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Year end: Tuesday, June 30, 2009

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Balance Check		Company	
		2009	2008
	Balance Sheet balances		
	Cash flow statement balances		
	Net Income per the Income Statement does not agree with the NETINC account	-	1
	Opening Retained Income does not match the closing balance for the prior year	(11,529,768)	-

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Mbizana Local Municipality  
(Registration number #####/##)  
Annual financial statements  
for the year ended June 30, 2009

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Index

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

<b>Index</b>	<b>Page</b>
Approval and certification	2
Statement of Financial Position	3
Statement of Financial Performance	4
Statement of Changes in Net Assets	5
Cash Flow Statement	6
Accounting Policies	7 - 13
Notes to the Annual Financial Statements	14 - 23

The following supplementary information does not form part of the annual financial statements and is unaudited:

Detailed Income statement	24
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### Abbreviations

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

A report of the accounting officer has not been prepared as the municipality is a wholly owned subsidiary of which is incorporated in South Africa.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Approval and certification

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The accounting officer is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are responsible for reporting on the fair presentation of the annual financial statements.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005.

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Minister of Finance has, in terms of General notice 552 of 2007 exempted compliance with certain of the above mentioned standards and aspects or parts of these standards. Details of the exemptions applicable to the municipality have been provided in the notes to the annual financial statements.

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 3.

The annual financial statements set out on pages 3 to 24, which have been prepared on the going concern basis, were approved by the Municipal Manager on 31 August 2009 and were signed on its behalf by:

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**Accounting Officer**

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Statement of Financial Position

Figures in Rand	Note(s)	2009	2008
<b>Assets</b>			
Current Assets			
Inventories	2	180,961	71,815
Consumer debtors	3	1,025,219	8,868,245
Other debtors	5	5,456,256	3,161,176
Loans and Receivables		210,030	288,782
Call investment deposits	6	14,738,579	15,445,754
Cash and cash equivalents	7	12,171,708	4,316,103
		<b>33,782,753</b>	<b>32,151,875</b>
Non-Current Assets			
Property, plant and equipment	8	68,722,807	59,518,944
Intangible assets	9	759,680	451,038
Loans and receivables	4	-	210,030
		<b>69,482,487</b>	<b>60,180,012</b>
<b>Total Assets</b>		<b>103,265,240</b>	<b>92,331,887</b>
<b>Liabilities</b>			
Current Liabilities			
Trade and other payables	10	4,050,283	2,113,637
Provisions	11	4,079,906	959,730
Unspent conditional grants and receipts	14	4,471,182	9,761,604
Consumer deposits	15	298,769	292,269
Bank overdraft	7	2,863,838	2,914,307
		<b>15,763,978</b>	<b>16,041,547</b>
<b>Total Liabilities</b>		<b>15,763,978</b>	<b>16,041,547</b>
<b>Net Assets</b>		<b>87,501,262</b>	<b>76,290,340</b>
<b>Net Assets</b>			
Reserves			
Government Grant Reserve	13	-	9,438,278
Accumulated surplus		87,501,262	66,852,062
<b>Total Net Assets</b>		<b>87,501,262</b>	<b>76,290,340</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Statement of Financial Performance

Figures in Rand	Note(s)	2009	2008
Income		82,972,523	58,372,964
Operating expenses		(71,645,716)	(46,843,195)
<b>Operating surplus</b>		<b>11,326,807</b>	<b>11,529,769</b>
<b>Surplus for the year</b>		<b>11,326,807</b>	<b>11,529,769</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Statement of Changes in Net Assets

Figures in Rand	Government grant reserve	Accumulated surplus / (Deficit)	Total net assets
<b>Balance at July 1, 2007</b>	<b>9,498,321</b>	<b>60,825,975</b>	<b>70,324,296</b>
Changes in net assets			
Amendments to 2006/07 AFS	-	3,777,161	3,777,161
Correction of error	-	157,435	157,435
Offsetting of depreciation	(60,043)	60,043	-
Capital grants used to purchase PPE	9,498,321	(9,498,321)	-
Net income (expenses) recognised directly in net assets	9,438,278	(5,503,682)	3,934,596
Surplus for the year	-	11,529,769	11,529,769
Total recognised income and expenses for the year	9,438,278	6,026,087	15,464,365
Total changes	9,438,278	6,026,087	15,464,365
<b>Balance at July 1, 2008</b>	<b>9,438,278</b>	<b>66,852,062</b>	<b>76,290,340</b>
Changes in net assets			
Surplus for the year	-	11,326,807	11,326,807
Write-off of government grant reserve	(9,438,278)	9,438,278	-
Appropriations	-	(115,885)	(115,885)
Total changes	(9,438,278)	20,649,200	11,210,922
<b>Balance at June 30, 2009</b>	<b>-</b>	<b>87,501,262</b>	<b>87,501,262</b>

Note(s)

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Cash Flow Statement

Figures in Rand	Note(s)	2009	2008
<b>Cash flows from operating activities</b>			
Cash receipts from customers		72,452,262	63,669,525
Cash paid to suppliers and employees		(51,925,872)	(38,554,592)
Cash generated from operations	12	6,842,130	25,114,933
Interest received	23	2,677,235	932,383
<b>Net cash from operating activities</b>		<b>9,519,365</b>	<b>26,047,316</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(13,964,552)	(9,699,702)
Purchase of other intangible assets	9	(308,642)	(56,165)
(Increase) / decrease in Inventories		(109,146)	-
(Increase) / decrease in non-current receivables		-	17,021
(Increase) / decrease in investments		(707,175)	(12,995,548)
(Increase) / decrease in current receivables		13,469,724	36,230
<b>Net cash from investing activities</b>		<b>(1,619,791)</b>	<b>(22,698,164)</b>
<b>Cash flows from financing activities</b>			
Increase in consumer deposits		6,500	15,080
<b>Total cash movement for the year</b>		<b>7,906,074</b>	<b>3,364,232</b>
Cash at the beginning of the year		1,401,796	(1,962,436)
<b>Net increase (decrease) in cash and cash equivalents</b>	7	<b>9,307,870</b>	<b>1,401,796</b>



# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost basis unless otherwise stated. Under this basis the effects of transactions and other events are recognised when they occur and are recorded in the annual financial statements within the period to which they relate.

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005.

The standards are summarised as follows:

#### Standard of GRAP

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Accounting for Investments in Associates
GRAP 8	Financial Reporting of Interests in Joint Ventures
GRAP 9	Revenue
GRAP 12	Inventories
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

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

These accounting policies are consistent with those of the previous annual financial statements.

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

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

#### 1.1 Presentation of Currency

These annual financial statements are presented in South African Rand and are rounded to the nearest Rand.

#### 1.2 Going Concern Assumption

These annual financial statements have been prepared on a going concern basis.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.3 Reserves

#### Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury.

When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/(deficit).

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

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

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

### 1.4 Property, plant and equipment

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

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

Infrastructure assets	Years
• Roads, pavements, bridges and storm water	15 - 30
• Water reservoirs and reticulation	15 - 20
• Car parks, bus terminals and taxi ranks	20
• Electricity reticulation	20 - 30
• Sewerage purification and reticulation	15 - 20
• Street lighting	25
Community Assets	
• Parks and gardens	30
• Sports fields	30
• Community halls	30
• Libraries	30
• Clinics	30
• Cemeteries	30
Other assets	
• Motor vehicles	3 - 7
• Plant and equipment	7 - 10
• Buildings	30
• Furniture	7 - 10
• IT equipment	3 - 5
• Office equipment	3 - 7
• Specialised vehicles	10 - 15

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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

The residual value and the useful life of each asset are reviewed at each financial period-end.

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 shall be 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.

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.

### 1.5 Financial instruments

#### Initial recognition

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

Financial assets and financial liabilities are recognised on the municipality's statement of financial position when the municipality becomes party to the contractual provisions of the instrument.

#### Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

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

#### Cash and cash equivalents

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

#### Bank overdraft and borrowings

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

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method.

#### Other loans and receivables

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.5 Financial instruments (continued)

Other financial assets classified as loans and receivables are initially recognised at fair value plus transaction costs, and are subsequently carried at amortised cost less any accumulated impairment.

These financial assets are not quoted in an active market and have fixed or determinable payments.

### 1.6 Inventories

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 business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.7 Leases

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

### 1.8 Types of revenue

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

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

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 statement of financial position 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 associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be 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 statement of financial position date. Stage of completion is determined by .

Contract revenue comprises:

- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probable that they will result in revenue; and
  - they are capable of being reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable

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# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.8 Types of revenue (continued)

for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

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

Royalties are recognised on the accrual basis in accordance with the substance of the relevant agreements.

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

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

### 1.9 Turnover

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

### 1.10 Borrowing costs

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

### 1.11 Investment property

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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.

### 1.12 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.12 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a definite 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.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Useful life
Computer software	13 years

### 1.13 Impairment of assets

The municipality assesses at each statement of financial position date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

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 recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

### 1.14 Provisions and Contingent Liabilities

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 will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

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

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Accounting Policies

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### 1.14 Provisions and Contingent Liabilities (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 23.

### 1.15 Comparative figures

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

### 1.16 Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

### 1.17 Post Balance Sheet Events

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the balance sheet date. Events after the balance sheet date that are indicative of conditions that arose after the balance sheet date are dealt with by way of a note to the financial statements.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>2. Inventories</b>		
Inventory held at cost	180,961	71,815
<b>3. Consumer debtors</b>		
Consumer debtors' balance	10,667,432	11,935,651
Provision for bad debts	(9,642,213)	(3,067,406)
Net balance	1,025,219	8,868,245
<b>Rates</b>		
Current (0 -30 days)	72,287	120,189
31 - 60 days	57,832	53,232
61 - 90 days	52,885	46,873
> 90 days	1,587,477	830,325
	<b>1,770,481</b>	<b>1,050,619</b>
<b>Electricity</b>		
Current (0 -30 days)	251,840	295,545
31 - 60 days	130,337	71,441
61 - 90 days	124,008	48,536
> 90 days	955,245	421,380
	<b>1,461,430</b>	<b>836,902</b>
<b>Refuse</b>		
Current (0 -30 days)	51,447	81,035
31 - 60 days	41,200	31,580
61 - 90 days	35,911	28,436
> 90 days	682,494	393,487
	<b>811,052</b>	<b>534,538</b>
<b>Other</b>		
Current (0 -30 days)	41,546	(29,540)
31 - 60 days	36,819	22,315
61 - 90 days	35,755	16,991
>90 days	6,510,350	6,791,791
	<b>6,624,470</b>	<b>6,801,557</b>
<b>Reconciliation of bad debt provision</b>		
Balance at beginning of the year	3,067,406	3,067,406
Contributions to provision	6,574,807	-
	<b>9,642,213</b>	<b>3,067,406</b>
<b>4. Loans and receivables</b>		
<b>Loans and receivables</b>		
Car loans to staff	-	288,782
<b>Current assets</b>		
Loans and receivables	-	288,782



# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand

	2009	2008
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### 4. Loans and receivables (continued)

#### Car loans to staff

Senior staff were entitled to car loans which attract interest at 8% per annum and which are repayable over a maximum period of 5 years. These loans are repayable in the 2009 year.

#### Property sales

These relate to the sale of properties on credit. The balance is payable after certain legal processes have been completed.

### 5. Other debtors

Rental debtors	202,942	228,881
Value added tax	4,452,001	2,010,805
Pensions Councillors	34,874	63,465
O R Tambo District Municipality	766,439	766,439
Sundry debtors	-	91,586
	<b>5,456,256</b>	<b>3,161,176</b>

Management have made a hundred percent provision for the amounts due by OR Tambo District Municipality. Refer to note 11 for additional information hereto.

Value added tax is payable on the receipts basis. Only when payment is received from debtors is value added tax paid over to SARS.

### 6. Call Investment Deposit

32 Day Notice Deposits	14,738,579	15,445,754
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### 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash	757	760
Bank balances	12,170,951	4,315,343
Bank overdraft	(2,863,838)	(2,914,307)
	<b>9,307,870</b>	<b>1,401,796</b>
Current assets	12,171,708	4,316,103
Current liabilities	(2,863,838)	(2,914,307)
	<b>9,307,870</b>	<b>1,401,796</b>

The Municipality has the following bank accounts :

#### **Current account (Primary bank account)**

First National Bank - Bizana Branch - Account Number 51704922107

#### **Current account (Licencing account)**

First National Bank - Bizana Branch - Account Number 5170101039997

#### **Call account (Electricity Infrastructure)**

First National Bank - Bizana Branch - Account Number 61170003788

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand 2009 2008

### 8. Property, plant and equipment

	2009			2008		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land	5,964,496	(2,180,885)	3,783,611	5,964,496	(1,795,353)	4,169,143
Infrastructure	51,217,114	(9,721,547)	41,495,567	37,202,278	(5,846,021)	31,356,257
Community	23,679,303	(4,054,566)	19,624,737	23,679,303	(3,104,777)	20,574,526
Other	11,150,099	(7,331,207)	3,818,892	9,461,216	(6,042,198)	3,419,018
<b>Total</b>	<b>92,011,012</b>	<b>(23,288,205)</b>	<b>68,722,807</b>	<b>76,307,293</b>	<b>(16,788,349)</b>	<b>59,518,944</b>

#### Reconciliation of property, plant and equipment - 2009

	Opening Balance	Additions	Depreciation	Total
Land	4,169,143	-	(385,532)	3,783,611
Infrastructure	31,356,257	14,014,836	(3,875,526)	41,495,567
Community	20,574,526	-	(949,789)	19,624,737
Other	3,419,018	1,688,884	(1,289,010)	3,818,892
	<b>59,518,944</b>	<b>15,703,720</b>	<b>(6,499,857)</b>	<b>68,722,807</b>

#### Reconciliation of property, plant and equipment - 2008

	Opening Balance	Additions	Capital under construction	Depreciation	Total
Land	4,554,675	-	-	(385,532)	4,169,143
Infrastructure	26,017,605	1,235,171	6,246,537	(2,143,056)	31,356,257
Community	19,442,665	-	2,081,650	(949,789)	20,574,526
Other	4,360,664	136,344	-	(1,077,990)	3,419,018
	<b>54,375,609</b>	<b>1,371,515</b>	<b>8,328,187</b>	<b>(4,556,367)</b>	<b>59,518,944</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 9. Intangible assets

	2009			2008		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	888,514	(128,834)	759,680	518,276	(67,238)	451,038

#### Reconciliation of intangible assets - 2009

	Opening Balance	Additions	Amortisation	Total
Computer software	451,038	370,238	(61,596)	759,680

#### Reconciliation of intangible assets - 2008

	Opening Balance	Additions	Amortisation	Total
Computer software	431,304	56,165	(36,431)	451,038

### 10. Trade and other payables

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Trade and other payables (continued)

	2009	2008
Trade payables	4,050,283	1,798,396
District Municipality	-	151,792
Workmans Compensation	-	163,449
	<b>4,050,283</b>	<b>2,113,637</b>

### 11. Provisions

#### Reconciliation of provisions - 2009

	Opening Balance	Additions	Reversed during the year	Total
Staff leave provision	959,730	245,150	(112,248)	1,092,632
Other provisions	-	2,987,274	-	2,987,274
	<b>959,730</b>	<b>3,232,424</b>	<b>(112,248)</b>	<b>4,079,906</b>

#### Reconciliation of provisions - 2008

	Opening Balance	Reversed during the year	Total
Staff leave provision	1,267,908	(308,178)	959,730

### 12. Cash generated from operations

Surplus before taxation	11,326,807	11,529,769
<b>Adjustments for:</b>		
Depreciation and amortisation	6,561,453	4,592,798
Movements in provisions	2,010,805	-
Adjustment in net assets	-	3,934,596
Investment income	(2,677,235)	(932,383)
<b>Changes in working capital:</b>		
Other debtors	(7,843,026)	874,952
Trade and other payables	(2,536,675)	(238,792)
Unspent conditional grants and receipts	-	5,353,993
	<b>6,842,130</b>	<b>25,114,933</b>

### 13. Reserves

Government Grant Reserve	-	9,438,278
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# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand

	2009	2008
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### 14. Unspent conditional grants and receipts

Deferred income comprises:

#### Conditional grants and receipts

MIG Grants	2,879,689	8,971,722
Municipal Support Grant	275,148	275,148
Municipal Systems Improvement Grant	636,216	88,848
O.R Tambo District	-	6,352
IDP Grant	-	147,960
Extention 2 Residents Fund	33,802	33,802
Pilot Housing Fund	78,338	78,338
St. Patrick	114,490	159,436
Financial Management	453,500	-
	<b>4,471,182</b>	<b>9,761,606</b>

See note 16 for reconciliation of grants. These grants are invested until utilised.

### 15. Consumer deposits

Electricity	298,769	292,269
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No interest is paid on deposits.

### 16. Property Rates

#### Rates received

Residential and commercial	1,146,154	799,455
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#### Valuations

Residential	49,688,174	36,610,575
Commercial	16,588,887	19,733,300
	<b>66,277,061</b>	<b>56,343,875</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 1998. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions. A general rate of R1.60c/R is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis on property owners. Interest at 2% per annum is levied on outstanding rates.

### 17. Service charges

Sale of electricity	4,516,029	4,042,206
Refuse removal	563,026	570,397
	<b>5,079,055</b>	<b>4,612,603</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>18. Government grants and subsidies</b>		
Equitable shares	46,644,098	36,537,533
Municipal Support Programme	-	1,041,865
Municipal Systems Improvement Grant	187,632	1,012,912
Finance Management Grant	246,500	250,000
O R Tambo Grant	-	560,093
LGSET / Skills Development Grant	64,667	-
Premier Disaster Grant	-	100,000
St. Patrick Grant	-	235,361
MIG	13,336,733	10,178,271
Department of Transport - testing station	-	300,000
Revolving Fund	10,900,000	-
	<b>71,379,630</b>	<b>50,216,035</b>

### Equitable Share

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

#### Municipal Support Grant

Balance unspent at beginning of year	275,148	657,013
Current-year receipts -included in public health vote	-	660,000
Conditions met - transferred to revenue	-	(1,041,865)
	<b>275,148</b>	<b>275,148</b>

The grant was utilised for risk based and internal controls.

#### MIG Grant

Balance unspent at beginning of year	8,971,722	5,196,597
Current-year receipts	6,303,000	13,953,396
Conditions met - transferred to revenue	(13,336,733)	(10,178,271)
	<b>1,937,989</b>	<b>8,971,722</b>

The grant was utilised for the construction of roads and community hall.

#### Municipal Systems Improvement Grant

Balance unspent at beginning of year	88,848	367,760
Current-year receipts	735,000	734,000
Conditions met - transferred to revenue	(187,632)	(1,012,912)
	<b>636,216</b>	<b>88,848</b>

The grant was utilised for the IDP process, compilation of financial statements and ward committee training.

#### O R Tambo Grants

Balance unspent at beginning of year	6,352	-
Current-year receipts	-	566,445
Conditions met - transferred to revenue	(6,352)	(560,093)
	<b>-</b>	<b>6,352</b>

#### Finance Management Grant

Current-year receipts	500,000	250,000
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# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>18. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(246,500)	(250,000)
	<b>253,500</b>	-
The grant was utilised for the appointment of interns and training.		
<b>LED Grant</b>		
Current-year receipts	200,000	-
<b>IDP Grant</b>		
Balance unspent at beginning of year	147,959	-
Current-year receipts	96,491	210,000
Conditions met - transferred to revenue	(268,596)	(62,041)
	<b>(24,146)</b>	<b>147,959</b>
The grant was utilised for planning and survey.		
<b>Other Grants</b>		
Balance unspent at beginning of year	159,436	-
Current-year receipts	-	494,797
Conditions met - transferred to revenue	-	(335,361)
	<b>159,436</b>	<b>159,436</b>
Changes in levels of government grants		
Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.		
<b>19. General expenses</b>		
Institutional Support Projects	1,239,462	540,499
Provision of Free Basic Services	-	636,358
Mayor's Special Programmes	318,921	285,831
HIV/AIDS Programmes	324,709	192,348
Sports, Art and Culture	2,000	2,500
Community Involvement	97,159	95,892
Ward Committee Fees	603,073	590,298
Financial Management Systems	246,500	256,553
Local Economic Development Projects	132,650	-
St Patrick's Projects	-	235,361
Legal fees	818,308	974,025
Other expenses	26,824,129	9,103,237
	<b>30,606,911</b>	<b>12,912,902</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>20. Employee related costs</b>		
Salary and wages	24,524,923	21,152,774
Performance bonus	16,000	239,818
Travel, motor car, accommodation, subsistence and other allowances	422,977	1,052,838
Housing benefits and allowances	746,097	750,464
Backpay	-	438,457
Acting allowance	17,740	50,641
Casual labour	209,803	214,562
Contributions for UIF, pensions and medical aids	1,406,585	1,925,727
Overtime payments	84,859	98,291
Less: Councillor Remuneration	(9,775,279)	(8,479,954)
	<b>17,653,705</b>	<b>17,443,618</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	299,438	276,115
Settlement	367,197	494,576
Performance Bonuses	-	239,818
Other	265,311	193,871
	<b>931,946</b>	<b>1,204,380</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	109,160	105,828
Performance Bonuses	-	26,457
Other	100,497	83,230
	<b>209,657</b>	<b>215,515</b>
<b>Remuneration of the Development Planning Officer</b>		
Annual Remuneration	327,438	161,856
Other	377,647	93,497
	<b>705,085</b>	<b>255,353</b>
<b>Remuneration of the Corporate Services Officer</b>		
Annual Remuneration	354,724	264,079
Performance Bonuses	98,961	28,662
Other	273,432	120,429
	<b>727,117</b>	<b>413,170</b>
<b>Remuneration of the Planning and Infrastructure Officer</b>		
Annual Remuneration	272,164	219,494
Performance Bonuses	-	11,024
Other	302,979	120,585
	<b>575,143</b>	<b>351,103</b>
<b>21. Remuneration of Councillors</b>		
Executive Major	545,981	476,048
Chief Whip	280,493	273,640
Majoral Committee Members	2,169,216	1,754,812
Speaker	222,126	383,518

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>21. Remuneration of Councillors (continued)</b>		
Councillors	6,557,463	5,591,936
	<b>9,775,279</b>	<b>8,479,954</b>

The Mayor is a full time Councillor. The Mayor is provided with an office and secretarial support at the cost of the Municipality. the Mayor has use of a Municipal Owned vehicle for official duties..

### 22. Bulk purchases

Electricity	2,728,291	2,270,339
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### 23. Contingent Liability

Rate payers are disputing the payment of property rates. The outcome of the court ruling is not known. Management and the legal team have assessed the risk of litigation as low hence only note disclosure is required.

### 24. Related parties

#### Related party transactions

Loans to related parties

Management have identified no related party transactions that require note disclosure in the annual financial statements.

### 25. Going concern

We draw attention to the fact that at June 30, 2009, the municipality had accumulated deficits of R 87,501,262 and that the municipality's total liabilities exceed its assets by R 87,501,262. The current year financial surplus consolidated with the prior year surplus aggregates to R 24,800,000.00. Current year cash as per the cash flow statement increased by R 7,906,074.00. Drawing attention to our medium term expenditure framework and the implementation of the municipal property rates act, management do not for see any issues of a going concern nature.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

### 26. Retirement benefit information

All councillors and employees belong to multi-employer defined benefit retirement plans. Retirement benefits are accounted for on a cost basis and are charged to the income statement on an annual basis in line with MTEF.

The deficit will be financed by an increased contribution from all participating member municipalities.

The amount contributed by Council in respect of Councillor and employees retirement funding have been expensed and are included in notes 17 and 18.

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

#### Contributions to organised local government

Current year subscription / fee	99,405	94,191
Amount paid - current year	-	(94,191)
	<b>99,405</b>	<b>-</b>



# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Notes to the Annual Financial Statements

Figures in Rand	2009	2008
<b>27. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Current year audit fee	637,576	516,654
Amount paid - current year	(637,576)	(516,654)
	-	-
<b>PAYE and UIF</b>		
Current year payroll deductions	3,702,116	3,693,543
Amount paid in current year	-	(3,183,393)
	<b>3,702,116</b>	<b>510,150</b>
<b>Pension and Medical Aid Deductions</b>		
Current year payroll deductions	1,658,293	3,219,103
Amount paid - current year	-	(2,979,006)
	<b>1,658,293</b>	<b>240,097</b>

### VAT

Vat is payable on the receipts basis. Only once payment is received from debtors is vat paid over to SARS. Input vat receivables and output vat payables are shown in note 5.

# Mbizana Local Municipality

Annual Financial Statements for the year ended June 30, 2009

## Detailed Income statement

Figures in Rand	Note(s)	2009	2008
<b>Revenue</b>			
Property rates		1,146,154	799,455
Service charges		5,079,055	4,612,603
Government grants and subsidies - operating		58,042,897	39,737,765
Government grants and subsidies - capital		13,336,733	10,478,271
Other income		1,921,124	1,072,773
Interest earned - external investments		2,538,900	932,383
Interest earned - outstanding debtors		138,335	109,302
Fines		116,553	114,475
Rental of facilities and equipment		652,772	515,937
<b>Total Revenue</b>		<b>82,972,523</b>	<b>58,372,964</b>
<b>Expenditure</b>			
Employee related costs	20	(27,428,984)	(25,923,572)
Depreciation and amortisation		(6,561,453)	(4,592,798)
Repairs and maintenance		(4,320,077)	(1,143,584)
Bulk purchases	22	(2,728,291)	(2,270,339)
General Expenses	19	(30,606,911)	(12,912,902)
<b>Total Expenditure</b>		<b>(71,645,716)</b>	<b>(46,843,195)</b>
<b>Surplus for the year</b>		<b>11,326,807</b>	<b>11,529,769</b>
<b>Attributable to:</b>			
Net Asset holders of the controlling entity		11,326,807	11,529,769