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.13 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of this Act.

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

1.15 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Accounting Policies

1.16 Offsetting

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

1.17 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.

1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 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.

1.21 Investments

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.

1.22 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipalities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
2. Inventories		
Game	13,000	35,000
Stationery	37,942	-
	50,942	35,000
3. Trade receivables from exchange transactions		
Gross balances		
Electricity	1,387,567	1,021,739
Housing rental	2,954,896	2,393,482
Unallocated debtors receipts	(1,285,337)	-
Refuse	14,451,506	12,559,230
Sewerage	19,627,322	17,056,409
Water	14,406,481	12,043,307
Payments in advance	-	(3,183,736)
Cash control account	-	(2,031,651)
	51,542,435	39,858,780
Less: Provision for debt impairment		
Electricity	(405,473)	-
Housing rental	(3,066,271)	(2,353,725)
Refuse	(14,291,920)	(12,308,837)
Sewerage	(19,405,038)	(16,708,600)
Water	(13,985,940)	(11,594,806)
Payments in advance	-	3,183,736
Cash control account	-	2,031,651
	(51,154,642)	(37,750,581)
Net balance		
Electricity	982,094	1,021,739
Housing rental	(111,375)	39,757
Unallocated debtors receipts	(1,285,337)	-
Refuse	159,586	250,393
Sewerage	222,284	347,809
Water	420,541	448,501
	387,793	2,108,199
Electricity		
The detailed age analysis for Electricity debtors is not available. Only the totals have been provided.	982,094	1,021,739
Housing rental		
The detailed age analysis for housing rental debtors is not available. Only the totals have been provided.	(111,375)	69,568
31 - 60 days	-	55,094
61 - 90 days	-	53,705
> 90 days	-	2,215,115
less: provision for debt impairment	-	(2,353,725)
	(111,375)	39,757
Refuse		
The detailed age analysis for refuse debtors is not available. Only the totals have been provided.	159,586	304,260
31 - 60 days	-	484,938
61 - 90 days	-	434,718

Koponong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
3. Trade receivables from exchange transactions (continued)		
> 90 days	-	11,335,314
less: provision for debt impairment	-	(12,308,837)
	159,586	250,393
Sewerage		
The detailed age analysis for sewerage debtors is not available. Only the totals have been provided.	222,284	669,950
31 - 60 days	-	597,490
61 - 90 days	-	469,932
> 90 days	-	15,319,037
less: provision for debt impairment	-	(16,708,600)
	222,284	347,809
Water		
Current (0 -30 days)	420,541	508,480
31 - 60 days	-	484,713
61 - 90 days	-	400,388
> 90 days	-	10,649,726
less: provision for debt impairment	-	(11,594,806)
	420,541	448,501
Reconciliation of debt impairment provision		
Balance at beginning of the year	(42,965,968)	(11,526,559)
Contributions to provision	(14,784,362)	(31,439,409)
Debt impairment written off against provision	6,595,688	-
	(51,154,642)	(42,965,968)
Fair value determination		
Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.		
Unallocated debtors receipts		
Unallocated receipts on service charges at 30 June 2011	(1,285,337)	-

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
4. Other receivables from exchange transactions		
Cash control	957,339	-
Other debtors	6,617,100	5,110,216
Leave debtors	166,285	-
Fair value adjustment	(20,554)	-
Impair for bad debts	(1,356)	(4,810,668)
	7,718,814	299,548

Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.

5. Other receivables from non-exchange transactions

Government grants and subsidies	18,538,902	16,895,598
Unallocated Debtor Receipts	(377,664)	-
Consumer debtor: Rates	15,114,411	12,964,037
Impair for bad debts	(9,873,401)	(10,631,218)
	23,402,248	19,228,417

Consumer debtor: Rates

Gross balance	15,114,411	12,964,037
Less: Provision for debt impairment	(9,873,401)	(10,631,218)
	5,241,010	2,332,819

Rates

The detailed age analysis for Rate debtors is not available. Only the totals have been provided.

Current (0 -30 days)	-	41,900
31 - 60 days	-	427,916
61 - 90 days	-	417,231
> 90 days	-	12,076,990
less: provision for debt impairment	-	(10,631,218)
	5,241,010	2,332,819

Unallocated debtors receipts

	(377,664)	-
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Fair value determination

Normal credit terms of the municipality include a 30 days interest free period. Hence debtors have been fair valued by discounting the balance owing for less than 30 days using a prime interest rate of 9%.

Receivables impaired

In principle it was decided that, if a debtor has any debt older than 120 days, the debtor will probably not pay and the full debtor should be provided. However, there may be cases where the debtor is paying the current debt, but does not have old debt. In principle it was then decided that the debtor will most probably not pay the old debt. Therefore, if a debtor has no

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
5. Other receivables from non-exchange transactions (continued)		
outstanding amounts in the the 60, 90, 120 or 150 day categories, the balance in 180 days is provided.		
6. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Petty cash on hand	16,084	16,084
Short-term deposits	2,660,682	2,373,140
Bank balances	43,516	106,288
Bank overdraft	(4,995,662)	(8,554,282)
	(2,275,380)	(6,058,770)
Current assets	2,720,282	2,495,512
Current liabilities	(4,995,662)	(8,554,282)
	(2,275,380)	(6,058,770)

Cash and cash equivalents pledged as collateral

Investments pledged as security.	1,685,550	-
The municipality will lose its right to the above amount which is a continuing general or colateral security for the bank overdraft not withstanding any intermediate settlement or discharge of its obligations or indebtedness towards the bank		

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2011	30 June, 2010	30 June, 2009	30 June, 2011	30 June, 2010	30 June, 2009
FNB - Business cheque account - 6202 195 027 6	(4,995,663)	(8,609,184)	(4,270,559)	(5,081,402)	(10,272,547)	(5,662,038)
Standard Bank - Business cheque account - 04 191 730 8	22,459	44,601	28,071	22,459	44,601	28,071
ABSA - Business cheque account - 246 014 2140	21,057	61,686	43,178	21,057	61,687	43,178
Post - Bank Current account- 00088133677	221,739	-	-	221,739	-	-
Total	(4,730,408)	(8,502,897)	(4,199,310)	(4,816,147)	(10,166,259)	(5,590,789)

Included in the cashbook balance is outstanding cheques amounting to R85 739 (2010: R1 663 363)

7. Long term debtors

Gariepdam Housing Scheme	6,928	10,819
Less: Current portion transferred to current liabilities	(5,405)	(5,747)
	1,523	5,072

8. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	9,778,673	-	9,778,673	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004	12,488,004	-	12,488,004
Infrastructure	320,361,774	-	320,361,774	289,274,186	-	289,274,186
Community	9,889,170	-	9,889,170	9,888,206	-	9,888,206

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
8. Property, plant and equipment (continued)		
Other property, plant and equipment	9,251,492	8,749,104
Heritage	373,047	373,047
Total	362,142,160	330,551,220

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Land	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004
Infrastructure	289,274,186	31,087,588	320,361,774
Community	9,888,206	964	9,889,170
Other property, plant and equipment	8,749,104	502,388	9,251,492
Heritage	373,047	-	373,047
	330,551,220	31,590,940	362,142,160

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Land	9,778,673	-	9,778,673
Buildings	12,488,004	-	12,488,004
Infrastructure	263,100,962	26,173,224	289,274,186
Community	7,737,810	2,150,396	9,888,206
Other property, plant and equipment	7,649,905	1,099,199	8,749,104
Heritage	373,047	-	373,047
	301,128,401	29,422,819	330,551,220

Pledged as security

Carrying value of assets pledged as security:

Other property, plant and equipment (office equipment)	652,996	652,996
The value of the outstanding lease obligation is R 635 137 (2010 - R 695 893). Refer to note 12.		

9. Consumer deposits

Rates, water and refuse	1,155,390	712,853
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10. Trade and other payables

Trade payables	46,517,695	40,660,065
Bethulie housing projects	14,665	14,665
Bonus accrual	1,338,348	1,218,317
Centlec	5,572,271	447,034
Leave accrual	3,616,358	3,624,104
Debtors payments in advance	1,881,496	-
Unallocated income	-	73,000
	58,940,833	46,037,185

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
11. Long-term liabilities		
Held at amortised cost		
Mangaung 2 This loan is repayable in 3 annual instalments of R 20 034, excluding interest accrued at a rate of 10%, calculated annually.	60,103	80,137
Mangaung 3 This loan is repayable in 14 annual instalments of R 7 766, excluding interest accrued at a rate of 10%, calculated annually.	108,727	116,493
Mangaung 4 This loan is repayable in 4 annual instalments of R 32 238, excluding interest accrued at a rate of 10%, calculated annually.	128,954	161,193
Mangaung 5 This loan is repayable in 12 annual instalments of R 44 689, excluding interest accrued at a rate of 10%, calculated annually.	536,264	580,953
Mangaung 6 This loan is repayable in 13 annual instalments of R 15 304, excluding interest accrued at a rate of 10%, calculated annually.	198,951	214,255
Mangaung 7 This loan is repayable in 13 annual instalments of R 18 101, excluding interest accrued at a rate of 10%, calculated annually.	235,306	253,406
Mangaung 8 This loan is repayable in 12 annual instalments of R 11 634, excluding interest accrued at a rate of 10%, calculated annually.	151,239	151,239
Managaung 9 This loan is repayable in 13 annual instalments of R 24 016, excluding interest accrued at a rate of 10%, calculated annually.	253,793	336,227
Managaung 10 This loan is repayable in 2 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	26,455	39,683
Mangaung 11 This loan is repayable in 2 annual instalments of R 13 228, excluding interest accrued at a rate of 10%, calculated annually.	26,455	39,683
Mangaung 12 This loan is repayable in 14 annual instalments of R 58 419, excluding interest accrued at a rate of 10%, calculated annually.	864,649	876,284
	2,590,896	2,849,553
Non-current liabilities		
At amortised cost	2,332,240	2,590,897
Current liabilities		
At amortised cost	258,656	258,656
	2,590,896	2,849,553

Koponong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Finance lease obligation		
Minimum lease payments due		
- within one year	633,112	550,532
- in second to fifth year inclusive	526,322	1,159,434
	<u>1,159,434</u>	<u>1,709,966</u>
less: future finance charges	(524,297)	(1,014,073)
Present value of minimum lease payments	<u>635,137</u>	<u>695,893</u>
Present value of minimum lease payments due		
- within one year	237,667	236,436
- in second to fifth year inclusive	397,470	459,457
	<u>635,137</u>	<u>695,893</u>
Non-current liabilities	397,470	459,458
Current liabilities	237,667	236,436
	<u>635,137</u>	<u>695,894</u>

The lease term is 3 years and the effective borrowing rate is 9% (2010: 9%). The outstanding lease amount is payable in monthly installment of R 50 852 (2010 - R 44 219)

Interest rates are fixed at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 8.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Arts and craft grant (Dept of Sports and Culture)	500,000	500,000
Communage grant (DBSA)	26,171	26,171
Draught relief grant (COGTA)	-	478,753
Financial management grant	-	202,001
Municipal Infrastructure grant	1,204,038	1,077,674
SITA grant	-	26,227
Sport facilities grant (National Lottery)	301,981	301,981
Survey of erven grant (COGTA)	164,056	164,056
	<u>2,196,246</u>	<u>2,776,863</u>

Movement during the year

Balance at the beginning of the year	2,776,864	2,486,202
Additions during the year	42,567,853	40,831,964
Income recognition during the year	(43,148,471)	(40,541,303)
	<u>2,196,246</u>	<u>2,776,863</u>

The nature and extent of government grants recognised in the annual financial statements is an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for a reconciliation of grants.

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
14. VAT payable		
Tax refunds payables	4,630,285	3,022,931
15. Revenue		
Donations	46,100	-
Fines	129,865	83,955
Government grants & subsidies	117,507,526	102,809,803
Other revenue	2,146,541	2,219,116
Property rates	7,515,084	8,189,656
Rental of facilities & equipment	998,130	1,055,816
Sale of goods	36,449	57,433
Service charges	52,908,021	46,812,349
	181,287,716	161,228,128
The amount included in revenue arising from exchanges of goods or services are as follows:		
Other revenue	2,146,541	2,219,116
Rental of facilities & equipment	998,130	1,055,816
Sale of goods	36,449	57,433
Service charges	52,908,021	46,812,349
	56,089,141	50,144,714
The amount included in revenue arising from non-exchange transactions is as follows:		
Donations	46,100	-
Fines	129,865	83,955
Government grants & subsidies	117,507,526	102,809,803
Property rates	7,515,084	8,189,656
	125,198,575	111,083,414
16. Investment revenue		
Interest revenue		
Bank	94,347	137,106
Fair value adjustments on receivables	161,996	563,173
Interest charged on trade and other receivables	3,407,548	2,274,008
	3,663,891	2,974,287
17. Finance costs		
Bank	233,315	579,495
Fair value adjustments on payables	3,160,602	1,760,017
Finance leases	489,775	84,137
Long-term loans	284,956	310,821
Other interest paid	1,138,476	272,816
	5,307,124	3,007,286

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

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18. Prior period errors

The following errors occurred in relation to the prior financial year which necessitated correction in the current financial year. The errors were corrected retrospectively in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors.

18.1 Caleb Motshabi Stadium:

A stadium was donated during the 2008/2009 financial year by the Xhariep District Municipality to Kopanong Local Municipality. This stadium was not accounted for in the records of the local municipality. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Increase in PPE	R4 070 572
Increase in Accumulated Surplus/(defici	(R4 070 572)

18.2 SAMWU PENSION FUND:

The municipality deducted employees' and employer pension fund contributions in current and prior periods but failed to pay over the funds to the pension fund managers. This resulted in interest being charged on the outstanding balance. As a result, the balance owing per the municipality's records did not agree with the balance owing per the pension fund's records. Creditors were thus understated in the prior financial years. The comparative year has been restated in order to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Accumulated Surplus	R6 905 079
Increase in creditors	(R6 905 079)

18.3 Finance lease obligation:

A finance lease obligation in respect of a lease agreement was outstanding at the end of the previous financial year. The lease agreement had come to an end and hence the liability had to be written off. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Lease Liability	R175 679
Increase in Accumulated Surplus	(R175 679)

18.4 SARS-VAT:

An amount was disclosed as owing to SARS in respect of unpaid output VAT. After an investigation and a VAT reconciliation was performed by SARS, it was found that the municipality had overstated the amount owing. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in VAT Payables	R5 735 808
Increase in Accumulated Surplus	(R5 734 809)

18.5 Health Debtor:

A health debtor was erroneously created in the previous financial year. It was later established that it cannot be claimed from the District Municipality as a service level agreement has not been entered into. The comparative year has been restated to ensure accurate comparison between the financial years. The net effect on the financial statements is as follows:

Decrease in Accumulated Surplus	R 2 012 694
Decrease in Other Receivables from Exchange transactions	(R2 012 693)

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

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18. Prior period errors (continued)

The above changes have resulted in the restatement of accumulated surplus on 01/07/2009. The total prior year error in this regard can be summarised as follows.

Increase in PPE(Note 18.1)	R4 070 571
Increase in salary creditors(Note 18.2)	(R6 905 079)
Decrease in finance lease obligation(Note 18.3)	R175 679
Decrease in VAT payable(Note 18.4)	R5 734 808
Decrease in Health debtors(Note 18.5)	(R2 012 693)
Total	R1 063 287

18.6 Staff cost

Employees were dismissed during during the 2009/2010 financial year. These employees took the municipality to court and at 30/06/2010, the municipality interms of a court order had to pay the affected employees R541 144. This amount was not recognised as a payable and has been corrected. The net effect on the financial statements is as follows:

Increase in staff cost	R541 144
Increase in salary creditors	(R541 144)

18.7 Fruitless and wasteful expenses

During previous financial years, the municipality contributed and deducted pension fund contributions on behalf of its employees. This money was, however, not paid over to the pension fund. Hence, the municipality incurred interest which gave rise to undisclosed fruitless and wasteful expenses. The net effect on the financial statements (Note 38) is as follows:

Interest incurred on and before 30/06/2009	R6 905 079
Interest incurred during the 2009/2010 financial year	R819 832
Total	R7 724 911

18.8 Irregular Expenditure

During the 2009/2010 financial year, a vehicle was acquired from the sole supplier of that brand of vehicles and the payment was recorded as irregular. Also, other irregular expenses were identified after the financial statements (Note 39) were audited and these have been disclosed. These have been corrected and the corresponding amounts restated as follows:

Balance previously reported	R17 996 839
Less payment to John Williams incorrectly included	(R354 128)
Irregular expenses not previously disclosed	R20 594 753
Total	R38 237 464

18.9 Deviations from SCMP

Approved deviations from the municipal Supply Chain Management Policy recorded during the 2009/2010 year were no disclosed in the financial statement (Note 42). This has been corrected and the corresponding amount restated as follows:

Balance originally stated	R0.00
Approved deviations during the year	R541 282
Restated closing balance	R541 282

18.10 Salary creditors

The pension fund creditor amounting to R141 526 was overstated while salary creditors amounting to R888 892 were carried over from the TLC's in error. A council resolution to write down the overstated creditors was passed. These have been corrected and restated as follows:

Kopanong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
18. Prior period errors (continued)		
Decrease in creditors	R1 030 418	
Decrease in general expenses	(R1 030 418)	
18.11 Centlec		
Bulk purchases of the electricity service provider was not accounted for. This has been corrected and the corresponding figures restated as follows:		
Increase in Electricity bulk purchases	R628 321	
Increase trade and other payables	(R628 321)	
18.12 SAMWU Interest		
During 2008/2009 financial year, the municipality contributed and deducted pension fund contributions on behalf of its employees. This money was, however, not paid over to the pension fund. Hence, the municipality incurred interest which was not brought to book. This has been corrected and the net effect of this correction is as follows:		
Increase in General expenses(Interest)	R819 832	
Increase in Salary creditor	(R819 832)	
18.13 Old year cheques cancelled		
Uncredited old year cheques were written back and the effect of the correction is as follows:		
Decrease in bank overdraft	R54 902	
Increase in cash and cash equivalents	R30 137	
Decrease in general expenditure	(R85 039)	
19. Cash generated from operations		
Surplus	32,332,426	1,604,535
Adjustments for:		
Finance costs - Finance leases	489,775	84,137
Debt impairment	14,784,362	46,749,178
Prior year correction	(1,126,861)	-
Changes in working capital:		
Inventories	(15,942)	98,600
Other receivables from exchange transactions	(7,419,266)	-
Other receivables from non-exchange transactions	(4,173,831)	(46,749,178)
Consumer debtors	(13,063,956)	-
Short term portion of long term debtors	342	8,761
Trade and other payables	12,903,648	2,124,953
VAT	1,607,354	8,992,269
Unspent conditional grants and receipts	(580,617)	(648,454)
Consumer deposits	442,537	(2,542,743)
	36,179,971	9,722,058

Kopanong Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
20. Government grants and subsidies		
COGTA grant - paid Auditor General	3,116,871	-
Draught relief COGTA	478,753	398,199
Equitable share	74,403,500	62,268,500
Financial Help: COGTA	4,300,000	6,980,000
Financial management grant	1,402,002	547,999
Library grant	73,000	-
Local Government and Housing	-	84,256
Municipal Infrastructure Grant	30,956,120	29,036,612
Municipal Systems Information Grant	750,000	735,000
SETA Learnership	-	279,754
VAT from capital grants	2,027,280	2,479,483
	117,507,526	102,809,803
Arts and craft grant (Dept. of Sports and Culture)		
Balance unspent at beginning of year	500,000	500,000
Conditions still to be met - remain liabilities (see note 13)		
COGTA grant - paid Auditor General		
Current-year receipts	3,116,871	-
Conditions met - transferred to revenue	(3,116,871)	-
	-	-
Communage grant (DBSA)		
Balance unspent at beginning of year	26,171	26,171
Conditions still to be met - remain liabilities (see note 13)		
Draught relief COGTA		
Balance unspent at beginning of year	478,753	205,316
Current-year receipts	-	671,636
Conditions met - transferred to revenue	(478,753)	(398,199)
	-	478,753
Equitable Share		
In terms of the Constitution of the Republic of South Africa, No. 108 of 1996, this grant is used to subsidise the provision of basic services to indigent community members and to subsidise income. No significant decrease is expected in the level of this grant.		
Financial help (COGTA)		
Current-year receipts	4,300,000	6,980,000
Conditions met - transferred to revenue	(4,300,000)	(6,980,000)
	-	-
Financial management grant		
Balance unspent at beginning of year	202,001	-
Current-year receipts	1,200,000	750,000

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
20. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(1,402,001)	(547,999)
	-	202,001
Library grant		
Current-year receipts	73,000	-
Conditions met - transferred to revenue	(73,000)	-
	-	-
Municipal infrastructure grant		
Balance unspent at beginning of year	1,077,674	4,097,662
Current-year receipts	33,109,764	26,016,624
Conditions met - transferred to revenue	(30,956,120)	(29,036,612)
VAT - Department of Water Affairs	(2,027,280)	-
	1,204,038	1,077,674
Conditions still to be met - remain liabilities (see note 13)		
Municipal systems improvement grant		
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(750,000)	(735,000)
	-	-
Sport facilities grant (National Lottery)		
Balance unspent at beginning of year	301,981	301,981
Conditions still to be met - remain liabilities (see note 13)		
SITA grant		
Balance unspent at beginning of year	26,227	96,000
Current-year receipts	18,219	209,981
Conditions met - transferred to revenue	(44,446)	(279,754)
	-	26,227
Survey of erven (COGTA)		
Balance unspent at beginning of year	164,056	248,312
Conditions met - transferred to revenue	-	(84,256)
	164,056	164,056
Conditions still to be met - remain liabilities (see note 13)		

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
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21. Property rates

Rates received

Rates	7,515,084	8,189,656
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The details of rates levied as per different categories on the valuation roll were not available for the year under review.

Valuations

Church	21,105,000	-
Commercial	100,742,900	135,901,300
Empty site, no tariff and municipal property	37,378,876	1,904,568,550
Hospital	1,458,000	-
Residential	893,717,635	803,738,000
School	43,460,500	-
Small holdings and farms	2,485,374,000	-
State	30,665,000	299,856,500
	3,613,901,911	3,144,064,350

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

22. Service charges

Refuse removal	6,020,613	5,874,556
Sale of electricity	31,130,721	27,401,225
Sale of water	7,465,594	5,389,589
Sewerage and sanitation charges	8,291,093	8,146,979
	52,908,021	46,812,349

23. Bulk purchases

Electricity	22,437,433	17,171,796
Water	16,775,734	12,860,661
	39,213,167	30,032,457

24. Debt impairment

Contributions to debt impairment provision	14,784,362	46,749,178
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Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
25. Employee related costs		
Basic	38,278,721	28,965,148
Bonus	2,906,546	2,093,459
Bonus provision	120,032	142,333
Car allowance	3,405,250	2,494,086
Housing benefits and allowances	115,994	157,894
Medical aid	1,991,580	1,314,798
Other allowances	287,076	881,662
Overtime payments	1,108,935	1,149,273
Pension fund contributions	5,267,244	4,129,443
Leave provision	120,077	2,093,906
Telephone allowance	159,083	140,875
Temporarily workers	-	52,960
UIF	368,786	298,345
	54,129,324	43,914,182
Remuneration of Municipal Manager		
Basic	493,019	415,499
Bonus	41,821	30,166
Acting allowance	5,311	25,055
Travel allowance	302,605	244,296
Cellphone allowance	3,600	6,283
Housing allowance	-	2,447
Contributions to UIF, Medical and Provident Fund	15,180	46,624
	861,536	770,370
Remuneration of Chief Finance Officer		
Basic	502,497	288,653
Bonus	41,643	21,925
Acting allowance	-	33,224
Back pay	-	2,100
Travel allowance	108,441	69,974
Cellphone allowance	-	3,300
Housing allowance	-	7,386
Leave payment	-	10,104
Contributions to UIF, Medical and Provident Fund	1,497	34,460
	654,078	471,126
Remuneration of Head Technical Services		
Basic	382,265	314,742
Bonus	31,868	22,100
Acting allowance	-	33,224
Back pay	-	2,100
Travel allowance	212,390	82,917
Cellphone allowance	-	3,300
Housing allowance	-	6,011
Leave payment	-	10,608
Contributions to UIF, Medical and Provident Fund	33,812	75,102
	660,335	550,104

Kopanong Local Municipality

Annual Financial Statements for the year ended 30 June, 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
25. Employee related costs (continued)		
Remuneration of Head Corporate Services		
Basic	382,419	203,863
Bonus	31,868	33,700
Acting allowance	-	136,144
Back pay	-	2,100
Travel allowance	227,902	66,917
Cellphone allowance	-	900
Housing allowance	-	2,092
Leave payment	-	12,357
Contributions to UIF, Medical and Provident Fund	10,683	46,970
	652,872	505,043
Remuneration of Head Community Services		
Basic	382,380	372,671
Bonus	31,868	29,000
Acting allowance	-	9,015
Back pay	-	2,100
Car allowance	198,850	143,346
Cellphone allowance	-	900
Housing allowance	9,786	9,115
Leave payment	-	7,956
Contributions to UIF, Medical and Provident Fund	29,300	55,476
	652,184	629,579
26. General expenses		
Advertising	86,730	181,384
Audit fees	3,876,726	3,176,578
Bank charges	201,871	262,953
Bloem Water Electricity	3,215,770	3,215,770
Chemicals	3,747,178	4,749,027
Cleaning	22,133	35,974
Commission vendors	1,192,082	611,034
Departmental electricity	5,052,079	3,507,163
Discretionary fund: Council	66,557	64,235
Entertainment	23,340	16,302
Equitable share expenses	1,045,250	1,917,022
Fuel and oil	1,204,201	1,223,602
Functioning Ward Committees	3,350	46,187
General expenses IAS39	(2,727,539)	(2,722,527)
IDP review	40,681	224,201
Industrial Council	23,243	18,717
Insurance	597,321	1,302,623
Interim valuation cost	1,287,633	798,789
Legal fees and relating interest	2,607,167	6,117,864
License fees	37,980	64,164
Membership fees	180,715	105,614
Other expenses	4,124,588	1,207,979
Performance Management System	25,874	492,102
Postage and stamps	12,298	27,219
Printing and stationery	330,834	197,981
Protective clothing	623,556	11,642
Rental expenses	705,484	796,005
Repayment of arrear creditor	798,490	1,024,697
Skills Development Levy	71,087	350,164

Koponong Local Municipality

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Figures in Rand	2011	2010
26. General expenses (continued)		
Software licenses	29,806	296,100
Sports tournament	-	50,000
Subsistence and travelling	735,588	694,568
Telephone and fax	2,009,689	2,015,714
Tools	11,389	21,254
Training	187,730	405,836
Transport and freight	46,127	-
	31,497,008	32,507,937

27. Remuneration of councillors

Mayor and Speaker	1,107,672	1,069,542
Councillors	2,326,464	2,166,117
	3,434,136	3,235,659

In-kind benefits

The Mayor and Speaker are full time employees of the municipality. They are provided with an office and administration support at the cost of the Council

28. Auditors' remuneration

Fees	3,876,726	3,176,578
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29. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Loans and receivables	Total
Trade receivables from exchange transactions	387,793	387,793
Other receivables from exchange transactions	7,718,813	7,718,813
Other receivables from non exchange transactions	23,482,248	23,482,248
Cash and cash equivalents	2,720,282	2,720,282
Long term debtors	6,928	6,928
	34,316,064	34,316,064

2010

	Loans and receivables	Total
Trade receivables from exchange transactions	2,108,199	2,108,199
Other receivables from exchange transactions	299,548	299,548
Other receivables from non-exchange transactions	19,228,417	19,228,417
Cash and cash equivalents	2,495,512	2,495,512
Long term debtors	10,819	10,819
	24,142,495	24,142,495

Kopanong Local Municipality

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30. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial liabilities at amortised cost	Total
Consumer deposits	1,155,390	1,155,390
Trade and other payables	58,940,833	58,940,833
Long-term liabilities	2,590,896	2,590,896
Finance lease obligation	635,137	635,137
Unspent conditional grants	2,196,246	2,196,246
VAT payable	4,630,285	4,630,285
Bank overdraft	4,995,662	4,995,662
	75,144,449	75,144,449

2010

	Financial liabilities at amortised cost	Total
Consumer deposits	712,853	712,853
Trade and other payables	44,373,822	44,373,822
Long-term liabilities	2,849,553	2,849,553
Finance lease obligation	695,894	695,894
Unspent conditional grants	2,776,863	2,776,863
VAT payable	3,022,931	3,022,931
Bank overdraft	10,217,645	10,217,645
	64,649,561	64,649,561

31. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	35,956,366	30,615,270
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Not yet contracted for and authorised by accounting officer

• Property, plant and equipment	15,104,993	51,061,359
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This committed expenditure relates to infrastructure and will be financed by available bank facilities, retained surpluses, loans and government grants.

Kopanong Local Municipality

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32. Contingencies

32.1 Litigation is in process against the municipality relating to disputes with former employees who allege that the municipality unlawfully dismissed them. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as likely. However, it can not be determined at this time when the disputes will be resolved or exactly how much claims and damages the municipality will be required to make. The estimated legal costs amount to R490 000

32.2 The municipality is involved in legal actions regarding the review of arbitration awards with the Labour Court. These legal proceedings originated from retainer agreements that were terminated and the nature of these claims include; reinstatement, salaries from date of termination of employment and interest. Since termination of these retainer agreements, accounts to the value of R 27 033 were tendered. The estimated legal cost of these proceedings is R 490 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.3 An interdict against the awarding of a tender by the municipality was obtained. The nature of the claim include the review of the tender application and the tender amount of R 3 564 354. The estimated legal cost is R 100 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.4 A litigation action against the municipality, relating to a tender awarded by the municipality is in process. In this civil action, the municipality is requested to provide reasons why the plaintiff did not secure a tender to the amount of R 5 707 974. The estimated legal cost is R 100 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

32.5 The municipality is involved in a civil action regarding the claim for damages from the municipality by the plaintiff to the amount of R 1 430 948. The estimated legal cost is R 200 000. The municipality's lawyers and management consider the likelihood of these actions against the municipality being successful as unlikely.

33. Related parties

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

34. Risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2011	Less than 1 year	More than 1 year
Consumer deposits	1,155,390	-
Trade and other payables	53,605,869	-
Long-term liabilities	258,656	2,332,240
Finance lease obligation	237,667	397,470
Unpent conditional grants	1,532,976	-
VAT payable	4,543,786	-
Bank overdraft	5,822,987	-

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Figures in Rand	2011	2010
34. Risk management (continued)	67,157,331	2,729,710
2010		
Consumer deposits	712,853	-
Trade and other payables	39,531,402	-
Long-term liabilities	258,656	2,590,897
Finance lease obligation	236,436	459,458
Unpent conditional grants	2,776,863	-
VAT payable	3,022,931	-
Bank overdraft	10,055,485	-
	56,594,626	3,050,355

Interest rate risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates are minimal

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the municipality to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to notes 3 and 5 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms.

Foreign exchange risk

The municipality does not engage in foreign currency transactions.

Price risk

The municipality is not exposed to price risk.

Kopanong Local Municipality

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Figures in Rand	2011	2010
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35. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business atleast for the next twelve months.

The Municipality is situated in a previous disadvantaged background and the community is not able to pay for services as a high percentage of the population is indigent. The collection rate of consumer debtors is therefore also low. This has resulted in a weak cashflow situation and as a result the municipality is not always able to settle its accounts within 30days. The Municipality does however receive government grants, such as an allocated equitables share grant in terms of the Division of Revenue Act and will therefore be operational as a going concern in the foreseeable future.

36. Events after the reporting date

The municipality has no events after reporting date during the financial year ended 2010/2011.

37. Unauthorised expenditure

Opening balance	70,636,698	12,222,637
Budget overspending	15,915,324	58,414,061
	86,552,022	70,636,698

No criminal or disciplinary steps were taken as a consequence of above expenditure.

38. Fruitless and wasteful expenditure

Opening balance	16,264,044	7,897,645
Prior period error(Note 18.2)	-	6,905,079
Fruitless and wasteful expenditure - current year	3,588,401	641,488
Prior period error(Note 18.7)	-	819,832
	19,852,445	16,264,044

No criminal or disciplinary steps were taken as a consequence of above expenditure.

39. Irregular expenditure

Opening balance	39,092,491	855,027
Add: Irregular Expenditure - current year(Note 18.8)	38,917,831	38,237,464
	78,010,322	39,092,491

No criminal or disciplinary steps were taken as a consequence of above expenditure.

40. In-kind donations and assistance

Property, plant and equipment	46,100	-
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A Toyota Hilux was donated by the Government Garage to the municipality.

Kopanong Local Municipality

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41. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	51,504	385,094
Current year contributions	152,327	-
Amount paid - current year	-	(300,000)
Amount paid - previous years	-	(33,590)
	203,831	51,504
Material losses through criminal conduct		
Theft of speakers at town hall	1,200	-
Audit fees		
Opening balance	1,519,249	409,459
Current year fee	801,768	1,519,249
Amounts paid	(1,500,000)	(409,459)
	821,017	1,519,249
PAYE and UIF		
Opening balance	2,990,156	1,289,512
Current year payroll deductions	4,797,392	3,631,919
Penalties and interest	395,817	455,412
Corrections made	(3,194,309)	(1,042,988)
Amounts paid	(1,756,355)	(1,343,699)
	3,232,701	2,990,156

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41. Additional disclosure in terms of Municipal Finance Management Act (continued)

Pension and Medical Aid Deductions

Opening balance	19,794,620	16,458,770
Current year payroll deductions	13,336,156	7,889,904
Amounts paid	(23,526,978)	(4,554,054)
	9,603,798	19,794,620

VAT

VAT payable	4,630,285	3,022,931
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Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June, 2011:

30 June, 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr. T.X Matwa	465	640	1,105
Mr. J.T. Koyana	527	7,462	7,989
Mr. D. Phepheng	876	5,055	5,931
Mr. A. Rigala	366	1,279	1,645
Mr. S.A. Sola	1,962	13,479	15,441
	4,196	27,915	32,111

30 June, 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M. Khwinani	233	860	1,093
M.J. Ncokwana	307	5,265	5,572
M.P. Mqaliso	242	673	915
M. Matseo	306	481	787
J.T. Koyana	401	11,347	11,748
M.P. Mqaliso	234	878	1,112
	1,723	19,504	21,227

Other non-compliance

Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.

Section 32(2) (a) of the MFMA requires that a municipality recovers unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure- in case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by council. No irregular or fruitless and wasteful expenditure were recovered or certified by the council as irrecoverable and written off.

Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by this section.

Section 62(1)(d) of the MFMA states that the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented. No steps were taken by the municipality to prevent

Kopanong Local Municipality

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41. Additional disclosure in terms of Municipal Finance Management Act (continued)

unauthorised, irregular or fruitless and wasteful expenditure.

In terms of section 65(2)(e) of the MFMA the accounting officer must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Contrary to this requirement, all money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement.

Distribution losses (water)

Number of users - 11 970
Units bought - 4 566 127
Units sold - 1 567 983
Free basic service - 728 856
Units lost on distribution - 2 269 288
Amount of unit losses - R 9 580 579
Units lost in distribution as percentage - 49,7%

Distribution losses (Electricity)

Units bought - 23 658 885
Units sold - 19 196 365
Units lost in distribution - 4 462 520
Amount of unit losses - R2 397 712
Units lost in distribution as a percentage - 18.89%

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that she records the reasons for any deviations and includes a note to the annual financial statements.

Goods and services to the value of R 304 824 (2009/10: R 541 282) were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above.

Kopanong Local Municipality

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43. Comparative between budet and actual information

2011

	Original budget	Revised budget (i.t.o. s28 and s31 of the MFMA)		Final budget	Actual outcome		Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	10,632,676	10,632,676		10,632,676	7,515,084		3,117,592	71 %	71 %
Service charges	50,049,554	50,049,554		50,049,554	52,908,021		(2,858,467)	106 %	106 %
Investment revenue	3,710,185	3,710,185		3,710,185	3,663,891		46,294	99 %	99 %
Transfers recognised - operational	-	-		-	117,507,526		(117,507,526)	DIV/0 %	DIV/0 %
Other own revenue	82,871,605	82,871,605		82,871,605	3,357,085		79,514,520	4 %	4 %
Total revenue (excluding capital transfers and contributions)	147,264,020	147,264,020		147,264,020	184,951,607		(37,687,587)	126 %	126 %
Employee costs	(33,405,856)	(44,863,856)		(44,863,856)	(54,129,324)		9,265,468	121 %	162 %
Remuneration of councillors	(5,103,738)	(5,103,738)		(5,103,738)	(3,434,136)		(1,669,602)	67 %	67 %
Debt impairment	-	-		-	(14,784,362)		14,784,362	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(7,000,000)	-		-	-		-	DIV/0 %	- %
Finance charges	-	-		-	(5,307,124)		5,307,124	DIV/0 %	DIV/0 %
Materials and bulk purchases	(34,926,601)	(34,926,601)		(34,926,601)	(39,213,167)		4,286,566	112 %	112 %
Other expenditure	(66,826,835)	(62,327,755)		(62,327,755)	(35,751,068)		(26,576,687)	57 %	53 %
Total expenditure	(147,263,030)	(147,221,950)		(147,221,950)	(152,619,181)		5,397,231	104 %	104 %
Surplus/(Deficit)	990	42,070		42,070	32,332,426		(32,290,356)	76,854 %	3,265,902 %

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	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Contributions recognised - capital and contributed assets	-	-		-	46,100		(46,100)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	990	42,070		42,070	32,378,526		(32,336,456)	76,963 %	3,270,558 %
Surplus/(Deficit) for the year	990	42,070		42,070	32,378,526		(32,336,456)	76,963 %	3,270,558 %

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Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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