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

General Information

Legal form of entity	Local Municipality (MFMA).
The following is included in the scope of operation	Mafube Municipality is a local municipality performing the functions as set out in the Constitution, (Act no. 105 of 1996) which includes municipal services, infrastructure development and furthering the interests of the community.
Mayoral committee	
Executive Mayor	L.M.D.Ntombela
Councillors	J.E.Sigasa
	J.J.Pretorious
	M. Moloi
	M.M. Sekhoto
	N.E. Xaba
	J.J.Hlongwane
	F.P.Motloung
	M.A.Mosia
	M.J.Moloi
	U.C.Jafta
	W.C.Motloung
	L.S.Kubeka
	P.Motloung
	M.Hadebe
	M.C.Du Plessis
	S.A.Mosia
Grading of local authority	Category B Municipality as defined by the Municipal Structures Act. (Act no. 117 of 1998).
Chief Finance Officer (CFO)	N.N Molefe (Acting)
Accounting Officer	P I Radebe
Registered office	64 JJ Hadebe Street Frankfort 9830
Business address	64 JJ Hadebe Street Frankfort 9830
Postal address	P.O. Box 2 Frankfort 9830
Bankers	ABSA Bank Frankfort
Auditors	Auditor-General (Free State)
Attorneys	Podbielski Mhlambi Inc Claasen Attorneys Richter van der Watt Hennie Venter Attorneys Breytenbach Mavuso Inc

General Information

Roodt Geldenhuys

General Information

Relevant legislation	Municipal FInance Management Act (Act no. 56 of 2003)
	Division of Revenue Act
	The Income Tax Act
	Value Added Tax
	Municipal Structures Act (Act no. 117 of 1998)
	Municipal Systems Act (Act no. 32 of 2000)
	Municipal Planning and Performance Management Regulations
	Water Services Act (Act no. 108 of 1997)
	Housing Act (Act no. 107 of 1997)
	Municipal Property Rates Act (Act no. 6 of 2004)
	Electricity Act (Act no. 41 of 1987)
	Skills Development Levies Act (Act no. 9 of 1999)
	Employment Equity Act (Act no. 55 of 1998)
	Unemployment Insurance Act (Act no. 30 of 1966)
	Basic Conditions of Employment Act (Act no. 75 of 1997)
	Supply Chain Management Regulations, 2005
	Collective Agreements
	Infrastructure grants
	SALBC Leave Regulations

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

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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 he 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 municipality 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.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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 8.

The annual financial statements set out on pages 10 to 62, which have been prepared on the going concern basis, were approved by the Council on 28 October 2011 and were signed on its behalf by:

P I Radebe
Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year one of meetings was held.

Name of member	Number of meetings attended
Mr TL Scholtz (Chairperson) (appointment 09/08/2010)	1
Mr PR Mnisi (appointment 09/08/2010)	1
Ms ZP Zathu (appointment 09/08/2010)	1

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the auditors of the municipality during the year under review. It was however noted that suspense accounts were not cleared on a monthly basis, and that reconciliations were not performed regularly.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the auditors;
- Reviewed the Auditor-General of South Africa's management letter and management’s response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the entities compliance with legal and regulatory provisions;
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

We have met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

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Chairperson of the Audit Committee

Date: ______________________

PRACTICE LOGO

Report of the Auditor General

To the Provincial Legislature of Mafube Local Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Mafube Local Municipality which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 10 to 62.

Responsibility of the for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] and the [Companies Act, 1973 (Act No. 61 of 1973)] [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)] [and section XX of any applicable legislation], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note] [note to the financial statements].

Report of the Auditor General

In my opinion the annual financial statements present fairly, in all material respects, the financial position of Mafube Local Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the PFMA/MFMA (if the entity falls within the scope of the PFMA/MFMA) and Companies Act, 1973 (if the entity falls within the scope of the Companies Act) or section xx of the entity's enabling legislation (if the entity does not fall within the scope of the PFMA/MFMA)].

Auditor-General (Free State)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Date established

The municipality was established in 2001 and obtained its certificate to commence business in the same year.

2. Review of activities

Main business and operations

The municipality is engaged in local municipal service provision and operates principally in South Africa

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 57 796 055 (2010: surplus R 51 006 040).

3. 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.

4. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

5. Accounting Officer's interest in contracts

The accounting officer has no interests in contracts for the year under review.

6. Accounting policies

The annual financial statements were prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

7. Borrowing limitations

In terms of the Articles of association of the municipality, the accounting officer may exercise all the powers of the municipality to borrow money, as he considers appropriate.

8. Non-current assets

Refer to the changesin accounting policy section for changes in the policy relating to the use of non-current assets.

9. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
P I Radebe	South African

10. Secretary

The municipality had no secretary during the year.

Accounting Officer's Report

11. Corporate governance

General

The municipality is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the municipality supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The directors discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Council and Section 57 Managers

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Remuneration

The upper limits of the remuneration of the councillors of the municipality, are determined by the Government Gazette Notice No. 1196,Government Gazette No. 33867, Volume 546, issued on 10 Decmber 2010, and the council will determine the remuneration within the above mentioned limits. The upper limits of the remuneration of the Section 57 Managers of the municipality, are determined by the Council.

Council meetings

The Council has met on 13 separate occasions during the financial year. The Council schedules to meet at least 4 times per annum.

Audit and risk committee

For the current financial year the chairperson of the audit committee was Mr TL Scholtz . The committee met once during the financial year to review matters necessary to fulfil its role.

Internal audit

The municipality has outsourced its internal audit function to Makomota Financial Management Services since 2002. This is in compliance with the Municipal Finance Management Act, 2003.

12. Special resolutions

No special resolutions were passed during the year.

13. Bankers

ABSA Bank Frankfort

14. Auditors

Auditor-General (Free State) will continue in office for the next financial period.

15. Non compliance with applicable legislation

The municipality failed to meet the deadline for the submission of the Annual Financial Statements as prescribed by the MFMA.

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010	
Assets				
Current Assets				
Inventories	8	456 138	389 532	GRAP1.7
Trade and other receivables from exchange transactions	9	15 165 503	12 657 720	GRAP1.7
Consumer debtors	10	16 082 320	36 575 863	Budget fo
Cash and cash equivalents	11	16 635 104	44 724 296	GRAP1.7
		48 339 065	**94 347 411**	
Non-Current Assets				
Property, plant and equipment	4	208 542 470	208 542 470	GRAP1.7
Other financial assets	5	2 310 698	310 690	GRAP1.7
		210 853 168	**208 853 160**	
Total Assets		**259 192 233**	**303 200 571**	
Liabilities				
Current Liabilities				
Operating lease liability	6	467 037	410 061	GRAP1.8
Trade and other payables from exchange transactions	18	29 858 960	20 188 971	GRAP1.7
VAT payable	19	5 649 738	5 786 711	GRAP1
Consumer deposits	20	638 620	1 026 917	Budget fo
Unspent conditional grants and receipts	16	2 200 692	(19 192)	GRAP1.8
Provisions	17	977 263	829 026	GRAP1.7
Current portion of long term liability		134 449	134 449	GRAP1.8
		39 926 759	**28 356 943**	
Non-Current Liabilities				
Other financial liabilities	15	2 139 334	1 791 610	GRAP1.7
Retirement benefit obligation	7	4 409 000	3 685 000	GRAP1.8
		6 548 334	**5 476 610**	
Total Liabilities		**46 475 093**	**33 833 553**	
Net Assets		**212 717 140**	**269 367 018**	
Net Assets				
Accumulated surplus		212 717 140	269 367 018	

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of services		911 332	328 097
Property rates	22	11 951 965	13 087 940
Service charges	23	41 209 584	49 863 755
Rental of facilities and equipment		477 955	304 387
Interest received (trading)		7 418 100	6 858 245
Fines		357 913	152 965
Licences and permits		-	100
Government grants & subsidies	24	63 565 587	62 773 772
Miscellaneous other revenue		212 434	638 019
Other income	25	1 331 589	318 454
Total Revenue		**127 436 459**	**134 325 734**
Expenditure			
Personnel	28	(51 745 707)	(31 704 662)
Remuneration of councillors	29	(4 009 466)	(3 430 159)
Administration	30	-	(1 238 534)
Finance costs	32	(629 740)	(293 000)
Debt impairment	31	(33 769 230)	-
Repairs and maintenance		(9 417 770)	(4 839 110)
Bulk purchases	37	(51 947 539)	(20 050 318)
General Expenses	26	(33 713 062)	(21 763 911)
Total Expenditure		**(185 232 514)**	**(83 319 694)**
(Deficit) surplus for the year		**(57 796 055)**	**51 006 040**

Statement of Changes in Net Assets

Figures in Rand	Capital replacement reserve	Capitalisation reserve	Government grant reserve	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	6 720 724	2 380 323	174 777 871	183 878 918	34 482 054	218 360 972
Adjustments						
Change in accounting policy	(6 720 724)	(2 380 323)	(174 777 871)	(183 878 918)	183 878 918	-
Balance at 01 July 2009 as restated	**-**	**-**	**-**	**-**	**218 360 972**	**218 360 972**
Changes in net assets						
Surplus for the year	-	-	-	-	51 006 040	51 006 040
Total changes	-	-	-	-	51 006 040	51 006 040
Balance at 01 July 2010	**-**	**-**	**-**	**-**	**269 367 018**	**269 367 018**
Changes in net assets						
Surplus for the year	-	-	-	-	(57 796 055)	(57 796 055)
Total changes	-	-	-	-	(57 796 055)	(57 796 055)
Balance at 30 June 2011	**-**	**-**	**-**	**-**	**211 570 963**	**211 570 963**
Note(s)	12	13	14			

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Other cash item		-	33 290 420
Payments			
Finance costs		(629 740)	(293 000)
Other cash item		(26 953 346)	293 000
		(27 583 086)	-
Net cash flows from operating activities	38	**(27 583 086)**	**33 290 420**
Cash flows from investing activities			
Proceeds from sale of financial assets		(2 000 008)	(310 690)
Net cash flows from investing activities		**(2 000 008)**	**(310 690)**
Cash flows from financing activities			
Repayment of other financial liabilities		347 724	1 791 610
Movement in other liability		-	134 449
Net cash flows from financing activities		**347 724**	**1 926 059**
Net increase/(decrease) in cash and cash equivalents		**(29 235 370)**	**34 905 789**
Cash and cash equivalents at the beginning of the year		44 724 296	-
Cash and cash equivalents at the end of the year	11	**15 488 926**	**34 905 789**

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 in accordance with section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003).

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.

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

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the Accounting Standards Board are summarised as follows:

Standard of GRAP	
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 financial statements and accounting for controlled entities
GRAP 7	Investments in associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GAMAP 17	Property, plant and equipment
GAMAP 19	Provisions, contingent liabilities and contingent asset
GRAP 100	Non current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 36 (AC 128)	Impairment of Assets
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash Generating Assets
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 14	The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the above GRAP reporting framework have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierachy approved in Directive 5, as issued by the Accounting Standard Board.
These accounting policies are consistent with the previous period, except for the changes set out in the note in the relevant policy.

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:

1.1 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables/or loans and 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The actuaries determine the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the actuaries made reference to market yields at the balance sheet date of South African long term bonds

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - buildings	30 years

1.2 Investment property (continued)

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in note . The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in note .

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

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.

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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	
• Land	infinite
Buildings	
• Office Buildings	30
Plant and machinery	5
Furniture and fixtures	3-10
Motor vehicles	5
Office equipment	5
IT equipment	3
Computer software	3
Infrastructure	
• Taxi Ranks	20
• Bus Terminals and Shelters	20
• Street Lights	25
Community	
• Recreational centres	30
• Sports and regulated grounds	30
• Outdoor sports facilities	20
• Community halls	30
• Public conveniences	30
Other property, plant and equipment	
• Bins and containers	5-10
• Computer equipment	5
• Computer software (part of computer)	5
• Emergency equipment	5-15
• Other assets	2-30

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 in relation to the total cost 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 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.

1.3 Property, plant and equipment (continued)

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.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into loans and receivables category.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

1.5 Financial instruments (continued)

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, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

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

Subsequent measurement

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

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 .

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the 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.

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

Trade and other receivables are classified as loans and receivables.

1.5 Financial instruments (continued)

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 demand deposits, 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.

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

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

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

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

1.6 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.

1.6 Leases (continued)

Operating leases - lessor

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

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

1.7 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.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying 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.

1.7 Inventories (continued)

Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 8.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.8 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.9 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit valuation method as prescribed by IAS 19.

Actuarial valuations are conducted on an annual basis. Old Mutual conducted Mafube Municipality's valuations for the years 2010 and 2011.

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

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

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

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

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

Accounting Policies

1.11 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.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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.

A provision is used only for expenditures for which the provision was originally recognised.

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.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.11 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.8 and .

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  -a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  -an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Accounting Policies

1.11 Provisions and contingencies (continued)

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in 17.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.12 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.

1.12 Revenue from exchange transactions (continued)

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 services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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.

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

1.13 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.

1.13 Revenue from non-exchange transactions (continued)

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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

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-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.13 Revenue from non-exchange transactions (continued)

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.

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.

1.14 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.

1.15 Investment income

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

1.16 Borrowing costs

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

1.17 Comparative figures

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

1.18 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.

1.19 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.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Accounting Policies

1.20 Irregular expenditure (continued)

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.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.21 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.

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 Internal reserves

Capital replacement reserve (CRR)

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

1.24 Internal reserves (continued)

Capitalisation reserve

On the implementation of GAMAP/GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

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

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

Government grant reserve

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

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

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

1.25 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.26 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.

1.27 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.

1.28 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

Accounting Policies

1.29 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

1.30 Budget information

Municipality 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 municipality 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.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice. This represents a change in accounting framework from IMFO to Generally Recognised Accounting Practice. The aggregate effect of the changes in accounting policy on the annual Financial Statements for the year ended 30 June 2010 are as follows:

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:

Statement of financial position

Capitalisation Reserve		
Previously stated	-	2 380 323
Adjustment	-	(2 380 323)
	-	**-**
Capital Replacement Reserve		
Previously stated	-	6 721 622
Adjustment	-	(6 721 622)
	-	**-**
Government Grant Reserve		
Previously stated	-	174 777 871
Adjustment	-	(174 777 871)
	-	**-**
Accummulated surplus		
Previously stated	-	34 248 456
GRAP Adjustment	-	183 879 771
	-	**218 128 227**

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2010 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's Annual Financial Statements.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2010 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's Annual Financial Statements.

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	694 837	-	694 837	694 837	-	694 837
Buildings	2 682 990	-	2 682 990	2 682 990	-	2 682 990
Plant and machinery	7 914 745	-	7 914 745	7 914 745	-	7 914 745
Furniture and fixtures	1 136 431	-	1 136 431	1 136 431	-	1 136 431
Motor vehicles	8 985 237	-	8 985 237	8 985 237	-	8 985 237
Office equipment	286 955	-	286 955	286 955	-	286 955
IT equipment	1 374 691	-	1 374 691	1 374 691	-	1 374 691
Computer software	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-
Infrastructure	173 035 014	-	173 035 014	173 035 014	-	173 035 014
Community	5 245 233	-	5 245 233	5 245 233	-	5 245 233
Other property, plant and equipment	2 243 913	-	2 243 913	2 243 913	-	2 243 913
Ancillary fleet equipment and security	-	-	-	-	-	-
Artwork	-	-	-	-	-	-
Other equipment	-	-	-	-	-	-
Asset found	-	-	-	-	-	-
Bins and containers	-	-	-	-	-	-
Capital work in progress	-	-	-	-	-	-
Communication equipment	70 865	-	70 865	70 865	-	70 865
Fare collection equipment	-	-	-	-	-	-
Spare parts	-	-	-	-	-	-
Stage equipment	-	-	-	-	-	-
Wastewater network	-	-	-	-	-	-
Water network	-	-	-	-	-	-
Leased infrastructure	-	-	-	-	-	-
Heritage	-	-	-	-	-	-
Housing development fund	4 871 559	-	4 871 559	4 871 559	-	4 871 559
Total	**208 542 470**	**-**	**208 542 470**	**208 542 470**	**-**	**208 542 470**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Total**
Land	694 837	694 837
Buildings	2 682 990	2 682 990
Leasehold property	-	-
Plant and machinery	7 914 745	7 914 745
Furniture and fixtures	1 136 431	1 136 431
Motor vehicles	8 985 237	8 985 237
Office equipment	286 955	286 955
IT equipment	1 374 691	1 374 691
Infrastructure	173 035 014	173 035 014
Community	5 245 233	5 245 233
Other property, plant and equipment	2 243 913	2 243 913
Communication equipment	70 865	70 865
Housing development fund	4 871 559	4 871 559
	208 542 470	**208 542 470**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Total
Land	694 837	694 837
Buildings	2 682 990	2 682 990
Leasehold property	-	-
Plant and machinery	7 914 745	7 914 745
Furniture and fixtures	1 136 431	1 136 431
Motor vehicles	8 985 237	8 985 237
Office equipment	286 955	286 955
IT equipment	1 374 691	1 374 691
Computer software	-	-
Infrastructure	173 035 014	173 035 014
Community	5 245 233	5 245 233
Other property, plant and equipment	2 243 913	2 243 913
Capital work in progress	-	-
Communication equipment	70 865	70 865
Housing development fund	4 871 559	4 871 559
	208 542 470	**208 542 470**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment with a carrying value of R 208 542 470 (2010: R 208 542 470) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Due to initial adoption of GRAP 17

	2011	2010
Property, plant and equipment	208 542 470	208 542 470

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municipality has appointed a suitably qualified consultant to perform a complete valuation of property plant and equipment, at the date of the presentation of the draft Annual Financial Statements to the Auditor General, the process of valuing PPE was still in progress.

The balances per the Fixed Asset Register differ from the balances in the financial statements. This is due to the verification, valuation and recording of the assets that is still in progress.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

5. Other financial assets

	2011	2010
Available-for-sale		
Other financial assets	2 310 698	310 690
Non-current assets		
Available-for-sale	2 310 698	310 690

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Operating lease asset (accrual)

Current liabilities	(467 037)	(410 061)

Figures in Rand	2011	2010

7. Employee benefit obligations

Post retirement medical aid plan

Mafube has a post employment medical aid fund for its current pensioners, where the employer subsidy policy is 60% of the total contribution payable for the principal member and spouse where applicable, until the time of death of the principal member.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the defined benefit obligation	(3 685 000)	(3 392 000)
Actuarial loss recognised	(423 000)	-
Interest cost	(301 000)	(293 000)
Net liability	**(4 409 000)**	**(3 685 000)**

The fair value of plan assets includes:

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3 685 000	-
Net expense recognised in the statement of financial performance	724 000	3 685 000
Closing balance	**4 409 000**	**3 685 000**

Net expense recognised in the statement of financial performance

Current service cost	-	3 392 000
Interest cost	301 000	293 000
Actuarial (gains) losses	423 000	-
Total included in employee related costs	**724 000**	**3 685 000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	423 000	-

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8,80 %	9,20 %
Medical Inflation Rate	7,50 %	7,60 %

Mortality of continuation members is in accordance with PA (90) ultimate male and female tables.

The valuation is based on the Projected Unit Credit valuation method, as prescribed by IAS 19.

General increases to the employer's medical aid subsidy take into account the estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

The inflation rate has been determined by refernce to market yields at the balance sheet date of long term bonds.

The medical inflation pemium has been set based on past experience for the industry.

The discount rate has been determined by reference to market yields at the balance sheet date of South African long -term bonds. The rate of 8.8% (2010: 9.2%) is the yield on the R186 government bond as at 30 June 2011.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	29 000	15 000
Effect on defined benefit obligation	(315 000)	368 000

Amounts for the current and previous four years are as follows:

	2011 R	2010 R	2009 R	2008 R	2007 R
Defined benefit obligation	4 409 000	3 685 000	-	-	-

8. Inventories

	2011	2010
Consumable stores	456 138	389 532
Water	-	-
Stores, materials and fuels	-	-
	456 138	**389 532**

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain inventories with a carrying value of R 456 138 (2010: R 389 532) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

The municipality is currently in the process of identifying all inventory which must be measured in terms of GRAP 12.

Consumable stores	456 138	389 532

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Trade and other receivables from exchange transactions

Other debtors	235 912	-

Reconciliation of provision for impairment of trade and other receivables

10. Consumer debtors

Gross balances		
Rates	103 805 427	86 563 762
Business service levies	(3 965 979)	-
	99 839 448	**86 563 762**
Less: Provision for debt impairment		
Total impairment	(83 757 128)	(49 987 899)
Net balance		
Rates	103 805 427	86 563 762
Business service levies	(3 965 979)	-
Total impairment	(83 757 128)	(49 987 899)
	16 082 320	**36 575 863**
Rates		
Total rates	103 805 427	86 563 762
Business service levies		
Total business services levies	(3 965 979)	-
Consumer debtors		
Total consumer debtors	(83 757 128)	(49 987 899)
Reconciliation of debt impairment provision		
Contributions to provision	(83 757 128)	(49 987 899)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	30 952	22 952
Bank balances	16 604 152	44 701 344
	16 635 104	**44 724 296**
	-	-

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
ABSA BANK - Primary bank account - 405-282-3517	1 935 468	(252 522)	(8 369 253)	36 069 805	44 747 248	(10 238 846)
ABSA BANK - Fixed Deposit Accounts (Call Savings Account) - 990-111-270	9 375	9 375	9 375	9 375	9 413	9 413
Total	**1 944 843**	**(243 147)**	**(8 359 878)**	**36 079 180**	**44 756 661**	**(10 229 433)**

12. Capital replacement reserve

Balance at the beginning of the year	-	6 721 622
Transfer to accummulated surplus	-	(6 721 622)
	-	**-**

13. Capitalisation reserve

Balance at the beginning of the year	-	2 380 323
Transfer to accummulated surplus	-	(2 380 323)
	-	**-**

14. Government grant reserve

Balance at the beginning of the year	-	174 777 871
Transfer to accummulated surplus	-	(174 777 871)
	-	**-**

15. Other financial liabilities

Held at amortised cost		
Development Bank of South Africa	2 139 334	1 791 610
Terms and conditions		

Non-current liabilities		
At amortised cost	2 139 334	1 791 610

Figures in Rand	2011	2010

16. Unspent conditional grants and receipts

Movement during the year

Balance at the beginning of the year	20 221 160	(19 192)
Additions during the year	47 719 243	-
Income recognition during the year	(65 739 711)	-
	2 200 692	**(19 192)**

The nature and extent of government grants recognised in the annual financial statements and 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 for reconciliation of grants from National/Provincial Government.

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

17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Bonus provision	829 026	148 237	977 263

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Bonus provision	-	829 026	829 026

Staff Leave
Staff leave accrues to employees according to the collective bargaining agreement. Provision is made for the full cost of accrued leave at reporting date.

Bonus Provision
Annual bonuses are paid to all municipal staff in their month of birth, excluding section 57 managers. The balance at year - end represents the portion of the annual bonus which has vested with regards to the current salary / leave cycle.

Environmental rehabilitation provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

18. Trade and other payables from exchange transactions

Trade payables	(10 121 967)	(6 475 351)
Payments received in advanced - contract in process	8 507 562	(2 855 569)
Accrued leave pay	2 187 136	1 308 714
Operating lease payables (if immaterial)	-	177 266
Other payables	29 286 229	28 033 911
	29 858 960	**20 188 971**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. VAT payable

Tax refunds payables	5 649 738	5 786 711

20. Consumer deposits

Water	638 620	1 026 917

21. Revenue

Rendering of services	911 332	328 097
Property rates	11 951 965	13 087 940
Service charges	41 209 584	49 863 755
Rental of facilities & equipment	477 955	304 387
Interest received – trading	7 418 100	6 858 245
Fines	357 913	152 965
Licences and permits	-	100
Government grants & subsidies	63 565 587	62 773 772
Miscellaneous other revenue	212 434	638 019
	126 104 870	**134 007 280**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	911 332	328 097
Service charges	41 209 584	49 863 755
Rental of facilities & equipment	477 955	304 387
Interest received – trading	7 418 100	6 858 245
Licences and permits	-	100
Miscellaneous other revenue	212 434	638 019
	50 229 405	**57 992 603**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	11 951 965	13 087 940
Fines	357 913	152 965
Transfer revenue		
Levies	63 565 587	62 773 772
	75 875 465	**76 014 677**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Property rates

Rates received

	13 175 954	13 042 600
Commercial	10 080 465	7 893 183
Small holdings and farms	1 399 879	1 283 281
Less: Income forgone	(12 704 333)	(9 131 124)
	11 951 965	**13 087 940**

Valuations

Residential	1 000 000	-

Valuations on land and buildings are supposed to be performed every 4 years. A valuation was performed in the 2009-2010 financial year. However this valuation was not implemented because the municipality did not follow the requirements of the Municipal Property Rates Act in performing the valuation. The 2003 valuation was used instead.

Different rate are charged for different categories of rate payers. No aaditional rebates were granted to any categories of ratepayers except for the compulsory phasing in of certain rates as contained in the Council's approved Property Rating Policy.

Rates are levied on a monthly basis in 12 equal instalments payable on the 15th of the subsequent month. No interest and collection charges are levied on outstanding rates accounts.

The updated general valuation will be implemented on 01 July 2011.

23. Service charges

Service charges	(18 096 587)	(7 318)
Sale of electricity	28 310 232	27 760 160
Sale of water	13 139 002	7 278 027
Solid waste	14 400	-
Sewerage and sanitation charges	9 129 319	7 716 604
Refuse removal	8 696 948	7 072 806
Other service charges	16 270	43 476
	41 209 584	**49 863 755**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Government grants and subsidies

Finance Management Grant	755 701	-
COGTA	(900 000)	-
Equitable share	56 973 660	42 565 551
Finance Management Grant	2 518 386	-
DME Funds	750 000	735 000
MIG	3 467 840	19 473 221
	63 565 587	**62 773 772**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

MIG

Balance unspent at beginning of year	(19 192)	(20 221 161)
Receipts	(45 480 222)	(31 095 222)
Conditions met - transferred to revenue	45 461 086	51 297 191
	(38 328)	**(19 192)**

INEP

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

INEP

Current-year receipts	8 000 406	-
Conditions met - transferred to revenue	(5 761 386)	-
	2 239 020	**-**

Conditions still to be met - remain liabilities (see note 16).

Provide explanations of conditions still to be met and other relevant information.

25. Other income

Other income	1 331 589	318 454

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. General expenses

Accounting fees	-	1 444 106
Advertising	166 055	81 551
Assessment rates & municipal charges	673 831	3 102 857
Auditors remuneration	2 811 108	4 180 263
Bank charges	769 465	747 575
Cleaning	293 393	32 227
Computer expenses	988 673	173 127
Consulting and professional fees	2 317 217	404 496
Consumables	420 645	296 893
Donations	3 991	10 000
Entertainment	268 742	187 037
Fines and penalties	6 106	-
Insurance	1 053 899	31 332
Community development and training	1 087 144	2 416 322
Conferences and seminars	24 949	496 758
IT expenses	940 207	-
Lease rentals on operating lease	1 274 439	2 338 698
Marketing	-	31 500
Magazines, books and periodicals	31 727	-
Motor vehicle expenses	85 455	62 933
Fuel and oil	1 921 499	1 086 571
Postage and courier	468 591	160 803
Printing and stationery	2 561 323	390 610
Protective clothing	95 173	142 784
Security (Guarding of municipal property)	415 583	22 520
Staff welfare	127 741	122 000
Telephone and fax	1 724 560	803 513
Training	117 817	278 099
Travel - local	956 125	1 011 302
Electricity	-	1 591 356
Water	(142)	76
Refuse	-	27 000
Other expenses	-	3 854
Chemicals	1 203 997	-
Supply chain management system	10 903 749	85 748
	33 713 062	**21 763 911**

27. Operating (deficit) surplus

Operating (deficit) surplus for the year is stated after accounting for the following:

Operating lease charges		
Lease rentals on operating lease		
• Contractual amounts	1 274 439	2 338 698
Employee costs	55 755 173	35 134 821

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Employee related costs

Basic	33 669 706	17 907 547
Bonus	2 601 971	2 105 194
UIF	422 027	204 677
Industrial Council Levy	174 342	66 137
SDL	798 765	172 913
Leave pay provision charge	1 867 115	988 693
Short term benefit	309 286	82 446
Post-employment benefits - Pension - Defined contribution plan	5 580 356	6 522 999
Travel, motor car, accommodation, subsistence and other allowances	188 629	242 275
Overtime payments	1 292 269	345 771
Car allowance	1 566 942	905 826
Housing benefits and allowances	133 337	111 873
Other telephone allowances	18 103	11 977
Medical aid	1 990 655	1 654 292
Other allowances	1 132 204	382 042
	51 745 707	**31 704 662**

Remuneration of municipal manager

Annual Remuneration	285 304	415 904
Travel Allowance	213 978	244 504
Contributions to Pension Funds	171 182	85 517
Contributions to Medical Aid	42 796	3 328
Contributions to UIF	1 497	1 622
Contributions to SDL	7 445	6 598
Cellphone Allowance	-	8 400
Acting Allowance	-	18 636
	722 202	**784 509**

Remuneration of chief finance officer

Annual Remuneration	214 232	346 211
Travel Allowance	135 367	142 561
Contributions to UIF	1 497	1 497
Acting allowance	251 957	44 779
Contributions to SDL	5 569	5 605
	608 622	**540 653**

Technical Services

Annual Remuneration	397 047	329 662
Car Allowance	70 284	70 500
Cellphone Allowance	8 400	8 500
Contributions to Pension Funds	51 096	51 100
Housing Allowance	54 000	54 000
Contributions to Medical Aid	20 400	20 400
Contribution to UIF	1 497	1 497
Contribution to SDL	5 136	5 070
Leave Paid	68 346	-
	676 206	**540 729**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Employee related costs (continued)

Corporate and human resources (corporate services)

Annual Remuneration	255 865	368 864
Travel Allowance	54 149	55 513
Contributions to SDL	5 963	4 248
Contributions to Pension Funds	66 795	76 650
Contributions to Medical Aid	5 451	9 984
Annual bonus	25 738	-
Acting Allowance	269 518	53 859
UIF allowance	624	1 123
Contributions to UIF	1 497	1 497
	685 600	**571 738**

Health, safety and social services (emergency management services)

Annual Remuneration	512 620	425 340
Car Allowance	74 017	74 017
Contributions to Pension Funds	106 522	88 386
Contributions to Medical Aid	13 313	13 313
UIF Allowance	1 497	1 497
Contributions to UIF	1 497	1 497
Contributions to SDL	5 311	4 339
	714 777	**608 389**

29. Remuneration of councillors

Councillors	4 009 466	3 430 159

30. Administrative expenditure

Administration and management fees - third party	-	1 238 534

31. Debt impairment

Debt impairment	33 769 230	-

32. Finance costs

Other interest paid	629 740	293 000

33. Auditors' remuneration

Fees	2 811 108	4 180 263

34. Operating lease

The municipality entered into a lease agreement with Gestetner from 1 October 2008 for a period of 5 years. The lease terms and conditions include:

- an excalation clause of 15 % per annum.
- there are no restrictions imposed by lease arrangements, such as those concerning return of net surplus, return of capital contributions, additional debt and further leasing.

The municipality is however in the process of terminating its lease with Gestetner due to poor service.

Figures in Rand	2011	2010

35. Rental of facilities and equipment

Premises		
Premises	444 915	269 420
Venue hire	33 040	23 667
Other rental income	-	11 300
	477 955	**304 387**

36. Contracted services

37. Bulk purchases

Electricity	39 834 576	9 618 615
Water	12 112 963	8 937 648
Sewer purification	-	1 494 055
	51 947 539	**20 050 318**

38. Cash (used in) generated from operations

(Deficit) surplus	(57 796 055)	51 006 040
Adjustments for:		
Debt impairment	33 769 230	-
Movements in operating lease assets and accruals	56 976	410 061
Movements in retirement benefit assets and liabilities	724 000	3 685 000
Movements in provisions	148 237	829 026
Changes in working capital:		
Inventories	(66 606)	(389 532)
Trade and other receivables from exchange transactions	(2 507 783)	(12 657 720)
Consumer debtors	(13 275 687)	(36 575 863)
Trade and other payables from exchange transactions	9 669 988	20 188 972
VAT	(136 973)	5 786 711
Unspent conditional grants and receipts	2 219 884	(19 192)
Consumer deposits	(388 297)	1 026 917
	(27 583 086)	**33 290 420**

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	12 701 718	12 822 893

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

40. Contingencies

The municipality has the following contingent liabilities:
1) The municipality is in the process of terminating its lease agreement with Gestetner for the rental of office quipment. There is a possibility of settlement fees that to be paid to Gestetner. The settlement fee could however not be quantified. However the municipality is currently in the process of inviting tenders for suppliers to provide them with office equipment who will also carry the settlement fees for the cancellation of lease with Gestetner, if any.

2) The munipality is involved in a matter where the previous Municipal Manager is being charged by the State for Contempt of Court for not complying with a Court Order. The attorneys estimates a total fee of plus or minus R30,000.

Figures in Rand	2011	2010

41. Related parties

Relationships

Accounting Officer	Mr PI Radebe
Acting Chief Financial Officer	Mr NN Molefe
Acting Director of Corporate Services	Mr MS Malindi
Director Land Use and Human Settlement	Ms N Radebe
Director of Community Services	Ms Z Mofokeng

Related party balances

Related party transactions

Key Management and Councillors receive and pay for services on the same terms and conditions as other rate payers.

Compensation to accounting officer and other key management	2011	2010
Short-term employee benefits	5 604 808	1 151 062
Post-employment benefits - Pension - Defined contribution plan	1 110 892	246 274
	6 715 700	**1 397 336**

Key management information

42. Prior period errors

1. Lease liabities amounting to R1,945,730, relating to 2010 and prior years, were not recorded.
2. A bonus provision of R868,574, relating to the 2010 financial year, were not recorded.
3. Grant income for the amounting to R36,067,045, relating to the 2010 financial year was not recorded.
4. Bank and cash teansactions amounting to R29,834,373, relating to the 2010 and prior financial years, were not recorded.
5. A post employment medical aid fund liability amounting to R3,685,000, relating to the 2010 financial year, was not recorded.
6. The 2010 leave accrual, amounting to RR1,181,243, was not recorded.
7. A conditional grant liability from prior years was overstated by R233,000.

The correction of the error(s) results in adjustments as follows:

Statement of financial position	2011	2010
Decrease in trade debtors	-	1 959 609
Increase in bank and cash	-	29 829 998
Increase in lease liability	-	(1 945 730)
Increase in bonus provision	-	(868 574)
Increase in post employment liability	-	(3 685 000)
increase in leave provision	-	(988 693)
Decrease in conditional grant liability	-	233 000
Change in Net Assets	-	(26 708 920)

Statement of Financial Performance	2011	2010
Increase in grant income	-	(36 067 045)
Increase in lease expense	-	1 945 730
Increase in employee cost	-	5 734 817

Figures in Rand	2011	2010

43. 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 businesses,the treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Interest rate risk

As the municipality has an interest-bearing liability, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes by assessing the impact of changes in interest rates.

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

Credit risk

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

Credit risk consists mainly of cash deposits, cash equivalents and trade and other debtors. Trade and other debtors are disclosed net of provisions for impairment. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Credit risk pertaining to trade and other debtors is considered to be high due to a history of non payment and limited follow up procedures by the municipality in the past. 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 enter into arrears, council endovours to collect such accounts by levying of penalty charges, demand for payment, restriction of services and as a last resort handing over of debt for collection.

No trade and other receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carying value disclosed in notes **12** and **13** of the financial statements is an approximation of its fair value. Interest on overdue balances are disclosed at prime lending rate plus **1**% where applicable.

The provision for bad debts was calculated based on the following :
1) 100% of indigents ,
2) 100% on child headed families that did not qualify to receive indigent grants because the property on which they leave on is not registered in their names and
3) 100% on old businesses that are no longer trading and have closed their business

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

Financial instrument	**2011**	**2010**
Trade Receivables Net	39 420 615	49 233 583
Cash and Cash equivalents (favourable balances)	30 661 933	44 724 296

Figures in Rand	2011	2010

43. Risk management (continued)

Foreign exchange risk

The Municipality does not engage in foreign currency transactions.

Price risk

The municipality is not exposed to price risk.

44. 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.

45. Events after the reporting date

No significant events occured after the reporting date:

46. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	2 811 304	7 297 463

47. Irregular expenditure

Opening balance	40 649 285	39 917 770
Add: Irregular Expenditure - current year	1 469 230	731 515
	42 118 515	**40 649 285**

48. In-kind donations and assistance

The municipality did not receive any in - kind donations or assistance during the year under audit.

49. Leases (Effects of transitional provisions)

In accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework, the municipality need not comply with the standard on Leases, until such time as the measurement period in the transitional provision for any of the following Standards of GRAP have expire:

- Construction Contracts
- Inventories
- Investment Property
- Property Plant and Equipments
- Provisions, Contingent Liabilities and Contingent Assets
- Agriculture
- Intangible Assets

50. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

Operating activities		
Actual amount as presented in the budget statement	(27 583 086)	51 131 979
Investing activities		
Actual amount as presented in the budget statement	(2 000 008)	(341 798)

Figures in Rand	2011	2010

50. Reconciliation between budget and cash flow statement (continued)

Financing activities		
Actual amount as presented in the budget statement	347 724	1 926 059
Net cash generated from operating, investing and financing activities	**(29 235 370)**	**52 716 240**

51. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	3 180 263	-
Current year subscription / fee	2 811 108	4 180 263
Amount paid - current year	(1 900 480)	-
Amount paid - previous years	-	(1 000 000)
	4 090 891	**3 180 263**

PAYE and UIF

Opening balance	(1 901 085)	-
Current year subscription / fee	(4 722 876)	-
Amount paid - current year	6 976 171	-
	352 210	**-**

Pension and Medical Aid Deductions

Opening balance	(7 016 472)	-
Current year subscription / fee	(11 343 962)	-
Amount paid - current year	24 439 494	-
	6 079 060	**-**

VAT

VAT payable	5 649 738	5 786 711

VAT is payable/ receivable on the cash basis

52. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	2 139 334	1 791 610

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

53. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

54. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

55. 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 he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

The process that was followed for all procurements between R30,000 and R200,000 made during the financial year under review deviated from the provisions of paragraph 12(1)(d)(i) as stated above.

Notes to the Annual Financial Statements

Figures in Rand

56. Statement of comparative and actual information

2011

	Original budget	Budget adjustments (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	7 490 000	7 490 000	7 490 000	11 951 965	(4 461 965)	160 %	160 %
Service charges	54 763 029	78 984 512	78 984 512	41 209 584	37 774 928	52 %	75 %
Investment revenue	9 000	10 553	10 553	-	10 553	- %	- %
Transfers recognised - operational	89 228 000	89 228 000	89 228 000	60 097 747	29 130 253	67 %	67 %
Other own revenue	-	-	-	10 709 323	(10 709 323)	100 %	100 %
Total revenue (excluding capital transfers and contributions)	**151 490 029**	**175 713 065**	**175 713 065**	**123 968 619**	**51 744 446**	**71 %**	**82 %**
Employee costs	(43 117 649)	(47 185 764)	(47 185 764)	(51 745 707)	4 559 943	110 %	120 %
Remuneration of councillors	(3 929 534)	(4 677 582)	(4 677 582)	(4 009 466)	(668 116)	86 %	102 %
Debt impairment	-	-	-	(33 769 230)	33 769 230	100 %	100 %
Finance charges	-	-	-	(629 740)	629 740	100 %	100 %
Materials and bulk purchases	(37 284 104)	(49 068 104)	(49 068 104)	(51 947 539)	2 879 435	106 %	139 %
Other expenditure	(40 187 529)	(58 365 137)	(58 365 137)	(43 130 832)	(15 234 305)	74 %	107 %
Total expenditure	**(124 518 816)**	**(159 296 587)**	**(159 296 587)**	**(185 232 514)**	**25 935 927**	**116 %**	**149 %**
Surplus/(Deficit)	**26 971 213**	**16 416 478**	**16 416 478**	**(61 263 895)**	**77 680 373**	**(373)%**	**(227)%**

Notes to the Annual Financial Statements

Figures in Rand

56. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (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
Transfers recognised - capital	-	-	-	3 467 840	(3 467 840)	100 %	100 %
Surplus (Deficit) after capital transfers and contributions	**26 971 213**	**16 416 478**	**16 416 478**	**(57 796 055)**	**74 212 533**	**(352)%**	**(214)%**
Surplus/(Deficit) for the year	**26 971 213**	**16 416 478**	**16 416 478**	**(57 796 055)**	**74 212 533**	**(352)%**	**(214)%**

Notes to the Annual Financial Statements

Figures in Rand

56. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (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

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Interest capitalised at 5% p.a Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Loan Stock								
Structured loans								
Funding facility								
Development Bank of South Africa								
	25744	31 December 2018	2 027 522	101 376	-	2 128 898	101 376	-
			2 027 522	**101 376**	**-**	**2 128 898**	**101 376**	**-**
Bonds								
Other loans								
Lease liability								
Annuity loans								
Government loans								
Total external loans								
Development Bank of South Africa			2 027 522	101 376	-	2 128 898	101 376	-
			2 027 522	**101 376**	**-**	**2 128 898**	**101 376**	**-**

Mafube Local Municipality
Mafube Local Municipality
Appendix B
June 2011

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Infrastructure														
Roads, Pavements & Bridges	30 176	-	-	-	-	-	**30 176**	-	-	-	-	-	-	30 176
Transmission & Reticulation	16 396	-	-	-	-	-	**16 396**	-	-	-	-	-	-	16 396
Street lighting	2 975	-	-	-	-	-	**2 975**	-	-	-	-	-	-	2 975
Dams & Reservoirs	63 913	-	-	-	-	-	**63 913**	-	-	-	-	-	-	63 913
Reticulation	300	-	-	-	-	-	**300**	-	-	-	-	-	-	300
Reticulation	46 000	-	-	-	-	-	**46 000**	-	-	-	-	-	-	46 000
	159 760	**-**	**-**	**-**	**-**	**-**	**159 760**	**-**	**-**	**-**	**-**	**-**	**-**	**159 760**
Community Assets														
Community halls	2 683	-	-	-	-	-	**2 683**	-	-	-	-	-	-	2 683
Other	5 756	-	-	-	-	-	**5 756**	-	-	-	-	-	-	5 756
Social rental housing	4 872	-	-	-	-	-	**4 872**	-	-	-	-	-	-	4 872
Buses	221	-	-	-	-	-	**221**	-	-	-	-	-	-	221
	13 532	**-**	**-**	**-**	**-**	**-**	**13 532**	**-**	**-**	**-**	**-**	**-**	**-**	**13 532**

Mafube Local Municipality
Mafube Local Municipality
Appendix B
June 2011

Analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Specialised vehicles														
Other assets														
General vehicles	8 765	-	-	-	-	-	**8 765**	-	-	-	-	-	-	8 765
Computer Equipment	880	-	-	-	-	-	**880**	-	-	-	-	-	-	880
Furniture & Fittings	633	-	-	-	-	-	**633**	-	-	-	-	-	-	633
Office Equipment	93	-	-	-	-	-	**93**	-	-	-	-	-	-	93
Security measures	55	-	-	-	-	-	**55**	-	-	-	-	-	-	55
Other land	1 106	-	-	-	-	-	**1 106**	-	-	-	-	-	-	1 106
Other	23 720	-	-	-	-	-	**23 720**	-	-	-	-	-	-	23 720
	35 252	-	-	-	-	-	**35 252**	-	-	-	-	-	-	**35 252**
Total property plant and equipment														
Infrastructure	159 760	-	-	-	-	-	**159 760**	-	-	-	-	-	-	159 760
Community Assets	13 532	-	-	-	-	-	**13 532**	-	-	-	-	-	-	13 532
Other assets	35 252	-	-	-	-	-	**35 252**	-	-	-	-	-	-	35 252
	208 544	-	-	-	-	-	**208 544**	-	-	-	-	-	-	**208 544**
Agricultural/Biological assets														
Intangible assets														
Investment properties														
Total														
Infrastructure	159 760	-	-	-	-	-	**159 760**	-	-	-	-	-	-	159 760
Community Assets	13 532	-	-	-	-	-	**13 532**	-	-	-	-	-	-	13 532
Other assets	35 252	-	-	-	-	-	**35 252**	-	-	-	-	-	-	35 252
	208 544	-	-	-	-	-	**208 544**	-	-	-	-	-	-	**208 544**

Mafube Local Municipality
Appendix C
June 2011

Segmental analysis of property, plant and equipment as at 30 June 2011

	Cost/Revaluation							Accumulated Depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment deficit Rand	Closing Balance Rand	Carrying value Rand
Municipality														
Executive & Council/Mayor and Council	498 514	-	-	-	-	**-**	**498 514**	-	-	-	-	-	**-**	498 514
Comm. & Social/Libraries and archives	8 892 477	-	-	-	-	**-**	**8 892 477**	-	-	-	-	-	**-**	8 892 477
Sport and Recreation	1 998 023	-	-	-	-	**-**	**1 998 023**	-	-	-	-	-	**-**	1 998 023
Waste Water Management/Sewerage	45 999 552	-	-	-	-	**-**	**45 999 552**	-	-	-	-	-	**-**	45 999 552
Road Transport/Roads	30 175 847	-	-	-	-	**-**	**30 175 847**	-	-	-	-	-	**-**	30 175 847
Water/Water Distribution	64 212 778	-	-	-	-	**-**	**64 212 778**	-	-	-	-	-	**-**	64 212 778
Electricity /Electricity Distribution	19 370 349	-	-	-	-	**-**	**19 370 349**	-	-	-	-	-	**-**	19 370 349
Other/Air Transport	29 484 245	-	-	-	-	**-**	**29 484 245**	-	-	-	-	-	**-**	29 484 245
	200 631 785	**-**	**-**	**-**	**-**	**-**	**200 631 785**	**-**	**-**	**-**	**-**	**-**	**-**	**200 631 785**
Municipal Owned Entities														
Total														
Municipality	200 631 785	-	-	-	-	**-**	**200 631 785**	-	-	-	-	-	**-**	200 631 785
	200 631 785	**-**	**-**	**-**	**-**	**-**	**200 631 785**	**-**	**-**	**-**	**-**	**-**	**-**	**200 631 785**

Mafube Local Municipality
Appendix D
June 2011

Segmental Statement of Financial Performance for the year ended

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
-	5 539 688	(5 539 688)	Executive & Council/Mayor and Council	-	46 443 460	(46 443 460)
64 319 762	27 340 664	36 979 098	Finance & Admin/Finance	61 175 345	40 680 806	20 494 539
-	4 345 113	(4 345 113)	Planning and Development/Economic Development/Plan	-	1 034 834	(1 034 834)
-	1 431 298	(1 431 298)	Comm. & Social/Libraries and archives	-	3 441 520	(3 441 520)
-	348 594	(348 594)	Housing	-	62 753	(62 753)
-	-	-	Public Safety/Police	-	6 994	(6 994)
7 556 395	1 658 289	5 898 106	Environmental Protection/Pollution Control	8 837 641	1 799 039	7 038 602
10 130 034	1 970 319	8 159 715	Waste Water Management/Sewerage	9 134 679	5 192 577	3 942 102
16 873 221	2 144 427	14 728 794	Road Transport/Roads	(4 082 255)	4 432 863	(8 515 118)
7 608 286	20 722 354	(13 114 068)	Water/Water Distribution	20 113 997	28 529 704	(8 415 707)
27 838 037	12 316 226	15 521 811	Electricity /Electricity Distribution	32 680 051	43 470 994	(10 790 943)
-	-	-		-	-	-
134 325 735	**77 816 972**	**56 508 763**		**127 859 458**	**175 095 544**	**(47 236 086)**
			Municipal Owned Entities			
			Other charges			
134 325 735	77 816 972	56 508 763	Municipality	127 859 458	175 095 544	(47 236 086)
134 325 735	**77 816 972**	**56 508 763**	**Total**	**127 859 458**	**175 095 544**	**(47 236 086)**

Mafube Local Municipality
Appendix E(1)
June 2011

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2011 Act. Bal. Rand	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Fees earned	911 331	-	911 331	-	
Property rates	11 951 966	7 490 000	4 461 966	59,6	
Service charges	41 209 586	75 484 512	(34 274 926)	(45,4)	
Rental of facilities and equipment	477 955	250 000	227 955	91,2	
Interest received (trading)	7 418 100	10 553	7 407 547	193,8	
Fines	357 912	250 000	107 912	43,2	
Licences and permits	-	-	-	-	
Government grants & subsidies	63 565 587	89 228 000	(25 662 413)	(28,8)	
Miscellaneous other revenue	212 434	3 000 000	(2 787 566)	(92,9)	
Other income	1 331 589	-	1 331 589	-	
	127 436 460	175 713 065	(48 276 605)	(27,5)	
Expenses					
Personnel	(51 745 713)	(47 185 764)	(4 559 949)	9,7	
Remuneration of councillors	(4 009 466)	(4 677 582)	668 116	(14,3)	
Administration	-	-	-	-	
Finance costs	(629 740)	(850 000)	220 260	(25,9)	
Debt impairment	(33 769 230)	-	(33 769 230)	-	
Repairs and maintenance - General	(9 417 770)	(7 445 000)	(1 972 770)	26,5	
Bulk purchases	(51 947 539)	(49 068 104)	(2 879 435)	5,9	
General Expenses	(33 713 064)	(50 070 137)	16 357 073	(32,7)	
	(185 232 522)	(159 296 587)	(25 935 935)	16,3	
Other revenue and costs					
Net surplus/ (deficit) for the year	(57 796 062)	16 416 478	(74 212 540)	(452,1)	

Mafube Local Municipality
Appendix E(2)
June 2011

Budget Analysis of Capital Expenditure as at 30 June 2011

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Bulk Infrastructure	-	514 108	514 108	**100**	
Villiers Ext- 199 Connections	-	2 369 400	2 369 400	**100**	
Qalabotjha ext-359 Connections	-	3 113 400	3 113 400	**100**	
Bulk Infrastructure- Villiers Transformer	-	3 135 686	3 135 686	**100**	
Bulk Infrastructure - Tweeling Transformer	-	667 406	667 406	**100**	
PMU	-	886 000	886 000	**100**	
Villiers Water Purification Plant	-	6 329 173	6 329 173	**100**	
Namahadi - Water reticulation network	-	3 441 403	3 441 403	**100**	
Namahadi - Roads and stormwater drainage	-	3 884 192	3 884 192	**100**	
Mafahlaneng- Roads and stormwater drainage	-	2 295 986	2 295 986	**100**	
Cornellia - Ntswana Tsatsi - Bucket erradication	-	1 085 232	1 085 232	**100**	
	-	**7 721 986**	**7 721 986**	**100**	
Municipal Owned Entities					
Other charges					

Mafube Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies dela withheld			
		Mar	Jun	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar
MIG	National Treasury	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-	-	-	-	-

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