



Mafube Local Municipality
Annual Financial Statements
for the year ended 30 June 2013

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

Legal form of entity	An organ of state within the local sphere of government exercising executive and legislative authority.
Nature of business and principal activities	Providing municipal services, infrastructure development and furthering the interests of the local community mainly in the Mafube area.
The following is included in the scope of operation	Area FS205, as a local municipality, as demarcated by the Demarcation Board and indicated in the demarcation map published for FS205.
Grading of local authority	Medium capacity, category B municipality as defined by the Municipal Structures Act, 1998 (Act No. 117 of 1998).
Mayor	Ntombela L M D (Resigned on 30/09/2012) Sigasa J E (Appointed 1/10/2012)
Speaker	Moloi T M
Councillors	Du Plessis M C Hadebe M Hlongwane J J Jafta U C Kubeka L S Mofokeng M M Mosia A S Mosia M A Monaune P M Motloun F P Motloun P Motloun W C Pretorius J J Sekhoto M M Xaba N E
Accounting Officer	Radebe P I
Chief Finance Officer	Molefe N N (Resigned on 15/03/2013) Gwanya G (Acting from 15/03/2013)
Business address	64 JJ Hadebe Street Frankfort Free State 9830
Postal address	PO Box 2 Frankfort Free State 9830
Bankers	ABSA Bank Limited
Auditors	Auditor-General

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General Information

Attorneys	Nkaiseng Attorneys Podbielski Mhlambi Inc Richter and Boshoff Attorneys
Debt collectors	Richter and Boshoff Attorneys Zandile Management Services CC
Enabling legislation	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) Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)
Website	www.mafube.gov.za

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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)
UIF	Unemployment Insurance Fund
SALGA	South African Local Government Association
SARS	South African Revenue Services
SDL	Skills Development Levy
PAYE	Pay as You Earn
VAT	Value Added Tax

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Accounting Officer's Responsibilities and Approval

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 72, which have been prepared on the going concern basis, were approved by the audit committee on 26 August 2013 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 of the Republic of South Africa, 1996 (Act 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.



PI Radembe
Municipal Manager
Frankfort
30 August 2013

Mafube Local Municipality

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Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2013.

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.

2. Financial sustainability

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;
- The municipality used conditional grants received to pay for operating expenses
- 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
- Employee benefit obligations are unfunded.

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

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 liabilities 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 financial ratio's 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 Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
PI Radebe	South African

6. Auditors

Auditor-General will continue in office for the next financial period.

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Statement of Financial Position

Figures in Rand	Notes	2013	2012
Assets			
Current Assets			
Inventories	3	829 000	678 891
Other financial assets	4	121 056	110 848
Receivables from exchange transactions	5	2 050 519	2 667 499
Consumer debtors	6	38 844 122	41 813 739
Cash and cash equivalents	7	2 699 097	329 930
		44 543 794	45 600 907
Non-Current Assets			
Investment property	8	44 868 286	45 248 635
Property, plant and equipment	9	1 681 116 741	1 770 341 205
Intangible assets	10	-	202 500
Other financial assets	4	296 611	262 945
		1 726 281 638	1 816 055 285
Total Assets		1 770 825 432	1 861 656 192
Liabilities			
Current Liabilities			
Current portion of non-current borrowings	12	324 429	323 297
Current portion of finance lease liabilities	13	790 164	1 213 540
Payables from exchange transactions	14	143 364 662	117 788 007
VAT payable	15	8 183 529	11 216 466
Consumer deposits	16	702 102	684 969
Unspent conditional grants and receipts	17	14 393 876	7 068 011
Bank overdraft	7	-	3 124 278
		167 758 762	141 418 568
Non-Current Liabilities			
Non-current borrowings	12	1 752 745	1 931 835
Non-current portion of finance lease liabilities	13	1 414 540	355 358
Employee benefits	18	11 474 814	10 947 945
Non-current provisions	19	3 089 832	2 964 000
		17 731 931	16 199 138
Total Liabilities		185 490 693	157 617 706
Net Assets		1 585 334 739	1 704 038 486
Net Assets			
Accumulated surplus		1 585 334 739	1 704 038 486

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Statement of Financial Performance

Figures in Rand	Notes	2013	2012
Revenue			
Property rates	22	16 322 286	19 167 186
Service charges	23	43 222 421	67 415 830
Royalty income	24	648 011	-
Rental of facilities and equipment	25	151 086	181 074
Fines		133 744	218 185
Government grants and subsidies	26	110 175 513	106 096 725
Auction fees		772 173	190 919
Recoveries	27	2 594 934	1 254 972
Other income	28	2 211 030	2 756 379
Interest received	29	7 514 847	9 166 555
Total Revenue		183 746 045	206 447 825
Expenditure			
Employee related costs	30	(66 426 989)	(54 870 577)
Remuneration of councillors	31	(5 440 964)	(5 097 072)
Depreciation, amortisation and impairments	32	(123 676 891)	(120 148 656)
Finance charges	33	(7 278 597)	(7 862 228)
Debt impairment	34	(40 276 463)	(9 430 773)
Repairs and maintenance		(9 668 071)	(10 767 643)
Bulk purchases	35	(9 168 910)	(36 778 657)
Grants and subsidies paid	36	(7 529 210)	(7 708 564)
General expenses	37	(33 526 590)	(38 220 784)
Total Expenditure		(302 992 685)	(290 884 954)
Fair value adjustments	38	(65 747)	(551 149)
Gain on disposal of assets		608 632	-
Deficit for the year		(118 703 755)	(84 988 278)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	185 795 465	185 795 465
Adjustments		
Correction of errors	1 603 231 299	1 603 231 299
Balance at 01 July 2011 as restated	1 789 026 764	1 789 026 764
Changes in net assets		
Deficit for the year	(84 988 278)	(84 988 278)
Total changes	(84 988 278)	(84 988 278)
Opening balance as previously reported	671 591 557	671 591 557
Adjustments		
Correction of errors	1 032 446 937	1 032 446 937
Balance at 01 July 2012 as restated	1 704 038 494	1 704 038 494
Changes in net assets		
Deficit for the year	(118 703 755)	(118 703 755)
Total changes	(118 703 755)	(118 703 755)
Balance at 30 June 2013	1 585 334 739	1 585 334 739

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Cash Flow Statement

Figures in Rand	Notes	2013	2012
Cash flows from operating activities			
Receipts			
Property rates and service charges		30 456 141	47 846 015
Government grants and subsidies		102 849 648	101 229 406
Interest received		7 514 847	9 166 555
Other receipts		17 939 114	8 892 070
		<u>158 759 750</u>	<u>167 134 046</u>
Payments			
Employee related costs		(65 657 488)	(50 374 368)
Suppliers		(41 750 125)	(57 188 689)
Finance charges		(7 278 597)	(7 862 228)
Remuneration of councillors		(5 440 964)	(5 097 072)
		<u>(120 127 174)</u>	<u>(120 522 357)</u>
Net cash flows from operating activities	39	<u>38 632 576</u>	<u>46 611 689</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(34 499 173)	(65 160 546)
Proceeds from disposal of property, plant and equipment		1 244 818	-
Net cash flows from investing activities		<u>(33 254 355)</u>	<u>(65 160 546)</u>
Cash flows from financing activities			
Repayment of non-current borrowings		(283 243)	-
Finance lease payments		(2 112 498)	(1 060 872)
Finance lease receipts		2 510 965	-
Net cash flows from financing activities		<u>115 224</u>	<u>(1 060 872)</u>
Net increase in cash and cash equivalents		5 493 445	(19 609 729)
Cash and cash equivalents at the beginning of the year		(2 794 348)	16 815 381
Cash and cash equivalents at the end of the year	7	<u>2 699 097</u>	<u>(2 794 348)</u>

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Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Statement of compliance and basis of measurement

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board 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, except for loans and receivables and other financial instruments measured at fair value.

A summary of the significant accounting policies 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.

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. Significant judgements include:

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, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

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 of certain inventory items. The write down is included in the operation surplus or deficit note.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

Provisions

Provisions were raised based on estimates determined by management on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of 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 or decrease the depreciation charge where useful lives are less than or higher than the previous estimated useful.

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Accounting Policies

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

Employee benefit obligations

The present value of the post employee 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 employee 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 employee benefits 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.

The comparative figures have been restated, additional disclosures are included in note 43.

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 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.

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 surplus or deficit.

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Accounting Policies

1.6 Other financial assets (continued)

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 surplus or deficit for the period.

1.7 Intangible assets

Initial recognition

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.

Subsequent measurement

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.

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Accounting Policies

1.8 Investment property

Initial recognition

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes and is therefore not investment property.

Property leased at less than commercial rates to achieve service delivery is held in production of services and is therefore not investment property.

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

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

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

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

Subsequent measurement

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

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

Item	Estimated useful life
Property - land	indefinite
Property - buildings	7-80 years

Disposal

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits.

Gains or losses arising from the retirement or disposal of investment property are calculated as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in surplus or deficit in the period of retirement or disposal.

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Accounting Policies

1.9 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 or replace part of. 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.

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

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Accounting Policies

1.9 Property, plant and equipment (continued)

Infrastructure

· Electricity network	10-80
· Water network	10-80
· Roads and bridges	7-50
· Sanitation	7-80
· Solid waste - Landfills	15-75

Community

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

Other plant and equipment

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

Leased assets	3-5
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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.

1.10 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.

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.

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.

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Accounting Policies

1.10 Financial instruments (continued)

A financial asset is:

- cash;
- a residual interest in 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.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial asset	Financial asset measured at fair value

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.

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Accounting Policies

1.10 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.

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.

Mafube Local Municipality

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Accounting Policies

1.10 Financial Instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

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.

Mafube Local Municipality

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Accounting Policies

1.11 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.

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.

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.

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.

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.

Mafube Local Municipality

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

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.

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.

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).

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.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.11 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.

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.

1.12 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.

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.

Mafube Local Municipality

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Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Value in use

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 oversized or overcapacity asset. Oversized 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.

1.13 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.

1.14 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.

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 liability.

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.

1.15 Employee benefits

Short-term employee benefits

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

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

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.15 Employee benefits (continued)

Defined contribution plans

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

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

Defined benefit plans

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

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

Actuarial gains and losses are recognised in the statement of financial performance in the period that they occur.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

1.16 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.

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

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.16 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised, except in entity combinations. Contingencies are disclosed in note 41.

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.

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 1.11 and 1.12.

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

1.17 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.

1.18 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

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Accounting Policies

1.18 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.

Use by others of the entity's assets

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions 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 method.

Royalties, auction fees and recoveries 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.

1.19 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.

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.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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.

1.20 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.

1.21 Investment income

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

1.22 Borrowing costs

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

1.23 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 but only disclosed. Capital commitments are disclosed in note 40.

1.24 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 surplus or deficit in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.25 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 surplus or deficit 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.

Mafube Local Municipality

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Accounting Policies

1.26 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 surplus or deficit and subsequently where recovered, it is accounted for as revenue in the Statement of Financial Performance.

1.27 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (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.

1.28 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

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Accounting Policies

1.29 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 2013

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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 that are effective for the current financial year and that are relevant to its operations:

Standards:	Effective date: Years beginning on or after	Expected impact:
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	The impact is not material but has resulted in additional disclosures.
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	The impact is not material but has resulted in additional disclosures.
• GRAP 103: Heritage Assets	01 April 2012	The impact is not material.
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	The impact is not material.
• GRAP 26: Impairment of cash-generating assets	01 April 2012	The impact is not material but has resulted in additional disclosures.
• GRAP 104: Financial Instruments	01 April 2012	The impact is not material but has resulted in additional disclosures.

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 2013 or later periods:

Standards:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	Not yet determined	Unlikely that the standard will have a material impact but will result in additional disclosures.
• GRAP 25: Employee benefits	01 April 2013	Unlikely that the standard will have a material impact.
• GRAP 105: Transfers of functions between entities under common control	Not yet determined	Unlikely that the standard will have a material impact.
• GRAP 106: Transfers of functions between entities not under common control	Not yet determined	Unlikely that the standard will have a material impact.

Mafube Local Municipality

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2. New standards and interpretations (continued)

• GRAP 107: Mergers	Not yet determined	Unlikely that the standard will have a material impact.
• GRAP 20: Related parties	Not yet determined	Unlikely that the standard will have a material impact but will result in additional disclosures.

Mafube Local Municipality

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Notes to the Annual Financial Statements

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3. Inventories		
Consumable stores	595 875	390 687
Water in reservoirs and pipelines	233 125	288 204
	829 000	678 891
Inventory pledged as security		
No inventory items were pledged as security for any financial liabilities.		
4. Other financial assets		
Loans and receivables		
VKB Agriculture Limited - Short term member loan	6 573	1 202
The member loan bears interest at 4.5% per annum (2012: 5%) and is available on demand.		
VKB Agriculture Limited - Security member loan	109 483	104 646
When the member fund awards mature after 15 years it is transferred to the member loan account. The loan serves as security against the trading account. The loan bears interest at 4.5% (2012: 5%) per annum and is payable on demand after settling any outstanding balance on the trading account.		
VKB Agriculture Limited - Member funds	217 276	183 610
The member funds 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 member loan.		
VKB Agriculture Limited - Member deposit	5 000	5 000
The 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.		
VKB Agriculture Limited - Reserves	79 335	79 335
The reserves 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 member loan.		
	417 667	373 793
Non-current assets		
Loans and receivables	296 611	262 945
Current assets		
Loans and receivables	121 056	110 848
	417 667	373 793

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

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4. Other financial assets (continued)

Loans and receivables impaired

There are no loans and receivables impaired for the current or prior reporting period.

The maximum exposure to credit risk at the reporting date is the carrying amount of the loans and receivables.

The municipality does not hold any collateral as security.

5. Receivables from exchange transactions

Councillor overpayments receivable	1 817 429	2 533 340
Other receivables*	228 690	-
Sundry receivables	4 400	134 159
	2 050 519	2 667 499

Receivables pledged as security

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

*Royalty income and salary recoveries receivable from Rural Maintenance (Pty) Ltd.

6. Consumer debtors

Gross balances

Rates	15 833 152	12 845 529
Electricity	4 418 512	6 023 737
Water	45 663 597	37 026 531
Sewerage	37 707 897	28 028 386
Refuse	34 775 235	25 924 687
Other	31 017 395	23 861 077
	169 415 788	133 709 947

Less: Provision for debt impairment

Rates	(12 246 285)	(9 137 307)
Electricity	(3 409 403)	(4 139 128)
Water	(35 053 125)	(25 150 848)
Sewerage	(29 096 086)	(19 282 857)
Refuse	(26 833 192)	(17 790 257)
Other	(23 933 575)	(16 395 811)
	(130 571 666)	(91 896 208)

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
6. Consumer debtors (continued)		
Net balance		
Rates	3 586 867	3 708 222
Electricity	1 009 109	1 884 609
Water	10 610 472	11 875 683
Sewerage	8 611 811	8 745 529
Refuse	7 942 043	8 134 430
Other	7 083 820	7 465 266
	38 844 122	41 813 739
Ageing		
Rates		
Current (0 -30 days)	1 812 807	1 816 764
31 - 60 days	621 213	732 488
61 - 90 days	600 171	705 707
91 days +	12 798 961	9 590 570
	15 833 152	12 845 529
Electricity		
Current (0 -30 days)	-	5 658
31 - 60 days	-	8 185
61 - 90 days	-	18 791
91 days +	4 418 512	5 991 103
	4 418 512	6 023 737
Water		
Current (0 -30 days)	3 243 773	3 003 339
31 - 60 days	1 115 738	1 567 501
61 - 90 days	1 507 172	847 916
91 days +	39 561 407	31 183 662
Unmetered consumption	235 507	424 113
	45 663 597	37 026 531
Sewerage		
Current (0 -30 days)	2 112 076	2 121 407
31 - 60 days	961 131	924 790
61 - 90 days	956 657	926 050
91 days +	33 678 033	24 056 139
	37 707 897	28 028 386

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
6. Consumer debtors (continued)		
Refuse		
Current (0 -30 days)	1 904 025	1 924 808
31 - 60 days	885 828	849 160
61 - 90 days	885 459	853 847
91 days +	31 099 923	22 296 872
	34 775 235	25 924 687
Other		
Current (0 -30 days)	2 264 064	1 880 434
31 - 60 days	1 074 593	884 471
61 - 90 days	1 046 167	894 073
91 days +	26 632 571	20 202 099
	31 017 395	23 861 077
Reconciliation of provision for debt impairment		
Balance at beginning of the year	(91 896 208)	(85 771 168)
Contributions to provision	(39 413 426)	(8 456 322)
Debt written off against provision	737 968	2 331 282
	(130 571 666)	(91 896 208)

Consumer debtors pledged as security

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

Mafube Local Municipality

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Figures in Rand	2013	2012
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	-	61 021
Bank balance	2 414 966	-
Call and short-term deposits	284 131	268 909
Bank overdraft	-	(3 124 278)
	2 699 097	(2 794 348)
Current assets	2 699 097	329 930
Current liabilities	-	(3 124 278)
	2 699 097	(2 794 348)

Securities:

Combined first Continuous Covering Mortgage Bond (CCMB) for R 1 500 000 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 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
ABSA - Primary cheque account - 40-5282-3517	2 349 950	642 061	1 935 468	2 414 966	(3 124 278)	16 588 527
ABSA - Call account - Savings - 90-9011-1270	2 226	55 056	9 679	2 226	55 056	9 679
ABSA - Call account - Friends of the poor - 92-2961-8782	119 738	48 913	28 761	119 738	48 913	28 761
ABSA - Call account - Operation Hlasela - 92-3238-7538	2 306	12 160	11 860	2 306	12 160	11 860
ABSA - Deposit account - 20-6691-9592	159 861	152 780	145 602	159 861	152 780	145 602
Total	2 634 081	910 970	2 131 370	2 699 097	(2 855 369)	16 784 429

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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8. Investment property

	2013			2012		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	47 150 384	(2 282 098)	44 868 286	47 150 384	(1 901 749)	45 248 635

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	45 248 635	(380 349)	44 868 286

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	45 628 985	(380 350)	45 248 635

Fair value of investment properties	80 052 955	75 951 570
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Pledged as security

No investment property was pledged as security for any financial liability.

9. Property, plant and equipment

	2013			2012		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Community	173 680 243	(33 960 743)	139 719 500	172 751 120	(28 103 071)	144 648 049
Infrastructure	2 089 564 849	(637 410 741)	1 452 154 108	2 089 564 849	(524 992 599)	1 564 572 250
Landfill rehabilitation asset	2 964 000	(311 525)	2 652 475	2 964 000	(276 360)	2 687 640
Leased assets	2 510 965	(346 631)	2 164 334	2 893 483	(2 119 774)	773 709
Other plant and equipment	1 717 854	(470 950)	1 246 904	999 819	(200 365)	799 454
Vehicles, tractors and trailers	12 109 567	(1 923 526)	10 186 041	13 674 038	(369 333)	13 304 705
Work in progress	72 993 379	-	72 993 379	43 555 398	-	43 555 398
Total	2 355 540 857	(674 424 116)	1 681 116 741	2 326 402 707	(556 061 502)	1 770 341 205

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Community	144 648 049	929 123	-	(5 857 672)	-	139 719 500
Infrastructure	1 564 572 250	-	-	(112 418 142)	-	1 452 154 108
Landfill rehabilitation asset	2 687 640	-	-	(35 165)	-	2 652 475
Leased assets	773 709	2 510 965	-	(927 441)	(192 899)	2 164 334
Other property, plant and equipment	799 454	759 154	(26 433)	(275 918)	(9 353)	1 246 904
Vehicles, tractors and trailers	13 304 705	869 164	(774 312)	(2 216 011)	(997 505)	10 186 041
Work in progress	43 555 398	29 437 981	-	-	-	72 993 379
	1 770 341 205	34 506 387	(800 745)	(121 730 349)	(1 199 757)	1 681 116 741

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Community	150 505 721	-	-	(5 857 672)	144 648 049
Infrastructure	1 667 182 148	-	9 409 188	(112 019 086)	1 564 572 250
Landfill rehabilitation asset	2 372 984	377 309	-	(62 653)	2 687 640
Leased assets	1 352 406	-	-	(578 697)	773 709
Other property, plant and equipment	115 414	812 970	-	(128 930)	799 454
Vehicles, tractors and trailers	247 727	13 182 490	-	(125 512)	13 304 705
Work in progress	11 595 997	41 368 589	(9 409 188)	-	43 555 398
	1 833 372 397	55 741 358	-	(118 772 550)	1 770 341 205

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 13.

Assets subject to finance lease (Net carrying amount)

Leased assets	2 164 334	773 709
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Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

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10. Intangible assets

	2013			2012		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 747 397	(1 747 397)	-	1 747 397	(1 544 897)	202 500

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	202 500	(202 500)	-

Reconciliation of intangible assets - 2012

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

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 2013

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11. Financial assets by category

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

2013

	Loans and receivables	Total
Other financial assets - Current	121 056	121 056
Other financial assets - Non-current	296 611	296 611
Receivables from exchange transactions	2 050 519	2 050 519
Cash and cash equivalents	2 699 097	2 699 097
Consumer debtors	38 844 122	38 844 122
	44 011 405	44 011 405

2012

	Loans and receivables	Total
Other financial assets - Current	110 848	110 848
Other financial assets - Non-current	262 945	262 945
Receivables from exchange transactions	2 667 499	2 667 499
Cash and cash equivalents	329 930	329 930
Consumer debtors	41 813 739	41 813 739
	45 184 961	45 184 961

12. Non-current borrowings

Held at amortised cost

DBSA - 61006963	2 077 174	2 255 132
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The loan is from the Development Bank of Southern Africa (DBSA) and repayments are payable on a 3 monthly basis in equal installments. The redemption date is 31 December 2021 and the loan bears interest at a fixed rate of 5% (2012: 5%) on the loan and 7% (2012: 7%) on arrears.

The municipality defaulted on the repayment terms, the balance of the arrear account is R 141 061 (2012: R 140 661).

Non-current liabilities

At amortised cost	1 752 745	1 931 835
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Current liabilities

At amortised cost	324 429	323 297
	2 077 174	2 255 132

Mafube Local Municipality

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13. Finance lease liabilities		
Minimum lease payments due		
- within one year	965 793	1 379 391
- in second to fifth year inclusive	1 529 173	366 380
	<u>2 494 966</u>	<u>1 745 771</u>
Less: Future finance charges	(290 262)	(176 873)
Present value of minimum lease payments due	<u>2 204 704</u>	<u>1 568 898</u>
Present value of minimum lease payments due		
- within one year	790 164	1 213 540
- in second to fifth year inclusive	1 414 540	355 358
	<u>2 204 704</u>	<u>1 568 898</u>
Non-current liabilities	1 414 540	355 358
Current liabilities	790 164	1 213 540
	<u>2 204 704</u>	<u>1 568 898</u>
<p>The municipality lease photo copier machines under finance lease. The lease term is 3 years and the average effective borrowing rate is 9.5% (2012: 15.5%). The interest rate is linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.</p> <p>The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets to the carrying value of R 2 164 334 (2012: R 773 709) as per note 9.</p> <p>The municipality did not default on the repayments during the current or prior reporting period. No terms and conditions were renegotiated.</p>		
14. Payables from exchange transactions		
13th Cheque accrual*	1 290 979	1 135 183
Accrued expenses	2 749 111	9 379 117
Accrued staff leave days	5 288 611	5 201 775
Advance payable**	7 224 609	-
Auditor-General	1 180 167	1 596 352
Department of Water Affairs (DWA)	49 254 193	38 864 425
Electricity payable***	7 512 550	2 890 882
Eskom	37 250 931	43 512 051
Income received in advance****	6 730 802	7 023 445
Other payables	10 164	12 160
Pre-payments received from consumer debtors	10 269 695	11 368 853
Retention's on contract creditors	1 593 097	3 372 618
Salary control accounts	1 073 138	(15 819 318)
Trade payables	11 936 615	9 250 464
	<u>143 364 662</u>	<u>117 788 007</u>

Mafube Local Municipality

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14. Payables from exchange transactions (continued)

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

*Annual 13th cheque bonuses are paid to all municipal staff in their month of birth, excluding Section 57 managers. The balance at year - end represents the portion of the bonus which has vested with regards to the current salary from month of birth up until year end.

**The Municipality received an advance from Rural Maintenance (Pty) Ltd on 28 June 2013, the advance was repaid after the reporting period on 13 July 2013.

***Being the municipal electricity usage on municipal buildings, street lights, traffic lights, pumps etc. owing 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	8 183 529	11 216 466
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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.

VAT returns were not timeously submitted by due date throughout the current or prior reporting period. Penalties and interest charged on late submission were accounted for and disclosed as fruitless and wasteful expenditure.

16. Consumer deposits

Water	702 102	684 969
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No guarantees are held in lieu of consumer deposits.

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Finance management grant (FMG)	-	438 602
Integrated national electrification programme (INEP)	7 241 447	6 144 218
Municipal infrastructure grant (MIG)	7 152 429	-
Municipal systems improvement grant (MSIG)	-	485 191
	14 393 876	7 068 011

The balances will be recognised as revenue when the qualifying expenditure is incurred. See note 26 for detail of other grants received from other spheres of government.

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

Mafube Local Municipality

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18. Employee benefits

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. These post-retirement medical aid benefits are in accordance with Resolution 8 of the South African Local Government Bargaining Council (SALGBC) which was signed on 17 January 2003.

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 on July 2010.

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

Carrying value		
Present value of the defined benefit obligations	11 474 814	10 947 945

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	10 947 945	9 624 299
Benefits paid and contributions made	(913 755)	(592 873)
Net expense recognised in the statement of financial performance	1 440 624	1 916 519
Closing balance	11 474 814	10 947 945

Net expense recognised in the statement of financial performance

Service cost	517 922	453 049
Interest cost	823 289	800 801
Actuarial loss recognised	99 413	662 669
Total included in employee related costs	1 440 624	1 916 519

Calculation of actuarial gains and losses

Actuarial loss – Obligations	99 413	662 669
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Mafube Local Municipality

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18. Employee benefits (continued)

Key assumptions used

Discount rate	7.75 %	7.77 %
Medical aid inflation rate	6.75 %	6.27 %
Salary escalation rate	6.25 %	5.77 %

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 2013.

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 male and female tables.

Post retirement, mortality of continuation members and withdrawal rates are in accordance with PA(90) ultimate male and female tables with a 2 year reduction in age, assuming that there is a 4 year age difference between male and female spouse.

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

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	895 944	(777 595)
Increase in service and interest cost	76 825	(66 644)

The municipality expects to pay benefits of R 483 813 towards post retirement medical aid and R 338 016 towards long service benefits to its employee benefits in 2014.

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:

	2013 R	2012 R	2011 R	2010 R
Defined benefit obligations	(11 474 814)	(10 947 945)	(9 624 299)	(3 685 000)

Mafube Local Municipality

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2013

2012

18. Employee benefits (continued)

Defined contribution plans

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)

Free State Municipal Pension Fund (FSMPF)

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.

South African Local Authorities Pension Fund (SALA):

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 98% (2012: 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 8 172 million (2012: R 7 418 million) which are financed by net assets of R 8 014 million (2012: R 7 110 million).

Free State Municipal Pension Fund (FSMPF):

Some employees belong to the Free State Municipal Pension Fund (FSMPF). The latest actuarial valuation of the fund was 30 June 2005. The valuation indicated that the fund is in sound financial position. The total liabilities of the fund are R 1 308 million which are financed by net assets of R 1 530 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

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19. Non-current provisions

Reconciliation of non-current provisions - 2013

	Opening balance	Discounting	Total
Rehabilitation of landfill sites	2 964 000	125 832	3 089 832

Reconciliation of non-current provisions - 2012

	Opening balance	Discounting	Total
Rehabilitation of landfill sites	2 586 691	377 309	2 964 000

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, 2002 (Act No. 28 of 2002).

The provision has been determined by an independent firm of consulting engineers through investigation to determine the best estimate for restoration at closure. The investigation comprised a desk study and site walkover. The sites were adjudicated according to the Minimum Requirements for Waste Disposal by Landfill as published by the Department of Water Affairs (DWA) which falls under the Waste Act (Act No. 59 of 2008).

The payment dates of total closure and rehabilitation are uncertain, but are currently expected to be between 2024 and 2071.

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

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

There were no landfill sites developed, planned or closed during the current or prior reporting period.

A permit issued to any landfill site before 2008 would have fallen under the Environment Conservation Act, 1989 (Act No. 73 of 1989). It has been identified that the landfill sites situated in Cornelia, Frankfort, Tweeling and Villiers are not licensed as required by the Waste Act (Act No. 59 of 2008). Refer to note 41.

Mafube Local Municipality

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Figures in Rand	2013	2012
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20. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Total
Consumer deposits	702 102	702 102
Current portion of finance lease liabilities	790 164	790 164
Payables from exchange transactions	143 364 661	143 364 661
Current portion of non-current borrowings	324 429	324 429
Non-current borrowings	1 752 745	1 752 745
Finance lease liabilities	1 414 540	1 414 540
	148 348 641	148 348 641

2012

	Financial liabilities at amortised cost	Total
Consumer deposits	684 969	684 969
Current portion of finance lease obligation	1 213 540	1 213 540
Payables from exchange transactions	117 788 007	117 788 007
Bank overdraft	3 124 278	3 124 278
Current portion of non-current borrowings	323 297	323 297
Non-current borrowings	1 931 835	1 931 835
Finance lease liabilities	355 358	355 358
	125 421 284	125 421 284

Mafube Local Municipality

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Figures in Rand	2013	2012
21. Revenue		
Fines	133 744	218 185
Government grants and subsidies	110 175 513	106 096 725
Property rates	16 322 286	19 167 186
Rental of facilities and equipment	151 086	181 074
Auction fees	772 173	190 919
Recoveries	2 594 934	1 254 972
Royalty income	648 011	-
Service charges	43 222 421	67 415 830
	174 020 168	194 524 891

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

Service charges	43 222 421	67 415 830
Royalty income	648 011	-
Rental of facilities and equipment	151 086	181 074
Auction fees	772 173	190 919
Recoveries	2 594 934	1 254 972
	47 388 625	69 042 795

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

Taxation revenue		
Property rates	16 322 286	19 167 186
Fines	133 744	218 185
Transfer revenue		
Government grants and subsidies	110 175 513	106 096 725
	126 631 543	125 482 096

Mafube Local Municipality

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Figures in Rand	2013	2012
22. Property rates		
Actual rates received		
Residential	11 109 262	12 845 002
Business and industrial	11 531 993	12 516 132
Agricultural	813 720	455 566
Income forgone*	(7 132 689)	(6 649 514)
	16 322 286	19 167 186

*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	1 141 078 911	1 200 356 066
Business and industrial	248 357 087	199 749 880
Municipal and government	101 310 998	21 343 250
Agricultural	1 925 035 400	289 608 435
Institutional, educational and churches	48 550 232	56 668 032
	3 464 332 628	1 767 725 663

Valuations on land and buildings are performed every 5 years. The last general valuation roll was done in November 2010 and came into effect on 1 July 2011, and is based on market-related values. Supplementary valuations are processed when completed by the valuer annually, to take into account changes to individual property values due to alterations and subdivisions.

The first R 50 000 of the valuation of residential property is exempted from rates.

As per the approved budget the basic rates were adjusted as follows:

R 0.006286 (2012: R 0.008980) rate per Rand on the value of rateable residential property
R 0.134700 (2012: R 0.017960) rate per Rand on the value of rateable business property
R 0.057200 (2012: R 0.052000) rate per Rand on the value of rateable government property
R 0.000530 (2012: R 0.000505) rate per Rand on the value of agricultural property
R 0.044900 (2012: R 0.044900) rate per Rand on the value of vacant stands

23. Service charges

Refuse removal	12 904 720	11 449 812
Sale of electricity	-	25 044 915
Sale of water	14 824 634	17 513 749
Sundry service charges	1 146 875	857 142
Sewerage and sanitation charges	14 328 048	12 534 612
Solid waste	18 144	15 600
	43 222 421	67 415 830

Mafube Local Municipality

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Figures in Rand	2013	2012
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24. Royalty income

Royalty income*	648 011	-
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*Rural Maintenance (Pty) Ltd pay a monthly royalty for the use of the electricity network. The amount of the monthly royalty is based on the bulk use of electricity. The amount of the royalty is fixed except with regards to annual rates increases.

25. Rental of facilities and equipment

Premises

Premises	141 028	149 926
Venue hire	10 058	31 148
	151 086	181 074

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Government grants and subsidies		
Department of Water Affairs (DWA)	2 999 972	674 790
Equitable Share	72 863 000	67 056 228
Expanded Public Works Programme Integrated Grant (EPWP)	1 024 000	-
Fezile Dabi District Municipality	528 119	3 199 209
Finance Management Grant (FMG)	1 938 601	1 011 398
Integrated National Electrification Programme (INEP)	8 902 770	8 194 397
Local Government Sector Education and Training Authority (LGSETA)	125 418	233 963
Municipal Infrastructure Grant (MIG)	18 688 571	25 421 931
Municipal Systems Improvement Grant (MSIG)	1 285 191	304 809
Treasury and Cooperative Governance and Traditional Affairs (COGTA)	1 819 871	-
	110 175 513	106 096 725

Equitable share

In terms of the Constitution of the Republic of South Africa, 1996 (Act 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.

Integrated national electrification programme (INEP)

Balance unspent at beginning of year	6 144 218	2 239 020
Current-year receipts	10 000 000	12 100 000
Conditions met - transferred to revenue	(8 902 771)	(8 194 397)
Other	-	(405)
	7 241 447	6 144 218

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.

Finance management grant (FMG)

Balance unspent at beginning of year	438 602	-
Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 938 602)	(1 011 398)
	438 602	

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

Mafube Local Municipality

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Figures in Rand	2013	2012
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26. Government grants and subsidies (continued)

Municipal infrastructure grant (MIG)

Receipts	25 841 000	21 303 000
Conditions met - transferred to revenue	(18 688 571)	(25 421 931)
Own funding	-	4 118 931
	<u>7 152 429</u>	<u>-</u>

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)

Balance unspent at beginning of year	485 191	-
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(1 285 191)	(304 809)
	<u>-</u>	<u>485 191</u>

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.

27. Recoveries

Employee cost recoveries*	<u>2 594 934</u>	<u>1 254 972</u>
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*The municipality pay the salaries of the seconded employees to Rural Maintenance (Pty) Ltd and recover the costs from Rural Maintenance on a monthly basis.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
28. Other income		
Building plans	70 722	56 643
Cemetery fees	126 335	165 705
Certificates	60 149	70 339
Connection fees	68 887	169 875
Ground gravel and soil	13 728	27 862
Income from agency services*	301 415	292 644
Licences and permits	-	1 313
Meter fees	-	6 406
Other income	1 533 478	1 951 776
Tender deposits	36 316	13 816
	2 211 030	2 756 379

*Income from agency service consist out of the Rural Maintenance (Pty) Ltd electricity asset additions received that were initially recognised as a liability (revenue received in advance) and thereafter recognised as income over the term of the PPP agreement.

29. Interest received

Interest		
Other financial assets	9 576	5 159
Cash and cash equivalents	150 028	239 438
Interest charged on consumer receivables	7 355 243	8 921 958
	7 514 847	9 166 555

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
30. Employee related costs		
Salaries	61 225 798	47 093 293
Bonus	3 058 145	2 482 813
Leave	776 366	3 671 381
Travel and subsistence allowances	1 366 680	1 623 090
	66 426 989	54 870 577

Remuneration of Municipal Manager - Radebe P I

Annual remuneration	450 732	510 214
Back pay	25 653	59 059
Contributions to SDL	9 904	7 032
Contributions to UIF	1 718	1 497
Contributions to medical aid	42 796	-
Contributions to pension fund	210 129	168 080
Leave paid out	134 306	-
Travel allowance	213 978	213 978
	1 089 216	959 860

Remuneration of Chief Financial Officer - Molefe N N

Acting allowance	204 416	215 470
Annual remuneration	181 737	281 895
Back pay	104 051	52 255
Contributions to SDL	6 836	6 097
Contributions to UIF	1 296	1 497
Contributions to medical aid	22 527	-
Contributions to pension fund	70 735	23 801
Leave paid out	78 475	-
Travel allowance	91 639	113 410
	761 712	694 425

The CFO resigned on 15 March 2013, thus the remuneration of the Chief Financial Officer in 2013 is for a period of 9 months. An acting CFO was nominated during March 2013.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
30. Employee related costs (continued)		
Director Corporate Services - Malindi M S		
Acting allowance	-	210 216
Annual remuneration	591 553	303 083
Back pay	19 701	51 650
Contributions to SDL	6 829	6 206
Contributions to UIF	3 090	1 622
Contributions to pension fund	157 605	49 665
Leave paid out	-	44 516
Travel allowance	99 800	97 476
	878 578	764 434
Director Community Services - Mofokeng Z E		
Annual remuneration	568 047	536 677
Back pay	19 701	49 809
Contributions to SDL	6 864	7 109
Contributions to UIF	3 090	1 622
Contributions to medical aid	13 688	-
Contributions to pension fund	88 530	79 892
Leave paid out	-	109 082
Travel allowance	144 299	74 017
	844 219	858 208
Director Land use and Human Settlement - Radebe N E		
Annual remuneration	631 531	514 685
Backpay	19 701	53 657
Contributions to SDL	8 375	6 420
Contributions to UIF	1 718	1 497
Contributions to pension fund	-	8 753
Leave paid out	109 479	-
Travel allowance	96 000	96 000
	866 804	681 012

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Notes to the Annual Financial Statements

Figures in Rand	2013	2012
30. Employee related costs (continued)		
Director Technical Services - Maboya L M		
Annual remuneration	205 000	-
Contributions to SDL	2 481	-
Contributions to UIF	595	-
Contributions to pension fund	31 949	-
Travel allowance	68 333	-
	308 358	-

The position was vacant in the prior year and the remuneration as reflected in 2013 was for a period of 4 months.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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31. Remuneration of councillors

Councillors	5 440 964	5 097 072
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In-kind benefits

The Mayor and Speaker are full time employees and each are provided with an office and secretarial support at the cost of the municipality. The Mayor has the use of a separate municipal owned vehicle for official duties.

Previous Mayor - Ntombela L M D

Annual remuneration	229 461	447 996
Back pay	-	14 569
Cellphone allowance	9 420	18 396
Contributions to pension fund	34 419	67 199
Contributions to SDL	3 236	6 085
Contributions to UIF	749	1 373
Travel allowance	76 487	149 332
	353 772	704 950

Current Mayor - Sigase J E

Annual remuneration	385 190	-
Back pay	12 802	-
Cellphone allowance	19 769	-
Contributions to medical aid	21 051	-
Contributions to pension fund	7 099	-
Contributions to SDL	5 147	-
Contributions to UIF	998	-
Travel allowance	135 414	-
	587 470	-

Speaker - Moloi T M

Annual remuneration	357 500	358 394
Back pay	19 252	11 655
Cellphone allowance	21 542	18 396
Contributions to medical aid	30 989	17 280
Contributions to pension fund	40 376	53 759
Contributions to SDL	5 253	4 950
Contributions to UIF	998	1 373
Travel allowance	126 305	119 465
	602 215	585 272

Mafube Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2013	2012
32. Depreciation, amortisation and impairments		
Intangible assets	202 500	329 479
Investment property	380 350	380 350
Property, plant and equipment	123 094 041	119 438 827
	123 676 891	120 148 656
33. Finance charges		
Cash and cash equivalents	201 349	-
Employee benefits	823 289	800 801
Finance lease liabilities	237 339	523 305
Late payment of pension funds	455 510	573 626
Late payment of taxes	1 015 171	532 831
Non-current borrowings	105 285	115 798
Non-current provisions	125 832	-
Payables from exchange transactions	4 314 822	5 315 867
	7 278 597	7 862 228
34. Debt impairment		
Contributions to receivables impairment provision	863 037	974 451
Contributions to consumer debtors impairment provision	39 413 426	8 456 322
	40 276 463	9 430 773
35. Bulk purchases		
Electricity	-	33 588 498
Water	9 168 910	3 190 159
	9 168 910	36 778 657
36. Grants and subsidies paid		
Indigent subsidies	7 529 210	7 708 564

Mafube Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2013	2012
37. General expenses		
Administration cost	107	122
Advertising	245 643	302 798
Assets expensed	162	247 298
Bank charges	247 661	741 185
Billing charges	-	450
Bursaries	1 280 710	380 602
Chemicals	1 426 957	2 639 209
Cleaning	137 013	1 511 777
Community development and training	2 446 434	1 778 338
Conferences and seminars	145 543	144 334
Consulting and professional fees	3 871 465	7 798 835
Consumables	-	62 358
Donations	37 630	50 332
Electricity	7 548 155	3 739 452
Entertainment	653 348	395 385
External and internal audit fees	3 462 993	2 645 254
Fuel and oil	2 161 463	2 660 919
IT expenses	569 803	712 639
Insurance	427 804	117 554
Integrated development plan (IDP)	1 061 666	413 759
Lease rentals on operating lease	500 563	544 107
Legal fees	406 665	730 163
Magazines, books and periodicals	17 320	48 794
Motor vehicle expenses	206 077	1 531 096
Other expenses	249 861	-
Pauper burials	37 136	77 947
Policies and by-laws	67 800	332 040
Postage and courier	403 961	376 760
Printing and stationery	668 083	1 080 890
Project management unit	1 721 510	1 000 145
Protective clothing	340 550	377 923
Refuse	376 845	292 109
Security	113 355	493 968
Software expenses	126 184	899 233
Staff welfare	350 705	146 455
Subscriptions and membership fees	247 222	542 381
Telephone and fax	1 960 627	3 157 438
Training	7 569	246 735
	33 526 590	38 220 784
38. Fair value adjustments		
Actuarial gain/(loss) on employee benefits	(99 413)	(662 669)
Other financial assets		
VKB Agriculture Limited	33 666	111 520
	(65 747)	(551 149)

Mafube Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2013	2012
39. Cash generated from operations		
Deficit for the year	(118 703 755)	(84 988 278)
Adjustments for:		
Depreciation, amortisation and impairments	123 676 891	120 148 656
(Gain)/loss on disposal of assets	(608 632)	-
Fair value adjustments	65 747	551 149
Interest income	(7 364 819)	(8 927 117)
Finance charges	7 077 248	7 862 228
Debt impairment	40 276 463	9 430 773
Service charges on employee benefits	395 833	139 824
Income from agency services	(301 415)	(292 644)
Correction of prior year errors	-	(56 660 889)
Changes in working capital:		
Inventories	(150 109)	46 397
Receivables from exchange transactions	(246 057)	49 916 387
Consumer debtors	(29 088 566)	(39 199 136)
Payables from exchange transactions	20 092 566	40 411 084
VAT	(3 040 151)	3 034 448
Unspent conditional grants and receipts	7 325 865	4 867 319
Consumer deposits	17 133	61 973
Employee benefits	(791 666)	(167 794)
Non-current provisions	-	377 309
	38 632 576	46 611 689
40. Commitments		
Authorised capital expenditure		
Approved and contracted for		
Infrastructure assets	32 821 971	19 755 896

The 2012 comparative amount of R 19 775 896 has been restated from R 30 936 917 as a result of the correction in the determination of the commitment value.

This committed expenditure relates to infrastructure and community assets and will be financed by existing cash resources, grants and receipts.

Mafube Local Municipality

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Figures in Rand

2013

2012

41. Contingent liabilities

The municipality has the following contingent liabilities:

Unlicensed landfill sites:

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 R 10 000 000 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.

Sewerage leaking into the river:

Criminal charges have been laid against the Municipality over the contamination of drinking water by sewerage. A court date has been given when the municipality is expected to appear to answer to the charges relating to the sewerage spills. Estimation of the financial effect could not be made as it is unclear whether the court will impose a fine or imprisonment in the case that the municipality is found guilty.

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42. 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 audit fee expense, included under general expenses, of the prior year was overstated due to the incorrect classification of finance lease payments and consulting fees amounting to R 6 750 023.
- 2.) Receivables from exchange transactions were understated as no receivable was raised in the prior years for the overpayment of councillors's remuneration to the amount of R 2 535 840.
- 3.) Payables from exchange transactions were overstated by R 1 452 526 as a journal was processed to account for the year end accruals and it was already processed on the Venus system, thus double counted for.
- 4.) Receivables from exchange transactions were overstated by R 219 683 as a journal was processed to account for the year end outstanding rent due and it was already accounted for on the Venus system.
- 5.) Consumer debtors were overstated by R 462 135 as the municipality incorrectly billed rates and raised a receivable on their own buildings.
- 6.) Expenses amounting to R 38 410 151 of a capital nature were incorrectly allocated to operating expenditure in the Statement of Financial Performance.
- 7.) Payables from exchange transactions were understated by R 211 283 as some the Eskom small accounts were omitted.
- 8.) Management initiated a project to address the asset management challenges and appointed consulting engineers to recreate the fixed asset register to be GRAP compliant. Property, plant and equipment was restated by R 969 989 431.
- 9.) Property, plant and equipment was understated by R 10 541 895 due to moveable assets that were omitted in the prior year and assets captured at the incorrect cost prices.
- 10.) Employee benefits were overstated by R 111 854 due to seconded employees that were incorrectly excluded and temporary employees that were incorrectly included from the long service employee benefit valuation.

The correction of the errors results in adjustments as follows:

Statement of Financial Position

Increase in receivables from exchange transactions	2 316 157	2 316 157
Decrease in consumer debtors	(462 135)	(462 135)
Increase in property, plant and equipment	1 030 537 475	1 030 537 475
Decrease in employee benefits	111 854	111 854
Decrease in payables from exchange transactions	(211 283)	(211 283)
Increase in VAT payable	154 869	154 869
Decrease/(Increase) in accumulated (surplus)/deficit	(1 032 446 936)	(1 114 012 261)

Statement of Financial Performance

Decrease in rental of facilities and equipment	-	219 683
Increase in bulk purchases	-	1 106 207
Decrease in councillors remuneration	-	(330 913)
Increase in depreciation, amortisation and impairments	-	119 090 247
Increase in finance charges	-	2 107
Decrease in repairs and maintenance	-	(30 317)
Decrease in general expenses	-	(38 410 151)
Decrease in fair value adjustments	-	(111 854)

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43. Comparative figures

Certain comparative figures have been reclassified to disclose and provide information that is more relevant to the users of the financial statements and to show each material class of similar items separately in the financial statements. Thus to present items of dissimilar nature or function separately in the financial statements.

The effects of the reclassifications are as follows:

Statement of Financial Position

Increase in receivables from exchange transactions	-	(15 819 320)
Increase in consumer debtors	-	10 000
Increase in payables from exchange transactions	-	15 809 320
Decrease in property, plant and equipment	-	(45 248 635)
Increase in investment properties	-	45 248 635

Statement of Financial Performance

Increase in auction fees	-	(190 919)
Increase in recoveries	-	(1 254 972)
Decrease in other income	-	1 445 891
Increase in grants and subsidies paid	-	7 708 564
Decrease in general expenses	-	(7 708 564)

44. Financial sustainability

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;
- The municipality used conditional grants received to pay for operating expenses
- 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
- Employee benefit obligations are unfunded.

The municipality is exploring alternative options to improve its financial position.

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 liabilities 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).

45. Events after the reporting date

No significant events occurred after the reporting date.

Mafube Local Municipality

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46. Related parties

Relationships

Members of key management

Members of Council

Refer to general info and note 30 employee related cost.

Refer to general info and note 31 remuneration of Councillors.

Related party balances

In terms of section 164 (1)(c) of the Municipal Finance Management Act (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.

47. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for all stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 12, 13, cash and cash equivalents disclosed in note 7 and net assets as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The municipality's activities expose it to a variety of financial risks: including market risk (fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipal entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

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

Mafube Local Municipality

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47. Risk management (continued)

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes. The entity's policy is to minimise interest rate cash flow risk exposures on long-term financing.

The entity's interest rate risk arises from non-current borrowings and finance lease liabilities. Instruments issued at fixed rates expose the municipality to fair value interest rate risk. Interest rates on non-current borrowings are not based on prime and therefore fluctuations in prime will not affect the borrowings.

Financial liabilities which exposes the municipality to interest rate risk at year end were as follows:

Financial instrument	2013	2012
Non-current borrowings	2 077 174	2 255 132
Finance lease liabilities	2 204 704	1 568 898

Credit risk

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

Credit risks consists mainly of cash deposits, cash equivalent and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any on counter-party.

Consumer debtors comprise a widespread customer base. Management evaluated credit risk relating to consumers on an ongoing basis. If consumers are independently related, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the consumers, taking into account its financial position, past experience and other factors.

Consumer debtors are presented net of an allowance for impairment. Credit risk pertaining to consumer debtors is considered to be high due to a history of nonpayment and limited follow up procedures by the municipality in the past. The municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. Consumer debtors whose accounts enter into arrears, council endeavours to collect such accounts by levying of penalty charges, demand for payment, restriction of services and as a last resort handing over of debt for collection.

No consumer debtor or receivable from exchange transaction is pledged as security for any financial liability.

Financial assets which exposes the municipality to credit risk at year end were as follows:

Financial instrument	2013	2012
Receivables from exchange transactions	2 050 519	2 667 499
Consumer debtors (Net amount)	38 844 122	41 813 739
Cash and cash equivalents (Favourable balances)	2 699 087	329 930
Other financial assets	417 667	373 793

The municipality is exposed to a guarantee for the unused bank overdraft facility in favour of ABSA bank Limited. Refer to note 7 for details.

Price risk

The municipality is not exposed to price risk.

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
48. Unauthorised expenditure		
Unauthorised expenditure - budget overspending	21 774 063	17 925 031

Mafube Local Municipality

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Figures in Rand	2013	2012
49. Fruitless and wasteful expenditure		
Opening balance	17 845 988	10 728 059
Fruitless and wasteful expenditure current year (see incidents below)	5 797 193	7 117 929
Items certified as irrecoverable by Council	(17 727 744)	-
	5 915 437	17 845 988

The above expenditure were condoned by council at an ordinary council meeting held on 7 December 2012 in the Frankfort council chamber.

Incidents for the year	Disciplinary steps / criminal proceedings		
Interest on overdue account - Eskom	Reported and submitted, certified as irrecoverable by Council.	3 811 309	5 876 691
Interest on overdue account - Rural Maintenance (Pty) Ltd	Report to be submitted, awaiting condonement by Council.	397 364	-
Interest and penalties on late payment of VAT - SARS	Reported and submitted, certified as irrecoverable by Council.	242 947	76 292
Interest and penalties on late payment of PAYE - SARS	Reported and submitted, certified as irrecoverable by Council.	414 891	337 860
Interest and penalties on late payment of UIF - SARS	Reported and submitted, certified as irrecoverable by Council.	241 144	60 301
Interest and penalties on late payment of SDL - SARS	Reported and submitted, certified as irrecoverable by Council.	116 189	58 378
Interest on late payment of deductions to pension and provident funds	Reported and submitted, certified as irrecoverable by Council.	455 510	573 025
Arrear interest on DBSA loan default	Reported and submitted, certified as irrecoverable by Council.	1 237	24 472
Interest on overdue account - Auditor-General	Reported and submitted, certified as irrecoverable by Council.	103 851	83 823
Interest on overdue account - Telkom	Reported and submitted, certified as irrecoverable by Council.	3 425	2 912
Interest on overdue account - VKB	Report to be submitted, awaiting condonement by Council.	4 753	3 267
Interest on overdue accounts - Other trade payables	Reported and submitted, certified as irrecoverable by Council.	-	68
Bank charges on unused fleet cards - ABSA	Reported and submitted, certified as irrecoverable by Council.	1 393	13 001
Interest and penalties on late payment of vehicle licenses and traffic fines paid	Reported and submitted, certified as irrecoverable by Council.	3 180	7 839

Mafube Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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50. Irregular expenditure

Opening balance	71 142 949	42 118 515
Add: Irregular expenditure - current year	30 126 854	29 024 434
Less: Amounts condoned	(71 142 949)	-
Less: Amounts recovered (not condoned)	(56 316)	-
	30 070 538	71 142 949

51. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	440 296	770 630
Subscription fees	279 823	440 296
Payments made	(220 148)	(770 630)
	499 971	440 296

SALGA subscriptions for the current and prior reporting period.

Material losses

There were no material losses through criminal conduct for the current or prior reporting period.

The last general valuation roll was done in November 2010 and came into effect on 1 July 2011. The valuation roll values were not accurately uploaded onto the Venus system, rates forgone due to lower values on the Venus system than on the valuation roll amounted to a loss of R 1 540 749 (2012: R 1 540 749) in property rates.

Auditor General - Audit fees

Opening balance	1 596 352	806 358
Fees	3 206 873	2 645 254
Interest charged on overdue account	103 851	83 823
Payments	(3 726 909)	(1 939 083)
	1 180 167	1 596 352

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

SARS - Pay as You Earn (PAYE)

Opening balance	(864 193)	2 023 616
Assessments	4 763 315	3 930 959
Amounts paid	(36 737 626)	(5 261 468)
Payment adjustments	36 567 377	(1 780 183)
Interest and penalties	414 891	222 883
	4 143 764	(864 193)

SARS - Unemployment Insurance Fund (UIF)

Opening balance	414 243	402 061
Assessments	895 393	794 536
Amounts paid	(2 702 359)	(306 610)
Payment adjustments	3 128 168	(536 045)
Interest and penalties	241 144	60 301
	1 976 589	414 243

SARS - Skills Development Levy (SDL)

Opening balance	420 317	223 229
Assessments	549 919	444 594
Amounts paid	(620 824)	(205 046)
Payment adjustments	752 807	(100 838)
Interest and penalties	116 189	58 378
	1 218 408	420 317

Pension fund and medical aid deductions

Opening balance	(4 878 225)	2 022 910
Deductions made	14 208 152	11 294 313
Amounts paid	(8 763 552)	(18 195 448)
	566 375	(4 878 225)

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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51. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors have arrear accounts outstanding for more than 90 days as at 30 June 2013:

	Outstanding less than 90 days	Outstanding more than 90 days	Total
	R	R	R
Hadebe M	732	5 182	5 914
Jafta U C	349	-	349
Mofokeng M M	370	-	370
Mosia A S	1 264	314	1 578
Motloung F P	1 386	132	1 518
Motloung P	503	2 674	3 177
Motloung W C	1 135	10 396	11 531
	5 739	18 698	24 437

Maifube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

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Figures in Rand

52. Statement of comparative and actual information

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	8 280 000	7 572 439	15 852 439	-	-	15 852 439	16 322 286	-	469 847	103 %	197 %
Service charges	23 758 447	6 370 470	30 128 917	-	-	30 128 917	43 222 421	-	13 093 504	143 %	182 %
Royalty income	-	-	-	-	-	-	648 011	-	648 011	DIV/O %	DIV/O %
Rental of facilities and equipment	-	41 813	41 813	-	-	41 813	151 086	-	109 273	361 %	DIV/O %
Fines	277 720	277 720	555 440	-	-	555 440	133 744	-	(421 696)	24 %	48 %
Government grants and subsidies	114 267 000	-	114 267 000	-	-	114 267 000	110 175 513	-	(4 091 487)	96 %	96 %
Auction fees	-	874 168	874 168	-	-	874 168	772 173	-	(101 995)	88 %	DIV/O %
Recoveries	-	315	315	-	-	315	2 594 934	-	2 594 619	823 789 %	DIV/O %
Other income	8 742 001	(3 103 092)	5 638 909	-	-	5 638 909	2 211 030	-	(3 427 879)	39 %	25 %
Interest received	2 782 500	(1 173 072)	1 609 428	-	-	1 609 428	7 514 847	-	5 905 419	467 %	270 %
Total revenue (excluding capital transfers and contributions)	158 107 668	10 860 761	168 968 429	-	-	168 968 429	183 746 045	-	14 777 616	109 %	116 %
Employee related costs	(55 567 279)	1 931	(55 565 348)	-	-	(55 565 348)	(66 426 989)	10 861 641	(10 861 641)	120 %	120 %
Remuneration of councillors	(4 914 833)	(200 000)	(5 114 833)	-	-	(5 114 833)	(5 440 964)	326 131	(326 131)	106 %	111 %
Depreciation, amortisation and impairment	(1 040 000)	-	(1 040 000)	-	-	(1 040 000)	(123 676 891)	-	(122 636 891)	11 892 %	11 892 %
Finance charges	(55 287)	(27 000)	(82 287)	-	-	(82 287)	(7 278 597)	7 196 310	(7 196 310)	8 845 %	13 165 %
Debt impairment	(5 500 000)	-	(5 500 000)	-	-	(5 500 000)	(40 276 463)	-	(34 776 463)	732 %	732 %
Repairs and maintenance	(8 200 000)	(187 000)	(8 387 000)	-	-	(8 387 000)	(9 668 071)	1 281 071	(1 281 071)	115 %	118 %

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

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Figures in Rand

52. Statement of comparative and actual information (continued)										
Bulk purchases	(9 210 000)	2 150 000	(7 060 000)	-	(7 060 000)	(9 168 910)	2 108 910	(2 108 910)	130 %	100 %
Grants and subsidies paid	-	(11 294 936)	(11 294 936)	-	(11 294 936)	(7 529 210)	-	3 765 726	67 %	DIV/O %
Other expenditure	(79 308 020)	(3 922 361)	(83 230 381)	-	(83 230 381)	(43 294 074)	-	39 936 307	52 %	55 %
Total expenditure	(163 795 419)	(13 479 366)	(177 274 785)	-	(177 274 785)	(312 760 169)	21 774 063	(135 485 384)	176 %	191 %
Surplus/(Deficit)	(5 687 751)	(2 618 605)	(8 306 356)	-	(8 306 356)	(129 014 124)		(120 707 768)	1 553 %	2 268 %

Mafube Local Municipality

Annual Financial Statements for the year ended 30 June 2013

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Figures in Rand

52. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	25 841 000	-	25 841 000	-	-	25 841 000	9 767 484		(16 073 516)	38 %	38 %
Surplus (Deficit) after capital transfers and contributions	20 153 249	(2 618 605)	17 534 644	-	-	17 534 644	(119 246 640)		(136 781 284)	(680)%	(592)%
Fair value adjustments	-	-	-	-	-	-	(65 747)		(65 747)	DIV/0 %	DIV/0 %
Gain on disposal of assets	-	-	-	-	-	-	608 632		608 632	DIV/0 %	DIV/0 %
Surplus/(Deficit) for the year	20 153 249	(2 618 605)	17 534 644	-	-	17 534 644	(118 703 755)		(136 238 399)	(677)%	(589)%

The budget is approved on a cash basis by nature classification. The approved budget covers the period from 1 July 2012 to 30 June 2013 for Mafube Local Municipality.

Schedule of external loans as at 30 June 2013

Loan Number	Redeemable	Balance at 30 June 2012	Interest capitalised / Additions	Redeemed / written off during the period	Balance at 30 June 2013	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
61006963	31/12/2021	2 255 132	105 285	283 243	2 077 174	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		-	-	-	-	-	-
		2 255 132	105 285	283 243	2 077 174	-	-

Development Bank of South Africa

DBSA fixed @ 5%