



Mafube Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2012

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## General Information

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<b>Legal form of entity</b>	An organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	Providing municipal services, infrastructure development and furthering the interests of the local community mainly in the Mafube area.
<b>The following is included in the scope of operation</b>	Area FS205, as a local municipality, as demarcated by the Demarcation Board and indicated in the demarcation map published for FS205.
<b>Grading of local authority</b>	Medium capacity, category B municipality as defined by the Municipal Structures Act, 1998 (Act No. 117 of 1998).
<b>Mayoral committee</b>	
Mayor	Ntombela L M D
Speaker	Moloi T M
Councillors	Du Plessis M C Hadebe M Hlongwane J J Jafta U C Kubeka L S Mosia M A Mosia A S Mofokeng M M Motloun F P Motloun P Motloun W C Pretorius J J Sekhoto M M Sigasa J E Xaba N E
<b>Accounting Officer</b>	Radebe P I
<b>Chief Finance Officer</b>	Molefe N N
<b>Registered office</b>	Municipal Offices 64 JJ Hadebe Street Frankfort Free State
<b>Business address</b>	64 JJ Hadebe Street Frankfort Free State 9830
<b>Postal address</b>	PO Box 2 Frankfort 9830
<b>Bankers</b>	ABSA Bank Limited

# **Mafube Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

## **General Information**

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<b>Auditors</b>	Auditor-General
<b>Attorneys</b>	Nkaiseng Attorneys Podbielski Mhlambi Inc
<b>Debt collector</b>	Richter and Boshoff Attorneys
<b>Enabling legislation</b>	Division of Revenue Act, 2012 (Act No. 5 of 2012) Municipal Finance Management Act, 2003 (Act No. 56 of 2003) Municipal Structures Act, 1998 (Act No. 117 of 1998) Municipal Systems Act, 2000 (Act No. 32 of 2000) Treasury Regulations
<b>Website</b>	<a href="http://www.mafube.gov.za">www.mafube.gov.za</a>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

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

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## Abbreviations

DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SALGA	South African Local Government Association
SARS	South African Revenue Services
VAT	Value Added Tax

# Mafube Local Municipality

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## Accounting Officer's Responsibilities and Approval

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In terms of section 126(1) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), I am responsible for the presentation of these annual financial statements set out on pages 5 to 74, which have been prepared on the going concern basis, were approved by the audit committee on 31 August 2012 and were signed on its behalf below.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 30 of these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution No. 108 of 1996, read with the Remuneration of Public Officer Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.



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Radebe  
Municipal Manager

Frankfort

31 August 2012

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2012.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in providing municipal services as per schedule 5 and 6 of the Constitution, infrastructure development and furthering the interests of the local community mainly in the Mafube area and operates principally in the Free State province.

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.

Deficit of the municipality was R 22,346,402 (2011: deficit R 63,978,040).

### 2. Financial sustainability

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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to source funding for the ongoing operations for the municipality.

Although certain going concern ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2012 (Act No. 5 of 2012).

### 3. Subsequent events

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

### 4. Accounting Officer's interest in contracts

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

### 5. Accounting policies

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and in accordance with section 122(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

### 6. Accounting Officer

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

Name	Nationality
Radebe P I	South African

### 7. Resolution on the valuation roll

At an ordinary council meeting held on the 10 March 2011 it was resolved by Council:

- to abandon the process to complete implementation on 1 July 2009;
- to reverse all property tax levies raised from 1 July 2009;
- to determine 1 November as the date of valuation and
- implement the revised valuation roll with effect 1 July 2011.

# **Mafube Local Municipality**

Annual Financial Statements for the year ended 30 June 2012

## **Accounting Officer's Report**

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### **8. Public Private Partnership (PPP)**

The Municipality entered into a contract with Rural Maintenance (Pty) Ltd who shall have the sole and exclusive responsibility for the management, operation, administration, maintenance and expansion of the electricity network, inclusive of revenue management process as well as the implementation of a regional electrification program.

### **9. Fixed asset management**

The municipality received a negative audit opinion in the prior year and one of the reasons for this opinion relates to fixed assets management.

During the year under review, management initiated a project to address these asset management challenges. These challenges were reported last year by the Auditor-General and management initiated a multi-year project to resolve these challenges.

Phase one of this project, which dealt mainly with verification (existence and completeness) is complete. Part of phase one included the recreation of the fixed asset register to be GRAP compliant. At year end the process of valuing the assets were still underway and should be completed in due course.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Position

Figures in Rand	Notes	2012	2011
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	678,891	725,288
Other financial assets	4	110,848	105,689
Receivables from exchange transactions	5	16,411,342	51,242,180
Consumer debtors	6	53,851,081	18,701,309
Cash and cash equivalents	7	329,930	16,815,381
		<b>71,382,092</b>	<b>87,589,847</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	779,331,545	208,542,470
Intangible assets	9	202,500	531,979
Other financial assets	4	262,945	151,425
		<b>779,796,990</b>	<b>209,225,874</b>
<b>Total Assets</b>		<b>851,179,082</b>	<b>296,815,721</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Current portion of non-current borrowings	11	532,000	239,291
Current portion of finance lease obligation	12	1,220,005	-
Operating leases	13	-	467,037
Payables from exchange transactions	14	132,939,401	67,069,980
VAT payable	15	11,360,675	8,336,887
Consumer deposits	16	684,969	622,996
Unspent conditional grants and receipts	17	4,849,376	2,200,692
Bank overdraft	7	3,124,278	-
		<b>154,710,704</b>	<b>78,936,883</b>
<b>Non-Current Liabilities</b>			
Non-current borrowings	11	1,723,132	1,900,042
Finance lease obligation	12	671,084	-
Retirement benefit obligations	18	11,093,885	9,457,945
Non-current provisions	19	14,001,215	12,904,346
		<b>27,489,316</b>	<b>24,262,333</b>
<b>Total Liabilities</b>		<b>182,200,020</b>	<b>103,199,216</b>
<b>Net Assets</b>		<b>668,979,062</b>	<b>193,616,505</b>
<b>Net Assets</b>			
Accumulated surplus		668,979,062	193,616,505



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

Figures in Rand	Notes	2012	2011
<b>Revenue</b>			
Property rates	22	19,692,267	11,951,965
Service charges	23	65,752,789	43,153,066
Rental of facilities and equipment	24	400,758	477,955
Fines		218,185	357,913
Government grants and subsidies	25	95,188,952	64,465,587
Other income	26	5,457,242	2,894,623
Interest received	27	8,996,936	7,447,128
<b>Total Revenue</b>		<b>195,707,129</b>	<b>130,748,237</b>
<b>Expenditure</b>			
Employee related costs	29	(55,815,420)	(57,293,736)
Remuneration of councillors	30	(5,427,985)	(4,365,842)
Depreciation and amortisation	31	(1,570,909)	(329,479)
Finance costs	32	(8,773,406)	(1,742,143)
Debt impairment	33	(27,799,424)	(33,769,230)
Repairs and maintenance		(14,631,305)	(9,417,770)
Bulk purchases	34	(35,672,450)	(43,640,375)
General expenses	35	(67,515,871)	(43,744,702)
<b>Total Expenditure</b>		<b>(217,206,770)</b>	<b>(194,303,277)</b>
Fair value adjustments	36	(846,761)	(423,000)
<b>Deficit for the year</b>		<b>(22,346,402)</b>	<b>(63,978,040)</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Statement of Changes in Net Assets

Figures in Rand	Capital replacement reserve	Capitalisation reserve	Government grant reserve	Total reserves	Accumulated surplus
Opening balance as previously reported	6,720,724	2,380,323	174,777,871	183,878,918	84,519,488
Adjustments					
Correction of errors	-	-	-	-	(10,803,861)
Change in accounting policy	(6,720,724)	(2,380,323)	(174,777,871)	(183,878,918)	183,878,918
<b>Balance at 01 July 2010 as restated</b>	-	-	-	-	<b>257,594,545</b>
Changes in net assets					
Deficit for the year	-	-	-	-	(63,978,040)
Total changes	-	-	-	-	(63,978,040)
Adjustments					
Correction of errors	-	-	-	-	(17,130,959)
<b>Balance at 01 July 2011</b>	-	-	-	-	<b>193,616,501</b>
Changes in net assets					
Deficit for the year	-	-	-	-	(22,346,402)
Asset transfers	-	-	-	-	497,708,963
Total changes	-	-	-	-	475,362,561
<b>Balance at 30 June 2012</b>	-	-	-	-	<b>668,979,062</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Cash Flow Statement

Figures in Rand	Notes	2012	2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Grants		95,188,952	64,465,587
Interest income		8,996,936	7,418,100
Other receipts		63,402,983	-
		<u>167,588,871</u>	<u>71,883,687</u>
<b>Payments</b>			
Employee costs		(51,906,727)	(57,293,736)
Suppliers		(63,653,660)	(6,946,912)
Finance costs		(8,417,607)	(1,475,415)
Remuneration of Councillors		(5,427,985)	(4,365,842)
		<u>(129,405,979)</u>	<u>(70,081,905)</u>
<b>Net cash flows from operating activities</b>	37	<u><b>38,182,892</b></u>	<u><b>1,801,782</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(30,518,722)	-
Proceeds from sale of financial assets		(116,679)	(257,114)
<b>Net cash flows from investing activities</b>		<u><b>(30,635,401)</b></u>	<u><b>(257,114)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of non-current borrowings		115,799	213,274
Finance lease payments		1,535,290	(266,728)
<b>Net cash flows from financing activities</b>		<u><b>1,651,089</b></u>	<u><b>(53,454)</b></u>
<b>Net increase in cash and cash equivalents</b>		<b>9,198,580</b>	<b>1,491,214</b>
Cash and cash equivalents at the beginning of the year		16,815,381	42,920,198
<b>Cash and cash equivalents at the end of the year</b>	7	<u><b>(2,794,348)</b></u>	<u><b>16,815,381</b></u>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1. Basis of preparation

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, 2003 (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. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

#### 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 presented 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:

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.

#### Receivables and consumer debtors

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

#### Allowance for slow moving, damaged and obsolete stock

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

#### Fair value estimation

The fair value of investment property is based on the market conditions. A valuation is performed on investment property by a professional valuer every five years.

#### 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 19 - Provisions.

#### Useful lives of moveable assets

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

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.1 Transfer of functions between entities under common control (continued)

#### Retirement benefit obligations

The present value of the post retirement benefit 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 include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement benefit 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 make reference to market yields at the year end date of South African long term bonds

Other key assumptions for post retirement benefit obligations are based on current market conditions. Additional information is disclosed in Note 18.

#### Effective interest rate

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

### 1.2 Comparative figures

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

### 1.3 Presentation of currency

These annual financial statements are presented in South African Rand which is the Municipality's functional currency. All financial information has been rounded to the nearest Rand.

### 1.4 Offsetting

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

### 1.5 Inventories

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

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

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

The cost of inventories comprises of all costs of purchase 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 or current replacement cost 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 or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.6 Other financial assets

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.

#### Investments

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

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

Investments other than held-to-maturity debt securities are classified as held for trading and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period.

### 1.7 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

The municipality recognises computer software cost as intangible assets if the costs are clearly associated with an identifiable and unique system controlled by the municipality and have a benefit exceeding one year.

An intangible asset acquired at no or nominal cost, i.e non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

Item	Estimated useful life in years
Computer software	5

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.8 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.

Property, plant and equipment is initially measured at cost.

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.

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, i.e non-exchange transaction, 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.

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.

#### Subsequent cost

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.

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.

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 subsequently carried at cost less accumulated depreciation and any impairment losses.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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	Estimated useful life in years
Vehicles, tractors and trailers	5-7

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.8 Property, plant and equipment (continued)

#### Infrastructure

· Electricity network	20 - 40
· Water network	7-80
· Roads and bridges	7-50
· Sanitation	7-80
· Solid waste - Landfills	15-25
· Storm water	7-50

#### Community

· Cemeteries	15-80
· Livestock facilities	15-80
· Municipal buildings	7-80
· Parks and gardens	7-80
· Sport facilities	7-80
· Housing	7-50

#### Other plant and equipment

· Computer equipment	3-10
· Office equipment	5-7
· Furniture and fixtures	3-10
· Other	3-10

Leased assets	5
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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.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous 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.

Depreciation commences when the asset is ready for its intended use and ceases when the asset is derecognised.

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

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

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.9 Financial instruments (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying');
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;

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### **1.9 Financial instruments (continued)**

- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

#### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets on the trade date.

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# Mafube Local Municipality

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### 1.9 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

### 1.10 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.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

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.

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.

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

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

# Mafube Local Municipality

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## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Mafube Local Municipality

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## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-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.

Non-cash-generating assets are assets other than cash-generating assets.

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.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

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## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

### **1.12 Tax**

#### **Value added tax (VAT)**

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

### **1.13 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.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.



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## Accounting Policies

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### 1.13 Leases (continued)

#### Finance leases - lessee

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

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

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

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

#### 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.

### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for services rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are 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.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for services rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# Mafube Local Municipality

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## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Short-term employee benefits

Short-term employee benefits are 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.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that services:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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 entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

#### Multi-employer plans or State plans

Multi-employer plans are 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 entity that employs the employees concerned.

The entity classifies a multi-employer plan or state plans as a defined contribution plan or a defined benefit plan under the terms of the plan.

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

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Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity 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.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

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## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee services in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee services in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service costs as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements.

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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Annual Financial Statements for the year ended 30 June 2012

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### 1.14 Employee benefits (continued)

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### 1.15 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. A provision is 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 in surplus or deficit.

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

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

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 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 arrangement.

After their initial recognition, contingent liabilities recognised in entity combinations that 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, except in entity combinations. Contingencies are disclosed in note 39.

### 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 are 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 tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounting for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

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 are 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 are 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.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.16 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:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) 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 or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited 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
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) 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; and
- (c) 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 end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.17 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.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.17 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.

#### Interest, royalties and dividends

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

### 1.18 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.18 Revenue from non-exchange transactions (continued)

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality 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 reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### 1.19 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 all 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.

### 1.20 Investment income

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

### 1.21 Borrowing costs

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

### 1.22 Capital commitments

A capital commitment is an agreement to undertake capital expenditure in future, which has not yet become an actual liability. Capital commitments are not recognised only disclosed. Capital commitments are disclosed in note 38.

### 1.23 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.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.24 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 subsequently where recovered, it is accounted for as revenue in the statement of financial performance.

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), 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 subsequently where recovered, it is accounted for as revenue in the Statement of Financial Performance.

### 1.26 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.

### 1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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### 1.28 Public private partnerships (PPP's)

The municipality have the following PPP's:

The municipality appointed Rural Maintenance (Pty) Ltd in respect of management, operation, administration, maintenance and expansion of the municipal network, inclusive of the revenue management process, as well as the implementation of a regional electrification programme ("the project"). Rural will take over the operation of the existing/initial assets ("network assets") and will also install new assets ("investment asset"). Rural will be allowed to commission the electricity generation plant for own generation and sale to consumers ("the public") of electricity. The contract further stipulates the level of service Rural is to adhere to as the contract is a service level agreement. From the takeover date, any loss or profit associated with the project shall be for the account of Rural. The ownership of the network shall remain vested in the Municipality and the Municipality will bear the risk of loss relating to the network and shall ensure there is appropriately insurance cover in that regard. The ownership of the investment assets remains with Rural till the end of the contract.

At the end of the contract, the ownership of the investment assets will transfer to the Municipality. In the event that the contract is terminated by Rural during the term of the agreement, ownership of the investment assets will transfer to the Municipality at no cost to the Municipality (i.e. the assets will become the sole and paid up property of the Municipality). Rural shall pay to the Municipality a monthly royalty for the use of the Network. The amount of the monthly royalty will be based on the bulk use of electricity. The amount of the monthly royalty shall be fixed except with regards to annual rates increases. Rural shall be entitled from takeover date to collect, directly from consumers all monies due for all services rendered and other payments due from consumers (i.e. invoices and statements will be in the name of Rural). However, the charges collected for electricity consumption and related services are regulated and approved by NERSA. All municipal employees associated with electricity distribution shall be seconded to Rural and Rural shall bear responsibility for such employees during the term of the agreement. In the event that the employees are seconded to Rural, Rural shall transfer cost to company amounts to the Municipality for the payment of such employees on a monthly basis.

The agreement shall terminate at the end of the 25th year. The contract can be renegotiated 2 years from expiry of the term. In the event that the Municipality cancels the agreement prior to the 25th period without any material breach, the Municipality will be liable for compensation in respect of all demonstrable losses and damages including but not limited to, loss of future income as well as market-related compensation in respect of the equipment. At any time during the term of the agreement Rural may cancel the agreement by giving 1 years notice to the Municipality, whereupon all equipment will become the sole and exclusive paid-up property of the Municipality.

The municipality accounts for PPP's in accordance with the ASB PPP guideline when it controls the underlying asset. Control over the underlying asset is evidenced by the following:

The municipality controls or regulates the services the private party must provide with the associated asset, to whom it must provide them and at what price;

The municipality controls through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the agreement.

Where the arrangement falls within the scope of the PPP guideline, the municipality applies the following accounting:

The underlying assets in the arrangement are recognised by the municipality;

Any unitary payments made are split between the asset and service element;

The municipality recognises a liability with respect to its obligation to the private entity (in the form of a financial liability where the private party will receive a consideration from the municipality).

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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## 2. New standards and interpretations

### 2.1 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:

Standard/ Interpretation:	Effective date: Years beginning on or after
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April 2011
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April 2011
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April 2011
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April 2011
• IGRAP 6: Loyalty Programmes	01 April 2011
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April 2011
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April 2011
• IGRAP 10: Assets Received from Customers	01 April 2011
• IGRAP 13: Operating Leases – Incentives	01 April 2011
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April 2011
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011
• GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates	01 April 2011
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April 2011
• GRAP 11 (as revised 2010): Construction Contracts	01 April 2011
• GRAP 12 (as revised 2010): Inventories	01 April 2011
• GRAP 13 (as revised 2010): Leases	01 April 2011
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011
• GRAP 16 (as revised 2010): Investment Property	01 April 2011
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April 2011
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011
• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	01 April 2011
• GRAP 105: Transfers of functions between entities under common control	01 April 2011

### 2.2 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 2012 or later periods:

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	Unlikely that the standard will have a material impact.
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	Unlikely that the standard will have a material impact.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Unlikely that the standard will have a material impact.
• GRAP 103: Heritage Assets	01 April 2012	Unlikely that the standard will have a material impact.
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	Unlikely that the standard will have a material impact.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	Unlikely that the standard will have a material impact.
• GRAP 25: Employee benefits	01 April 2013	Unlikely that the standard will have a material impact.
• GRAP 104: Financial Instruments	01 April 2012	Unlikely that the standard will have a material impact.
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	Unlikely that the standard will have a material impact.
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Unlikely that the standard will have a material impact.
• GRAP 107: Mergers	01 April 2014	Unlikely that the standard will have a material impact.
• GRAP 20: Related parties	01 April 2013	Unlikely that the standard will have a material impact.

### 2.3 Standards and interpretations not yet effective or relevant

For reporting periods commencing on or after 1 April 2012, there are six newly effective Standards of GRAP. For financial years ending 30 June 2013 respectively, the following Standards of GRAP should be applied by municipalities:

GRAP 21 Impairment of Non-cash-generating Assets  
 GRAP 23 Revenue from Non-exchange Transactions (Taxes and Transfers)  
 GRAP 24 Presentation of Budget Information in the Financial Statements  
 GRAP 26 Impairment of Cash-generating Assets  
 GRAP 103 Heritage Assets  
 GRAP 104 Financial Instruments.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>3. Inventories</b>		
Consumable stores	390,687	456,138
Water in reservoirs and pipelines	288,204	269,150
	<b>678,891</b>	<b>725,288</b>
Inventories recognised as an expense during the year	62,358	420,645
<b>Inventory pledged as security</b>		
No inventory was pledged as security for any financial liability.		
<b>4. Other financial assets</b>		
<b>Held to maturity</b>		
VKB Agriculture Limited - Members fund	183,610	151,425
The fund arises from awards earned by members based on purchases. Awards do not earn interest or dividends and have a 15 year maturity life and are then transferred to the security shareholders loan.		
VKB Agriculture Limited - Reserves	79,335	-
The reserve arises from special awards allocated to members. Special awards do not earn interest or dividends and have a 15 year maturity life and are then transferred to the security shareholders loan.		
	<b>262,945</b>	<b>151,425</b>
<b>Loans and receivables</b>		
VKB Agriculture Limited - Short term shareholders loan	1,202	1,143
Member loans bears interest at 5% per annum (2011: 5%) and is available on demand.		
VKB Agriculture Limited - Security shareholders loan	104,646	99,546
When the members fund awards mature after 15 years it is transferred to the shareholders loan account. The loan serves as security against the trading account. The loan bears interest at 5% per annum and is payable on demand after settling any outstanding balance on the trade account.		
VKB Agriculture Limited - Membership deposit	5,000	5,000
Membership deposit was paid to open a trading account and become a member. The receivable do not earn interest nor dividends and is repayable when membership is cancelled.		
	<b>110,848</b>	<b>105,689</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>4. Other financial assets (continued)</b>		
<b>Total other financial assets</b>	<b>373,793</b>	<b>257,114</b>
<b>Non-current assets</b>		
Held to maturity	262,945	151,425
<b>Current assets</b>		
Loans and receivables	110,848	105,689
	<b>373,793</b>	<b>257,114</b>

### Held to maturity financial assets

None of the held to maturity financial assets were impaired for the current or prior reporting period.

The maximum exposure to credit risk at the reporting date is the carrying amount of the held to maturity financial assets.

There were no gains or losses realised on the disposal of financial assets in the current or prior reporting period.

### Loans and receivables impaired

None of the loans and receivables were impaired for the current or prior reporting period.

The maximum exposure to credit risk at the reporting date is the fair value of each loan mentioned above. The municipality does not hold any collateral as security.

## 5. Receivables from exchange transactions

Prepaid expense	134,159	-
Other debtors	219,683	28,617,895
Rural Maintenance (Pty) Ltd*	240,682	-
Salary control accounts	15,816,818	10,313,683
Sundry services	-	12,310,602
	<b>16,411,342</b>	<b>51,242,180</b>

### Receivables pledged as security

None of the receivables were pledged as security for any financial liability.

\* The municipality pay the employees seconded to Rural Maintenance (Pty) Ltd and invoice Rural to recover the salary cost.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>6. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	13,297,664	106,490,661
Electricity	6,023,737	1,372,094
Water	37,242,885	575,701
Sewerage	28,028,386	-
Refuse	25,924,687	-
Other	23,861,077	(3,965,979)
Pre-payments received	11,368,853	-
	<b>145,747,289</b>	<b>104,472,477</b>
<b>Less: Provision for debt impairment</b>		
Rates	(9,137,307)	(85,771,168)
Electricity	(4,139,128)	-
Water	(25,150,848)	-
Sewerage	(19,259,321)	-
Refuse	(17,813,793)	-
Other	(16,395,811)	-
	<b>(91,896,208)</b>	<b>(85,771,168)</b>
<b>Net balance</b>		
Rates	4,160,357	20,719,493
Electricity	1,884,609	1,372,094
Water	12,092,037	575,701
Sewerage	8,769,065	-
Refuse	8,110,894	-
Other	7,465,266	(3,965,979)
Pre-payments received	11,368,853	-
	<b>53,851,081</b>	<b>18,701,309</b>
<b>Ageing</b>		
<b>Rates</b>		
Current (0 -30 days)	1,816,764	106,490,661
31 - 60 days	732,488	-
61 - 90 days	705,707	-
91 days +	10,042,705	-
	<b>13,297,664</b>	<b>106,490,661</b>



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>6. Consumer debtors (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	5,658	-
31 - 60 days	8,185	-
61 - 90 days	18,791	-
91 days +	5,991,103	-
Unmetered consumption	-	1,372,094
	<b>6,023,737</b>	<b>1,372,094</b>
<b>Water</b>		
Current (0 -30 days)	3,003,339	-
31 - 60 days	1,567,501	-
61 - 90 days	847,916	-
91 days +	31,183,662	-
Unmetered consumption	640,467	575,701
	<b>37,242,885</b>	<b>575,701</b>
<b>Sewerage</b>		
Current (0 -30 days)	2,121,407	-
31 - 60 days	924,790	-
61 - 90 days	926,050	-
91 days +	24,056,139	-
	<b>28,028,386</b>	-
<b>Refuse</b>		
Current (0 -30 days)	1,924,808	-
31 - 60 days	849,160	-
61 - 90 days	853,847	-
91 days +	22,296,872	-
	<b>25,924,687</b>	-
<b>Other</b>		
Current (0 -30 days)	1,880,434	-
31 - 60 days	884,471	-
61 - 90 days	894,073	-
91 days +	20,202,099	(3,965,979)
	<b>23,861,077</b>	<b>(3,965,979)</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>6. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Residential</b>		
Current (0 -30 days)	8,648,000	-
31 - 60 days	4,054,138	-
61 - 90 days	3,389,523	-
91 days +	94,028,801	-
	<u>110,120,462</u>	<u>-</u>
Less: Provision for debt impairment	(91,189,111)	-
	<u><b>18,931,351</b></u>	<u>-</u>
<b>Business and industrial</b>		
Current (0 -30 days)	1,421,795	-
31 - 60 days	639,852	-
61 - 90 days	606,083	-
91 days +	13,764,271	-
	<u>16,432,001</u>	<u>-</u>
Less: Provision for debt impairment	(67,540)	-
	<u><b>16,364,461</b></u>	<u>-</u>
<b>Municipal and government</b>		
Current (0 -30 days)	682,615	-
31 - 60 days	272,603	-
61 - 90 days	250,778	-
91 days +	5,979,509	-
	<u>7,185,505</u>	<u>-</u>
Less: Provision for debt impairment	(639,557)	-
	<u><b>6,545,948</b></u>	<u>-</u>
<b>Total</b>		
Current (0 -30 days)	10,752,410	-
31 - 60 days	4,966,594	-
61 - 90 days	4,246,384	-
91 days +	113,772,581	-
	<u>133,737,969</u>	<u>-</u>
Unmetered consumption	640,467	-
Pre-payments received	11,368,853	-
	<u><b>145,747,289</b></u>	<u>-</u>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>6. Consumer debtors (continued)</b>		
<b>Less: Provision for debt impairment</b>		
> 365 days	(91,896,208)	(85,771,168)
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(85,771,168)	(52,001,938)
Contributions to provision	(9,455,004)	(33,769,230)
Debt impairment written off against provision	3,329,964	-
	<b>(91,896,208)</b>	<b>(85,771,168)</b>

### Consumer debtors pledged as security

No consumer debtors were pledged as security for any financial liability.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	61,021	30,952
Bank balance	-	16,588,527
Call and short-term deposits	268,909	195,902
Bank overdraft	(3,124,278)	-
	<b>(2,794,348)</b>	<b>16,815,381</b>
Current assets	329,930	16,815,381
Current liabilities	(3,124,278)	-
	<b>(2,794,348)</b>	<b>16,815,381</b>

Combined first Continuous Covering Mortgage Bond (CCMB) for R1,500,000 over erf 150 and 152 Villiers and the remaining extension of erf 915 Frankfort.

The municipality had the following bank accounts

Account number and description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA - Primary cheque account - 40-5282-3517	642,061	1,935,468	(252,522)	(3,124,278)	16,588,527	42,711,023
ABSA - Call account - Savings - 90-9011-1270	55,056	9,679	9,574	55,056	9,679	9,574
ABSA - Call account - Friends of the poor - 92-2961-8782	48,913	28,761	15,463	48,913	28,761	15,463
ABSA - Call account - Operation Hlasela - 92-3238-7538	12,160	11,860	85,781	12,160	11,860	85,781
ABSA - Deposit account - 20-6691-9592	152,780	145,602	138,135	152,780	145,602	138,135
<b>Total</b>	<b>910,970</b>	<b>2,131,370</b>	<b>(3,569)</b>	<b>(2,855,369)</b>	<b>16,784,429</b>	<b>42,959,976</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	-	-	-	2,682,990	-	2,682,990
Communication equipment	-	-	-	70,865	-	70,865
Community	109,719,464	-	109,719,464	5,245,233	-	5,245,233
Furniture and fixtures	-	-	-	1,136,431	-	1,136,431
Housing development fund	-	-	-	4,871,559	-	4,871,559
IT equipment	-	-	-	1,374,691	-	1,374,691
Infrastructure	665,350,851	-	665,350,851	173,035,014	-	173,035,014
Land	-	-	-	694,837	-	694,837
Leased assets	2,596,162	(1,153,850)	1,442,312	-	-	-
Office equipment	-	-	-	286,955	-	286,955
Other plant and equipment	918,436	(51,568)	866,868	2,243,913	-	2,243,913
Plant and machinery	-	-	-	7,914,745	-	7,914,745
Vehicles, tractors and trailers	1,988,062	(36,012)	1,952,050	8,985,237	-	8,985,237
<b>Total</b>	<b>780,572,975</b>	<b>(1,241,430)</b>	<b>779,331,545</b>	<b>208,542,470</b>	<b>-</b>	<b>208,542,470</b>

### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	2,682,990	-	(2,682,990)	-	-
Communication equipment	70,865	-	(70,865)	-	-
Community	5,245,233	-	104,474,231	-	109,719,464
Furniture and fixtures	1,136,431	-	(1,136,431)	-	-
Housing development fund	4,871,559	-	(4,871,559)	-	-
IT equipment	1,374,691	-	(1,374,691)	-	-
Infrastructure	173,035,014	29,403,000	462,912,837	-	665,350,851
Land	694,837	-	(694,837)	-	-
Leased assets	-	-	2,596,162	(1,153,850)	1,442,312
Office equipment	286,955	-	(286,955)	-	-
Other property, plant and equipment	2,243,913	312,947	(1,638,424)	(51,568)	866,868
Plant and machinery	7,914,745	-	(7,914,745)	-	-
Vehicles, tractors and trailers	8,985,237	802,775	(7,799,950)	(36,012)	1,952,050
	<b>208,542,470</b>	<b>30,518,722</b>	<b>541,511,783</b>	<b>(1,241,430)</b>	<b>779,331,545</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 8. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2011

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

#### Pledged as security

No property, plant and equipment was pledged as security for any financial liability. Leased assets are secured by the lessor's charge over the leased assets as set out in note 12.

#### Assets subject to finance lease (Net carrying amount)

Leased assets	1,442,312	-
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### 9. Intangible assets

	2012			2011		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,747,397	(1,544,897)	202,500	1,747,397	(1,215,418)	531,979

#### Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	531,979	(329,479)	202,500

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 9. Intangible assets (continued)

#### Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software	861,459	(329,480)	531,979

#### Pledged as security

No intangible asset was pledged as security for any financial liability.

#### Other information

The capitalised computer software was estimated to have a finite life of 5 years at acquisition. The software is amortised using the straight-line method over a period of 5 years.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 10. Financial assets by category

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

#### 2012

	Loans and receivables	Held to maturity investments	Total
Other financial assets - Current	110,848	-	110,848
Other financial assets - Non-current	-	262,945	262,945
Receivables from exchange transactions	16,411,342	-	16,411,342
Cash and cash equivalents	329,930	-	329,930
Consumer receivables	53,851,081	-	53,851,081
	<b>70,703,201</b>	<b>262,945</b>	<b>70,966,146</b>

#### 2011

	Loans and receivables	Held to maturity investments	Total
Other financial assets - Current	105,689	-	105,689
Other financial assets - Non-current	-	151,425	151,425
Receivables from exchange transactions	51,242,180	-	51,242,180
Cash and cash equivalents	16,815,381	-	16,815,381
Consumer receivables	18,701,309	-	18,701,309
	<b>86,864,559</b>	<b>151,425</b>	<b>87,015,984</b>

### 11. Non-current borrowings

#### Held at amortised cost

DBSA - Loan 61006963	2,255,132	2,139,333
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This loan is from the Development Bank of Southern Africa (DBSA) and repayments are made on a 3 monthly basis. The loan will be redeemed on 31 December 2021 and bears interest at a fixed rate of 5% on the loan and 7% on arrears.

The municipality defaulted on the repayment of the loan number 61000406 during the current and prior reporting period. Loan number 61000406 was rescheduled on 1 March 2012 to loan number 61006963.

#### Non-current liabilities

At amortised cost	1,723,132	1,900,042
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#### Current liabilities

At amortised cost	532,000	239,291
	<b>2,255,132</b>	<b>2,139,333</b>



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>12. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,220,005	-
- in second to fifth year inclusive	315,282	-
	<u>1,535,287</u>	<u>-</u>
Less: future finance charges	(258,095)	-
<b>Present value of minimum lease payments</b>	<u><b>1,277,192</b></u>	<u><b>-</b></u>
<b>Present value of minimum lease payments due</b>		
- within one year	993,070	-
- in second to fifth year inclusive	284,123	-
	<u><b>1,277,193</b></u>	<u><b>-</b></u>
Non-current liabilities	671,084	-
Current liabilities	1,220,005	-
	<u><b>1,891,089</b></u>	<u><b>-</b></u>

It is municipality policy to lease certain photo copier machines and office equipment under finance leases.

The lease term is 5 years and the average effective borrowing rate was 15.5% (2011: 15.5%). Interest rates are fixed at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets to the carrying value of R1,442,312 as per note 8.

### Defaults

The municipality did not default on the repayments during the current and prior reporting period. No terms and conditions were renegotiated.

### 13. Operating leases

-	(467,037)
<u>-</u>	<u>(467,037)</u>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>14. Payables from exchange transactions</b>		
13th Cheque accrual	1,025,851	977,260
Accrued expenses	8,925,987	(35,384)
Accrued leave pay	5,201,775	2,187,136
Department of Water Affairs and Forestry - DWAF	38,864,425	35,205,921
Electricity payable*	2,556,161	-
Eskom	43,300,768	27,259,267
Income received in advance**	7,023,445	-
Other payables	12,160	36,937,479
Pre-payments received from consumer debtors	11,358,853	8,507,562
Trade payables	14,669,976	(43,969,261)
	<b>132,939,401</b>	<b>67,069,980</b>

The Municipality defaulted on the payment of suppliers within legislative 30 days.

\* Being the electricity usage on municipal buildings, street lights, traffic lights and pumps due to the service provider Rural Maintenance (Pty) Ltd.

\*\*The Municipality is receiving an inflow of resources in the form of electricity assets from Rural Maintenance (Pty) Ltd, without having delivered on its portion of the exchange.

### 15. VAT payable

VAT payable	11,360,675	8,336,887
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The Municipality is registered on the cash basis for VAT purposes. This means VAT is only declared once cash is received or actual payment is made.

### 16. Consumer deposits

Electricity and water	684,969	622,996
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There are no guarantees held in lieu of consumer deposits.

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Department of Minerals and Energy grant (DME)	6,144,218	2,239,020
Finance management grant (FMG)	438,602	-
Municipal infrastructure grant (MIG)	(4,352,104)	(38,328)
Municipal systems improvement grant (MSIG)	485,191	-
Other unspent grants and receipts	2,133,469	-
	<b>4,849,376</b>	<b>2,200,692</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 17. Unspent conditional grants and receipts (continued)

See note 25 for detail of grant received from other spheres of government. The amounts will be recognised as revenue when the qualifying expenditure is incurred.

No grants were withheld due to unfulfilled conditions for the current and prior reporting period.

### 18. Retirement benefit obligations

#### Post retirement medical aid plan

The municipality has a post employment medical aid fund for its 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.

#### Long service benefits

The municipality's liability for long-service leave benefits relating to vested leave benefits to which employees may become entitled upon completion of five years's service and every five years thereafter. These leave benefits are in accordance paragraph 11 of the South African Local Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGBC which was signed July 2010.

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

#### Carrying value

Present value of the defined benefit obligations	11,093,885	9,457,945
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These obligations are not a funded arrangement, i.e. no separate assets have been set aside currently to meet these obligations.

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

Opening balance	9,457,945	3,685,000
Benefits paid	(524,635)	-
Net expense recognised in the statement of financial performance	2,160,575	5,772,945
<b>Closing balance</b>	<b>11,093,885</b>	<b>9,457,945</b>

#### Net expense recognised in the statement of financial performance

Current service cost	518,675	-
Past service cost	-	5,048,945
Interest cost	795,139	301,000
Actuarial losses recognised	846,761	423,000
<b>Total included in employee related costs</b>	<b>2,160,575</b>	<b>5,772,945</b>

#### Calculation of actuarial gains and losses

Actuarial losses – Obligations	846,761	423,000
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# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 18. Retirement benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rate	7.77 %	8.50 %
Medical aid inflation rate	6.27 %	7.00 %
Salary inflation rate	5.77 %	6.50 %

Benefit levels, for active members the projected contributions were used at retirement for their current scheme option and for pensioner members their current scheme option as at 1 January 2012.

Retirement age, it has been assumed that both male and female members retire at age 65. No allowance has been made for early retirement either due to ill health or at the option of the member.

Continuation on medical aid at retirement, it was assumed that all surviving members to retirement will continue their medical aid membership in retirement.

Pre retirement, mortality of continuation members and withdrawal rates are in accordance with SA85-90 ultimate male and female tables.

Post retirement, mortality of continuation members and withdrawal rates are in accordance with PA(90) ultimate male and female tables, assuming that there is a 4 year age difference between male and female spouse.

#### Other assumptions

Assumed medical inflation rate has a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed medical aid inflation rate would have the following effects:

	One percentage point increase	One percentage point decrease
Increase in defined benefit obligation	1,011,543	(848,700)
Increase in service cost and interest cost	115,726	(95,429)

The municipality obtained an actuarial valuation for the first time on the post retirement medical aid at 30 June 2010 and for the long service benefits at 30 June 2011.

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

	2012 R	2011 R	2010 R	2009 R	2008 R
Defined benefit obligations	(11,093,885)	(9,457,945)	(3,685,000)	-	-

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 18. Retirement benefit obligations (continued)

#### Defined contribution plan

Included in defined contribution plan information above, are the following plans which are multi-employer funds and are defined benefit plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as a defined benefit plans. The municipality accounted for the following plans as defined contribution plans:

South African Local Authorities Pension Fund (SALA)  
Government Employment Pension Fund (GEPF)

This is in line with the exemption in IAS19 paragraph 30 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

Some employees belong to the South African Local Authorities Pension Fund (SALA). The latest actuarial valuation of the fund was 1 July 2011. The valuation indicated that the fund is in sound financial position. The actuarial valuation state that the fund is currently 96% funded by employer contributions. This has remained stable since the previous valuation date. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation. The total liabilities of the fund are R 7,418 million which are financed by net assets of R 7,110 million.

Some employees belong to the Government Employment Pension Fund (GEPF). The latest actuarial valuation of the fund was 31 March 2010. Statutory valuations are performed every three years. The valuation indicate that the fund is in a sound financial position. The actuarial valuation states that that the funding level has remained at 100%. The total liabilities of the fund are R 801,004 million which are financed by net assets of R 801,004 million.

According to the actuaries it is not possible to report separately for each municipality on these funds, thus the reason for treating the funds as contribution plans in terms of IAS19 paragraph 30.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 19. Non-current provisions

#### Reconciliation of non-current provisions - 2012

	Opening Balance	Discounting	Total
Rehabilitation of landfill sites	12,904,346	1,096,869	14,001,215

#### Reconciliation of non-current provisions - 2011

	Opening Balance	Discounting	Total
Rehabilitation of landfill sites	11,893,406	1,010,940	12,904,346

#### Rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act (Act No. 28 of 2002). The provision has been determined on the basis of a recent independent study. The cost factors derived from the study by a independent firm of consulting engineers have been applied and projected at an annual inflation rate of 6% and discounted to the present value at the average bond rate of 8.5%. The payment dates of total closure and rehabilitation are uncertain.

The Municipality has four active landfill sites as per the asset register:

- Frankfort Landfill;
- Mafahlaneng Landfill (Tweeling);
- Ntshwanatsatsi Landfill (Cornelia) and
- Villiers Landfill.

It has been identified that the landfill sites situated in Cornelia, Frankfort, Tweeling and Villiers are not licensed as required by the National Environmental Management: Waste Act (Act No. 59 of 2008).

### 20. Financial liabilities by category

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

#### 2012

	Financial liabilities at amortised cost	Total
Consumer deposits	684,969	684,969
Current portion of finance lease obligation	1,220,005	1,220,005
Payables from exchange transactions	132,939,400	132,939,400
Bank overdraft	3,124,278	3,124,278
Current portion of non-current borrowings	532,000	532,000
Non-current borrowings	1,723,132	1,723,132
Finance lease obligation	671,084	671,084
	<b>140,894,868</b>	<b>140,894,868</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 20. Financial liabilities by category (continued)

2011

	Financial liabilities at amortised cost	Total
Consumer deposits	622,996	622,996
Payables from exchange transactions	67,069,980	67,069,980
Current portion of non-current borrowings	239,291	239,291
Non-current borrowings	1,900,042	1,900,042
	<b>69,832,309</b>	<b>69,832,309</b>

### 21. Revenue

Fines	218,185	357,913
Government grants and subsidies	95,188,952	64,465,587
Property rates	19,692,267	11,951,965
Rental of facilities and equipment	400,758	477,955
Royalty income	-	-
Service charges	65,752,789	43,153,066
	<b>181,252,951</b>	<b>120,406,486</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	65,752,789	43,153,066
Royalty income	-	-
Rental of facilities and equipment	400,758	477,955
	<b>66,153,547</b>	<b>43,631,021</b>

The amount included in revenue arising from non-exchange transactions is as follows:

<b>Taxation revenue</b>		
Property rates	19,692,267	11,951,965
Fines	218,185	357,913
<b>Transfer revenue</b>		
Levies	95,188,952	64,465,587
	<b>115,099,404</b>	<b>76,775,465</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>22. Property rates</b>		
<b>Rates received</b>		
Residential	13,370,083	13,175,954
Business and industrial	12,516,132	10,080,465
Farms and agriculture	455,566	1,399,879
Income forgone*	(6,649,514)	(12,704,333)
	<b>19,692,267</b>	<b>11,951,965</b>

\* Income forgone can be defined as any income that the Municipality is entitled to by law to levy, but which has subsequently been forgone by way of rebate or remission.

### Valuations

Residential	1,146,230,951	571,146,879
Business and industrial	253,208,402	130,385,000
Municipal and government	35,959,050	13,316,220
Farms and agriculture	559,541,998	445,524,998
Institutional, educational and churches	80,006,090	91,823,000
	<b>2,074,946,491</b>	<b>1,252,196,097</b>

Valuations on land and buildings are performed every 4 years. Supplementary valuations will be done on an annual basis to ensure that the valuation roll is properly maintained. The updated general valuation was done in November 2010 and the valuation roll was implemented on 1 July 2011.

The first R50,000 of the valuation of residential property is exempted from rates.

Rates become due and payable monthly in advance and interest as prescribed by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) will be charged on amounts not paid within 30 days.

From 1 July 2011 the basic rates were adjusted as follows:

R0.008980 on the value of rateable residential property  
R0.052000 on the value of rateable government property  
R0.000505 on the value of agricultural property  
R0.017960 on the value of rateable business property  
R0.044900 on the value of vacant stands

### 23. Service charges

Refuse removal	11,226,219	8,696,948
Sale of electricity	24,249,427	29,765,418
Sale of water	17,099,559	13,643,568
Service charges	804,844	(18,096,587)
Sewerage and sanitation charges	12,357,140	9,129,319
Solid waste	15,600	14,400
	<b>65,752,789</b>	<b>43,153,066</b>



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>24. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	369,610	444,915
Venue hire	31,148	33,040
	<b>400,758</b>	<b>477,955</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>25. Government grants and subsidies</b>		
Department of Minerals and Energy grant (DME)	8,194,397	2,518,386
Department of Water Affairs and Forestry grant (DWAF)	674,790	-
Equitable share	59,347,664	56,973,660
Finance management grant (FMG)	1,011,398	755,701
Government grant (operating) 1	233,963	-
Municipal infrastructure grant (MIG)	25,421,931	3,467,840
Municipal systems improvement grant (MSIG)	304,809	750,000
	<b>95,188,952</b>	<b>64,465,587</b>

### Equitable share

In terms of the Constitution of the Republic of South Africa No. 108 of 1996, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

### Department of Minerals and Energy grant (DME)

Balance unspent at beginning of year	2,239,020	-
Current-year receipts	12,100,000	8,000,406
Conditions met - transferred to revenue	(8,194,397)	(5,761,386)
Other	(405)	-
	<b>6,144,218</b>	<b>2,239,020</b>

Conditions still to be met - remain liabilities (see note 17).

This grant is used to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure. (INEP)

### Department of Water Affairs and Forestry (DWAF)

Current-year receipts	674,790	-
Conditions met - transferred to revenue	(674,790)	-
	<b>-</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 17).

The purpose of the grant is to fund bulk connector and internal infrastructure for water services at a basic level of service.

### Finance management grant (FMG)

Current-year receipts	1,450,000	1,000,000
Conditions met - transferred to revenue	(1,011,398)	(1,000,000)
	<b>438,602</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 17).

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 25. Government grants and subsidies (continued)

The purpose of this grant is to promote and support reforms to financial management and the implementation of the MFMA.

#### Municipal infrastructure grant (MIG)

Balance unspent at beginning of year	(38,328)	(19,192)
Receipts	21,303,000	14,385,000
Conditions met - transferred to revenue	(25,421,931)	(14,404,136)
Other	(194,845)	-
	<b>(4,352,104)</b>	<b>(38,328)</b>

Conditions still to be met - remain liabilities (see note 17).

In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects.

This grant is used to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households.

#### Municipal systems improvement grant (MSIG)

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(304,809)	(750,000)
	<b>485,191</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 17).

The purpose of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government and the Municipal Systems Act, 2000 (Act No. 32 of 2000).

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, 2012 (Act No. 5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming financial years.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>26. Other income</b>		
Auction fees	190,919	502,472
Building plans	56,643	75,667
Cemetery fees	165,705	121,774
Certificates	70,339	46,381
Connection fees	169,875	269,134
Ground gravel and soil	27,862	48,174
Income from agency services*	292,644	-
Licences and permits	1,313	2,952
Meter fees	6,406	49,476
Other income	35,304	10,495
Recoveries - Other	-	16,414
Recoveries - Salary cost**	1,254,972	-
Sundry income	3,171,444	1,738,366
Tender deposits	13,816	13,318
	<b>5,457,242</b>	<b>2,894,623</b>

\* Rural Maintenance (Pty) Ltd electricity addition assets received that were initially recognised as a liability (revenue received in advance) and thereafter recognised as income from agency services over the term of the PPP agreement.

\*\* The municipality pay the employees seconded to Rural Maintenance (Pty) Ltd and invoice Rural to recover the salary cost.

## 27. Investment revenue

<b>Interest revenue</b>		
Cash and cash equivalents	356,116	29,028
Interest charged on trade and other receivables	8,640,820	7,418,100
	<b>8,996,936</b>	<b>7,447,128</b>

## 28. In-kind donations and assistance

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

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>29. Employee related costs</b>		
Acting allowances	571,235	486,703
Basic	34,808,689	33,140,491
Bonus	2,373,476	2,601,971
Car allowance	2,005,739	1,566,942
Housing benefits and allowances	23,606	133,337
Industrial council levy	73,090	84,342
Leave	3,577,403	2,176,402
Medical aid	2,048,346	2,174,615
Other allowances	839,725	645,501
Overtime payments	1,531,343	1,292,269
Pension	5,232,798	5,580,356
Service cost - Retirement benefit obligations	(5,960)	5,048,945
SDL	700,044	798,765
Telephone allowances	5,473	18,103
Travel and subsistence allowances	1,623,090	1,144,754
UIF	407,323	400,240
	<b>55,815,420</b>	<b>57,293,736</b>

### Remuneration of Municipal Manager - Radebe P I

Annual remuneration	296,236	285,304
Back pay	59,059	-
Contributions to SDL	7,032	7,445
Contributions to UIF	1,497	1,497
Contributions to medical aid	42,796	42,796
Contributions to pension funds	171,182	171,182
Travel allowance	213,978	213,978
	<b>791,780</b>	<b>722,202</b>

### Remuneration of Chief Finance Officer - Molefe N N

Acting allowance	215,470	251,957
Annual remuneration	234,383	214,232
Back pay	52,255	-
Contributions to SDL	6,097	5,569
Contributions to UIF	1,497	1,497
Contributions to medical aid	20,024	-
Contributions to pension funds	27,488	-
Travel allowance	113,410	135,367
	<b>670,624</b>	<b>608,622</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 29. Employee related costs (continued)

#### Director Corporate Services - Malindi M S

Acting allowance	210,216	269,518
Back pay	51,650	-
Annual bonus	-	25,738
Annual remuneration	267,400	255,865
Contributions to SDL	6,691	5,963
Contributions to UIF	1,622	1,497
Contributions to medical aid	-	5,451
Contributions to pension funds	34,186	66,795
Leave paid out	44,516	-
Travel allowance	97,476	54,149
UIF allowance	-	624
	<b>713,757</b>	<b>685,600</b>

#### Director Community Services - Mofokeng ZE

Annual remuneration	521,867	512,620
Back pay	49,809	-
Contributions to SDL	7,109	5,311
Contributions to UIF	1,622	1,497
Contributions to medical aid	13,313	13,313
Contributions to pension funds	79,892	106,522
Leave paid out	109,082	-
Travel allowance	74,017	74,017
	<b>856,711</b>	<b>713,280</b>

#### Director Land use and Human Settlement - Radebe NE

Annual remuneration	514,685	505,447
Backpay	53,657	-
Contributions to SDL	6,420	5,886
Contributions to UIF	1,497	1,497
Travel allowance	96,000	96,000
	<b>672,259</b>	<b>608,830</b>

### 30. Remuneration of councillors

Mayor	704,950	-
Speaker	585,272	-
Councillors	4,137,763	4,365,842
	<b>5,427,985</b>	<b>4,365,842</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 30. Remuneration of councillors (continued)

#### In-kind benefits

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

The Mayor has the use of a separate Council owned vehicle for official duties.

### 31. Depreciation and amortisation

Property, plant and equipment	1,241,430	-
Intangible assets	329,479	329,479
	<b>1,570,909</b>	<b>329,479</b>

### 32. Finance costs

Non-current borrowings	115,798	111,812
Trade and other payables	5,876,970	-
Finance leases	355,799	266,728
Cash and cash equivalents	-	51,663
Late payment of taxes	1,327,970	301,000
Interest cost on rehabilitation of landfill sites provision	1,096,869	1,010,940
	<b>8,773,406</b>	<b>1,742,143</b>

### 33. Debt impairment

Contributions to debt impairment provision	6,127,873	33,769,230
Debts reversed*	21,671,551	-
	<b>27,799,424</b>	<b>33,769,230</b>

\*At an ordinary council meeting held on the 10 March 2011 it was resolved by Council to abandon the process to complete implementation of the valuation on 1 July 2009 and to reverse all property tax levies raised from 1 July 2009.

### 34. Bulk purchases

Electricity	32,482,291	39,834,576
Water	3,190,159	3,805,799
	<b>35,672,450</b>	<b>43,640,375</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>35. General expenses</b>		
Administration cost	122	-
Advertising	302,798	166,055
Assets expensed	247,298	28,857
Auditors remuneration	9,448,742	2,811,108
Bank charges	741,185	769,465
Billing charges	450	175,439
Bursaries	380,602	336,044
Chemicals	15,810,885	9,242,011
Cleaning	1,511,777	797,816
Community development and training	19,551,049	9,738,058
Conferences and seminars	144,334	24,949
Consulting and professional fees	2,109,683	817,979
Consumables	62,358	420,645
Donations	50,332	3,991
Electricity	3,934,311	1,455,186
Entertainment	385,561	268,742
Fuel and oil	2,284,021	1,921,499
IT expenses	(362,916)	2,214,646
Insurance	117,554	1,053,899
Integrated development plan (IDP)	413,759	152,823
Legal fees	834,557	1,346,415
Magazines, books and periodicals	48,794	31,727
Motor vehicle expenses	1,484,606	85,455
Other expenses	-	2,706,534
Pauper burials	77,947	87,948
Penalties and interest	46,490	6,106
Policies and by-laws	332,040	498,392
Postage and courier	383,832	468,591
Printing and stationery	1,080,890	2,561,323
Protective clothing	377,923	95,173
Refuse	292,109	-
Security	493,968	415,583
Software expenses	899,233	988,673
Staff welfare	146,455	-
Subscriptions and membership fees	542,381	211,193
Telephone and fax	3,178,655	1,724,560
Training	162,086	117,817
	<b>67,515,871</b>	<b>43,744,702</b>
<b>36. Fair value adjustments</b>		
Actuarial loss on retirement benefit obligations	(846,761)	(423,000)



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>37. Cash generated from operations</b>		
Deficit for the year	(22,346,402)	(63,978,040)
<b>Adjustments for:</b>		
Depreciation and amortisation	1,570,909	329,479
Fair value adjustments	846,761	423,000
Finance costs - Finance leases	355,799	266,728
Debt impairment	27,799,424	33,769,230
Movements in operating lease assets and accruals	(467,037)	56,976
Movements in retirement benefit liabilities	1,635,940	5,772,945
Movements in provisions	1,096,869	12,904,346
Other non-cash items	(15,841,261)	16,653,886
<b>Changes in working capital:</b>		
Inventories	46,397	(335,756)
Receivables from exchange transactions	34,830,838	(10,451,557)
Consumer debtors	(62,949,196)	(11,941,114)
Payables from exchange transactions	65,869,406	15,687,196
VAT	3,023,788	828,500
Unspent conditional grants and receipts	2,648,684	2,219,884
Consumer deposits	61,973	(403,921)
	<b>38,182,892</b>	<b>1,801,782</b>

### 38. Commitments

#### Authorised capital expenditure

#### Already contracted for but not provided for

• Property, plant and equipment	17,622,625	12,701,718
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This committed expenditure relates to plant and equipment and will be financed by available bank and external loan facilities, existing cash resources and unspent government grants and receipts.

### 39. Contingent liabilities

The municipality has the following contingent liabilities:

The municipality was 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 estimated a total claim of R38,930 including legal costs.

The municipality was involved in a matter where an employee has lodged a civil claim for the payment of leave and appraisal bonus for the financial years 2008/09 and 2009/10. The attorneys estimated a total claim of R14,865 including legal costs.

Both matters were finalised and the second matter was lifted with the municipality having to pay the legal costs of the plaintiff.

The Municipality has four active landfill sites. It has been identified that the landfill sites situated in Frankfort, Tweeling, Cornelia and Villiers are not licensed as required by the National Environmental Management: Waste Act, (Act No. 59 of 2008).

In accordance with section 68(1) of the National Environmental Management: Waste Act, (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (g) or (h) is liable to a fine not exceeding R10,000,000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Steps have been taken by the Municipality to obtain the required permits and licenses.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 40. Prior period errors

The following errors relating to prior year were identified in the current period and have been adjusted as indicated below:

- 1.) The year end water inventory estimate of water in pipelines and water in reservoirs amounting to R269,150 were not accounted for in the prior reporting period.
- 2.) The VKB Agriculture Limited investments amounting to R 257,114 and interest on the investments amounting to R 29,028 were not accounted for in the prior reporting period.
- 3.) Computer software purchased with a carrying amount of R 531,979 were incorrectly expensed as software instead of capitalising it as intangible assets. Amortisation on the assets amounting to R 329,479 were also corrected.
- 4.) The landfill site rehabilitation provision amounting to R 12,904,345 and finance cost on the discounting amounting to R 1,010,940 were not accounted for in the prior reporting period.
- 5.) No actuarial valuation of long service awards were performed for in the prior reporting period amounting to R2,509,702 and only 15 continuation members were valued for the post retirement medical aid however the data should contain continuation and in-service members amounting to R 2,539,243.
- 6.) A repayment made of R235,912 on the DBSA loan was incorrectly allocated to the wrong vote number and was not taken into account when balancing the loan to the year end statement.

The correction of the errors results in adjustments as follows:

#### Statement of Financial Position

Increase in inventories	269,150	269,150
Increase in other financial assets	257,114	257,114
Increase in intangible assets	531,979	531,979
Increase in provisions	(12,904,345)	(12,904,345)
Increase in employee retirement benefit obligations	(5,048,945)	(5,048,945)
Increase in non-current borrowings	(235,912)	(235,912)
Decrease in accumulated surplus	17,130,959	10,803,861

#### Statement of Financial Performance

Decrease in bulk purchases	-	(269,150)
Increase in interest received	-	(29,028)
Increase in depreciation and amortisation	-	329,479
Increase in finance cost	-	1,246,852
Increase in employee related costs	-	5,048,945

### 41. Financial sustainability

We draw attention to the fact that at 30 June 2012, the municipality had accumulated deficits of R 668,979,062 and that the municipality's total liabilities exceed its assets by R 668,979,062.

The municipality is experiencing financial difficulties, indicators are as follow:

Suppliers were not paid within the legislative 30 days;  
The municipality defaulted on the repayment of the DBSA non-current borrowings;  
VAT returns were not submitted and paid to SARS on time;  
PAYE, UIF and SDL were not submitted and paid over to SARS on time;  
Statutory deductions from salaries were deducted but not paid over on time and  
Long term employee benefits are unfunded.

The municipality is exploring alternative options to improve it's financial position.

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 41. Financial sustainability (continued)

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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations of the municipality.

Although certain going concern ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2012 (Act No. 5 of 2012).

### 42. Events after the reporting date

No significant events occurred after the reporting date.

### 43. Related parties

Relationships

Members of key management

Members of Council

Refer to general info and employee related costs - Note 29

Refer to general info and remuneration of Councillors - Note 30

### Related party balances

In terms of section 164 (1)(c) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004.

No related party balances were identified for the current and prior reporting period.

### Related party transactions

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

These transactions are recorded at arms length.

### 44. Fruitless and wasteful expenditure

Opening balance	11,274,266	7,297,463
Prior year restatement	-	1,165,498
Fruitless and wasteful expenditure	7,114,662	2,811,305
	<b>18,388,928</b>	<b>11,274,266</b>

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

No fruitless and wasteful expenditure was condoned during the current or previous year.

### Details of fruitless and wasteful expenditure incidents    Disciplinary steps taken / criminal proceedings 2009/10

Arrear interest - DBSA Loan

Report to be submitted to Council, awaiting  
condonement by Council.

13,729

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>44. Fruitless and wasteful expenditure (continued)</b>		
Interest on overdue account - DBSA	Report to be submitted to Council, awaiting condonement by Council.	7,217,711
Interest on overdue account - Eskom	Report to be submitted to Council, awaiting condonement by Council.	66,023
<b>Details of fruitless and wasteful expenditure incidents 2010/11</b>	<b>Disciplinary steps taken / criminal proceedings</b>	
Arrear interest - DBSA Loan	Report to be submitted to Council, awaiting condonement by Council.	31,751
Interest and penalties on late payment of PAYE - SARS	Report to be submitted to Council, awaiting condonement by Council.	537,341
Penalties and interest on late payment of SDL - SARS	Report to be submitted to Council, awaiting condonement by Council.	49,541
Penalties and interest on late payment of UIF - SARS	Report to be submitted to Council, awaiting condonement by Council.	72,762
Interest and penalties on late payment of VAT - SARS	Report to be submitted to Council, awaiting condonement by Council.	38,080
Interest on overdue account - Eskom	Report to be submitted to Council, awaiting condonement by Council.	2,539,387
Interest on overdue account - Steadfast Engineering	Report to be submitted to Council, awaiting condonement by Council.	23,617
Interest on overdue account - Telkom	Report to be submitted to Council, awaiting condonement by Council.	3,462
Interest on overdue suppliers account	Report to be submitted to Council, awaiting condonement by Council.	10,400
Legal representations against the former Mayor - Podbielski Mhlambi Inc	None.	90,785
Overpayment of Counsellors	None.	546,207
Payments to consultants for an inadequate asset register	Report to be submitted to Council, awaiting condonement by Council.	30,000
Traffic fines	None.	3,470
<b>Details of fruitless and wasteful expenditure incidents 2011/12</b>	<b>Disciplinary steps taken / criminal proceedings</b>	
Arrear interest - DBSA Loan	Report to be submitted to Council, awaiting condonement by Council.	24,472
Bank charges on unused fleet cards	Report to be submitted to Council, awaiting condonement by Council.	13,001

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>44. Fruitless and wasteful expenditure (continued)</b>		
Interest and penalties on late payment of PAYE, UIF and SDL - SARS	Report to be submitted to Council, awaiting condonement by Council.	456,539
Interest and penalties on late payment of VAT - SARS	Report to be submitted to Council, awaiting condonement by Council.	76,292
Interest and penalties on late payment of vehicle licenses	Report to be submitted to Council, awaiting condonement by Council.	4,539
Interest on late payment of pension fund contributions - SAMWU	Report to be submitted to Council, awaiting condonement by Council.	573,025
Interest on overdue account - Eskom	Report to be submitted to Council, awaiting condonement by Council.	5,876,691
Interest on overdue account - Auditor-General	Report to be submitted to Council, awaiting condonement by Council.	83,823
Interest on overdue account - Heilbron Herald	Report to be submitted to Council, awaiting condonement by Council.	16
Interest on overdue account - Jurg van der Westhuizen Apteek	Report to be submitted to Council, awaiting condonement by Council.	41
Interest on overdue account - Oranje Drukkers	Report to be submitted to Council, awaiting condonement by Council.	11
Interest on overdue account - Telkom	Report to be submitted to Council, awaiting condonement by Council.	2,912
Traffic fines	Report to be submitted to Council, awaiting condonement by Council.	3,300
<b>45. Irregular expenditure</b>		
Opening balance	42,118,515	40,649,285
Add: Irregular expenditure - current year	29,024,434	1,469,230
	<b>71,142,949</b>	<b>42,118,515</b>
<b>Analysis of expenditure awaiting condonation per age classification</b>		
Current year	29,024,434	1,469,230
Prior years	42,118,515	40,649,285
	<b>71,142,949</b>	<b>42,118,515</b>
<b>Details of irregular expenditure – current year</b>		
Unsigned service level agreements	Disciplinary steps taken/criminal proceedings None.	29,024,434

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 46. Non-compliance with the MFMA

During the current financial year the following non-compliance issues were identified:

Section 65(2)(e) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) - Payments to suppliers were not made within the legislative 30 days.

### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	770,630	308,890
Current year subscription / fee	440,296	534,290
Amount paid - previous years	(770,630)	(72,550)
	<b>440,296</b>	<b>770,630</b>

SALGA subscriptions for the current and prior reporting period.

#### Material losses through criminal conduct

There were no material losses through criminal conduct for the current and prior financial year.

#### Audit fees

Opening balance	806,358	3,180,263
Current year fee	2,645,254	2,811,108
Interest charged on overdue account	83,823	-
Amount paid - current year	(1,593,366)	(1,900,480)
Amount paid - previous years	(345,717)	-
Restatement	-	(3,284,533)
	<b>1,596,352</b>	<b>806,358</b>

#### PAYE, UIF and SDL - 7200710400

Opening balance	75,032	1,901,085
Assessments	2,729,939	4,722,876
Amounts paid	(1,288,743)	(6,976,171)
Interest and penalties	456,539	-
Restatement	-	427,242
	<b>1,972,767</b>	<b>75,032</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Pension and medical aid deductions

Opening balance	(6,079,060)	7,016,472
Deductions	-	11,343,962
Amounts paid	-	(24,439,494)
	<b>(6,079,060)</b>	<b>(6,079,060)</b>

#### VAT - 4000846495

VAT payable	11,360,675	8,336,887
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VAT returns were not timeously submitted by due date throughout the current and prior reporting period. Penalties and interest charged on late submission were accounted for and disclosed as fruitless and wasteful expenditure.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2012:

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Hadebe M	900	11,753	12,653
Jafta U C	432	-	432
Kubeka L S	995	17,174	18,169
Mofokeng M M	1,484	25,804	27,288
Moloi T M	635	384	1,019
Mosia A S	5,122	2,623	7,745
Mosia M A	1,481	3,663	5,144
Motloun F P	661	4,391	5,052
Motloun P	439	742	1,181
Motloun W C	721	12,016	12,737
Ntombela L M D	1,423	3,540	4,963
Sigasa J E	760	1,782	2,542
	<b>15,053</b>	<b>83,872</b>	<b>98,925</b>

### 48. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus with the deficit in the statement of financial performance:

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand	2012	2011
<b>48. Arrangements in the legal form of a lease, but not in substance (continued)</b>		
Net deficit per the statement of financial performance	(22,346,402)	(63,978,040)
<b>Adjusted for:</b>		
Fair value adjustments	846,761	423,000
Debt impairment	6,127,873	33,769,230
Movement in provisions	1,096,869	12,904,346
Movement in retirement benefits	1,635,940	5,772,945
Depreciation and amortisation	1,570,909	329,479
Finance costs	8,773,406	1,742,143
Electricity	2,556,161	-
Other movements	(255,712)	-
<b>Net surplus (deficit) per approved budget</b>	<b>5,805</b>	<b>(9,036,897)</b>



# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Statement of comparative and actual information

2012

	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
<b>Financial Performance</b>							
Property rates	8,695,285	7,200,000	7,200,000	19,692,267	(12,492,267)	274 %	226 %
Service charges	71,581,515	56,506,315	56,506,315	65,752,789	(9,246,474)	116 %	92 %
Investment revenue	1,725,000	2,625,000	2,625,000	8,996,936	(6,371,936)	343 %	522 %
Transfers recognised - operational	81,415,000	95,215,000	95,215,000	69,767,021	25,447,979	73 %	86 %
Other own revenue	1,180,000	1,280,000	1,280,000	6,076,185	(4,796,185)	100 %	100 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>164,596,800</b>	<b>162,826,315</b>	<b>162,826,315</b>	<b>170,285,198</b>	<b>(7,458,883)</b>	<b>105 %</b>	<b>103 %</b>
Employee costs	(53,566,125)	(53,065,628)	(53,065,628)	(55,815,420)	2,749,792	105 %	104 %
Remuneration of councillors	(5,051,789)	(5,051,789)	(5,051,789)	(5,427,985)	376,196	107 %	107 %
Debt impairment	(10,000,000)	(8,500,000)	(8,500,000)	(27,799,424)	19,299,424	100 %	100 %
Depreciation and asset impairment	(1,040,000)	(1,040,000)	(1,040,000)	(1,570,909)	530,909	151 %	151 %
Finance charges	(160,000)	(160,000)	(160,000)	(8,773,406)	8,613,406	100 %	100 %
Materials and bulk purchases	(46,693,000)	(29,548,833)	(29,548,833)	(35,672,450)	6,123,617	121 %	76 %
Other expenditure	(68,936,075)	(86,757,260)	(86,757,260)	(82,993,937)	(3,763,323)	96 %	120 %
<b>Total expenditure</b>	<b>(185,446,989)</b>	<b>(184,123,510)</b>	<b>(184,123,510)</b>	<b>(218,053,531)</b>	<b>33,930,021</b>	<b>118 %</b>	<b>118 %</b>
<b>Surplus/(Deficit)</b>	<b>(20,850,189)</b>	<b>(21,297,195)</b>	<b>(21,297,195)</b>	<b>(47,768,333)</b>	<b>26,471,138</b>	<b>224 %</b>	<b>229 %</b>

# Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

### 49. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome (i.t.o. s28 and s31 of the MFMA)	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	21,303,000	21,303,000	21,303,000	25,421,931	(4,118,931)	100 %	100 %
Surplus (Deficit) after capital transfers and contributions	452,811	5,805	5,805	(22,346,402)	22,352,207	(384,951)%	(4,935)%
Surplus/(Deficit) for the year	452,811	5,805	5,805	(22,346,402)	22,352,207	(384,951)%	(4,935)%

**Schedule of external loans as at 30 June 2012**

Loan number	Redeemable	Balance at	Interest	Redeemed	Balance at
		30 June 2011	capitalised	or written off during the period	30 June 2012
		Rand	Rand	Rand	Rand
61006963	31/12/2021	2,139,333	115,799	-	2,255,132
		<b>2,139,333</b>	<b>115,799</b>	<b>-</b>	<b>2,255,132</b>

Development Bank of Southern Africa (DBSA)

DBSA @ 5%

# Mafube Local Municipality

## Appendix B

June 2012

### Analysis of Property, Plant and Equipment

	Cost/Revaluation			Accumulated depreciation		
	Opening balance	Additions	Transfers	Opening balance	Depreciation	Closing balance
<b>Infrastructure</b>						
Buildings	2,682,990	-	(2,682,990)	-	-	-
Communication equipment	70,865	-	(70,865)	-	-	-
Housing development fund	4,871,559	-	(4,871,559)	-	-	-
Land	694,837	-	(694,837)	-	-	-
Electricity	-	-	-	-	-	-
- Low voltage	-	8,100,000	3,164,324	-	-	11,264,324
- Medium voltage	-	-	24,671,841	-	-	24,671,841
Water network	-	-	-	-	-	-
- Potable water treatment and supply	-	-	45,133,223	-	-	45,133,223
- Raw water supply	-	-	8,400,724	-	-	8,400,724
- Reticulation network and storage	-	-	76,833,435	-	-	76,833,435
Roads and bridges	-	-	325,693,481	-	-	325,693,481
Sanitation	-	-	173,215,449	-	-	173,215,449
Solid waste - Landfills	-	-	138,374	-	-	138,374
Other infrastructure	173,035,014	21,303,000	(194,338,014)	-	-	-
Plant and machinery	7,914,745	-	(7,914,745)	-	-	-
	<b>189,270,010</b>	<b>29,403,000</b>	<b>446,677,841</b>	-	-	<b>665,350,851</b>
<b>Community</b>						
Cemeteries	-	-	2,718,656	-	-	2,718,656
Livestock facilities	-	-	4,696,127	-	-	4,696,127
Municipal buildings	-	-	67,616,884	-	-	67,616,884
Parks and gardens	-	-	5,435,206	-	-	5,435,206
Sport facilities	-	-	24,878,142	-	-	24,878,142
Housing	-	-	4,374,448	-	-	4,374,448
Other community assets	5,245,233	-	(5,245,233)	-	-	-
	<b>5,245,233</b>	-	<b>104,474,230</b>	-	-	<b>109,719,463</b>
<b>Other equipment</b>						
Lessed assets	-	-	2,596,162	-	-	2,596,162
Vehicles	8,985,237	802,775	(7,799,950)	-	(1,153,850)	1,442,312
Other equipment	2,243,913	312,947	(1,638,424)	-	(36,012)	1,952,050
Furniture and fixtures	1,136,431	-	(1,136,431)	-	(51,568)	866,868
IT equipment	1,374,691	-	(1,374,691)	-	-	-
Office equipment	286,955	-	(286,955)	-	-	-
	<b>14,027,227</b>	<b>1,115,723</b>	<b>(9,640,289)</b>	-	<b>(1,241,430)</b>	<b>4,261,231</b>
<b>Intangible assets</b>						
Computer software	1,747,397	-	-	(1,215,418)	(329,479)	202,500
	<b>1,747,397</b>	-	-	<b>(1,215,418)</b>	<b>(329,479)</b>	<b>202,500</b>
	<b>210,289,867</b>	<b>30,518,723</b>	<b>541,511,782</b>	<b>(1,215,418)</b>	<b>(1,570,910)</b>	<b>779,534,045</b>

## June 2012

[illegible]

# Mafube Local Municipality

## Appendix E(1)

June 2012

### Actual versus Budget (Revenue and Expenditure) for the year ended 30 Jun 2012

	Current year 2011 Act. Bal.	Current year 2011 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand		
<b>Revenue</b>					
Property rates	19,692,268	7,200,000	12,492,268	173.5	
Service charges	65,752,789	56,506,315	9,246,474	16.4	
Rental of facilities and equipment	400,758	518,000	(117,242)	(22.6)	
Fines	218,185	262,000	(43,815)	(16.7)	
Government grants & subsidies	95,188,953	116,518,000	(21,329,047)	(18.3)	
Other income	5,457,243	500,000	4,957,243	991.4	
Interest received - investment	8,996,936	2,625,000	6,371,936	242.7	
	<b>195,707,132</b>	<b>184,129,315</b>	<b>11,577,817</b>	<b>6.3</b>	
<b>Expenses</b>					
Personnel	(55,815,414)	(53,065,628)	(2,749,786)	5.2	
Remuneration of councillors	(5,427,985)	(5,051,789)	(376,196)	7.4	
Depreciation	(1,241,430)	(1,040,000)	(201,430)	19.4	
Amortisation	(329,479)	-	(329,479)	-	
Finance costs	(8,773,407)	(160,000)	(8,613,407)	383.4	
Debt impairment	(27,799,423)	(8,500,000)	(19,299,423)	227.1	
Repairs and maintenance - General	(14,631,304)	(9,415,000)	(5,216,304)	55.4	
Bulk purchases	(35,672,450)	(29,548,833)	(6,123,617)	20.7	
General Expenses	(67,515,867)	(77,342,260)	9,826,393	(12.7)	
	<b>(217,206,759)</b>	<b>(184,123,510)</b>	<b>(33,083,249)</b>	<b>18.0</b>	
<b>Other revenue and costs</b>					
Fair value adjustments	(846,761)	-	(846,761)	-	
	<b>(846,761)</b>	<b>-</b>	<b>(846,761)</b>	<b>-</b>	
Net surplus/ (deficit) for the year	<b>(22,346,388)</b>	<b>5,805</b>	<b>(22,352,193)</b>	<b>050.7</b>	

**Mafube Local Municipality**

**Appendix F**

**Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003**

June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts						Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
		Mar	Jun	Dec	Mar	Jun	Jun	Jun	Sep	Dec	Dec	
MIG	National Treasury	905,000	-	13,611,000	6,787,000	(8,499,478)	(9,217,388)	(5,002,850)	(3,511,095)	(3,511,095)	(3,511,095)	Yes
FMG	National Treasury	-	-	1,450,000	-	(252,850)	(252,850)	(252,850)	(252,850)	(252,850)	(252,850)	Yes
MSG	National Treasury	-	-	790,000	-	(76,202)	(76,202)	(76,202)	(76,202)	(76,202)	(76,202)	Yes
INEP	Department of Energy	-	-	6,054,000	6,046,000	(3,551,542)	(2,183,694)	(2,240,132)	(219,436)	(219,436)	(219,436)	Yes
		-	-	-	-	-	-	-	-	-	-	Yes
		905,000	-	21,905,000	12,833,000	(12,380,072)	(11,730,134)	(7,572,034)	(4,059,583)	(4,059,583)	(4,059,583)	