



# **MBHASHHE LOCAL MUNICIPALITY**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED**

**30 JUNE 2010**

# Annual Financial Statements

for

## **MBHASHHE LOCAL MUNICIPALITY**

for the year ended 30 June: **2010**

Province:

Eastern Cape

AFS rounding:

**R (i.e. only cents)**

### **Contact Information:**

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**MBHASHHE LOCAL MUNICIPALITY**  
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**General information**

**Members of the Council**

Mvana F	<b>Mayor (*)</b>
Jaffa MS	<b>Speaker (*)</b>
Khungu N	Member of the Executive Committee (*)
Stofile TV	Member of the Executive Committee (*)
Tyali S	Member of the Executive Committee
Methu P	Member of the Executive Committee (*)
Solontsi ZD	Member of the Executive Committee (*)
Magodla DD	Member of the Executive Committee (note 1)
Mayekiso MG	Member of the Executive Committee (*)
Mishaya PT	Member of the Executive Committee (*)
Sangu M	Member of the Executive Committee
Sovita ST	Member
Nonxuba NNT	Member
Khadamile N	Member (*)
Kalityi SD	Member
Raxangana P	Member
Matshandana GZ	Member
Nqwena N	Member
Maqondo S	Member (*)
Badi CX	Member (*)
Magoda AT	Member
Mangina EM	Member (note 1)
Ntshonga N	Member
Genukile N	Member
Ngyelo MF	Member (*)
Ngqula N	Chief WIP (*)
Sihewula M	Member
Gungqe N	Member (*)
Kona MW	Member (*)
Bambiso A	Member (*)
Madingana P	Member
Qasana NC	Member
Mtisi N	Member
Qina F	Member
Dyantyi PP	Member
Nyalambisa N	Member
Nketho NL	Member
Dwakasa QN	Member
Juta N	Member (*)
Gamgam SN	Member (*)
Mdyesha BC	Member (*)
Mlondleni N	Member (*)
Stefana N	Member
Bantwini N	Member (*)

**MBHASHE LOCAL MUNICIPALITY**  
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<b>Members of the Council (continued)</b>	
Dubula IM	Member
Xana AL	Member
Voyi MA	Member
Macamba JR	Member
Mnqumeni N	Member
Nightingale N	Member
Tsengwa DT	Member

*(\*) - These Councillors were removed from office during the financial period. Refer to note 34 of the Notes to the Annual Financial Statements for the names of the new Councillors.*

*Note 1 - These Councillors passed away subsequent to 30 June 2010.*

**Traditional leaders**

Chief Manxhwa MPG  
Chief Ndevu SX  
Chief Ngubechani N  
Chief Qotongo VSD  
Chief Sigidi BW  
Chief Nyendani S  
Chief Ttshala MM

**Municipal Manager (Acting)**

Mr. S Dumezweni

**Chief Financial Officer**

Ms S Mini

**Grading of Local Authority**

Grade 3

**Auditors**

Auditor-General  
Chartered Accountant (S.A.)  
Registered Auditor

**Bankers**

In July 2009 the Municipality appointed First National Bank as its new primary banker superseding ABSA.

**MBHASHHE LOCAL MUNICIPALITY**  
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**General information (continued)**

**Registered Office:**

Mbhashe Local Municipality

**Physical address:**

100 Kiddell Street  
Dutywa  
5000

**Postal address:**

P. O. Box 25  
Dutywa  
5000

**Telephone number:**

+27 47 489 5800

**Fax number:**

+27 47 489 1137

**E-mail address:**

[dumezwenis@mbhashemun.gov.za](mailto:dumezwenis@mbhashemun.gov.za)

**Website**

[www.mbhashemun.gov.za](http://www.mbhashemun.gov.za)

**Jurisdiction**

The Municipality of Mbhashe was constituted in terms of the Municipal Structures Act No. 117 of 1998 (as amended) and comprises the areas that previously formed the Elliotdale, Willowvale and Dutywa Transitional Local Councils (TRC). The Municipality is located in the north eastern part of the Amathole District Municipality's area of jurisdiction. The main administrative office of the Municipality is situated in Dutywa.

**Nature of operations and principal activities**

The Municipality is responsible for the following activities:

- collection of rates in respect of property
- refuse and solid waste removal
- maintenance of access roads, storm water facilities and streetlights within its jurisdiction
- Traffic control and issue of learners licences

**Relevant legislation**

The Municipality is governed by the following key legislation:

- Municipal Finance Management Act 56 of 2003
- Division of Revenue Act No. 12 of 2009
- Municipal Structures Act No. 117 of 1998
- Municipal Systems Act No. 32 of 2000
- Property Rates Act No. 6 of 2004





**MBHASHHE LOCAL MUNICIPALITY**  
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**MBHASHE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION**

as at 30 June 2010

Figures in Rands	Note	2010	2009 Restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	22 946 147	31 152 203
Trade and other receivables from exchange transactions	2	4 031 570	183 800
Inventories	3	-	-
VAT receivable	8	7 150 712	1 870 352
<b>Non-current assets</b>			
Property, plant and equipment	4	96 534 394	64 576 081
Intangible assets	5	-	-
Investment property carried at cost	6	-	-
<b>Total assets</b>		<b>130 662 823</b>	<b>97 782 436</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	7	5 025 665	6 390 238
Current portion of unspent conditional grants and receipts	10	5 081 226	7 582 227
<b>Total liabilities</b>		<b>10 106 891</b>	<b>13 972 465</b>
<b>Net assets</b>		<b>120 555 932</b>	<b>83 809 971</b>
<b>Net assets</b>			
Accumulated surplus		120 555 932	83 809 971
<b>Total net assets</b>		<b>120 555 932</b>	<b>83 809 971</b>



**MBHASHHE LOCAL MUNICIPALITY**  
**DETAILED STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ending 30 June 2010

Figures in Rands	Note	2010	2009 Restated
<b>Revenue from exchange transactions</b>			
Service charges	12	695 851	659 415
Rental of facilities and equipment	13	543 278	365 405
		<u>1 239 129</u>	<u>1 024 820</u>
<b>Revenue from non-exchange transactions</b>			
Property rates	11	8 714 382	3 073 203
Fines		512 315	-
Licences and permits		607 047	-
Government grants and subsidies	15	99 459 099	66 308 833
		<u>109 292 843</u>	<u>69 382 036</u>
Other income	16	538 701	2 312 658
Interest earned - external investments	14	1 052 882	2 111 322
<b>Total revenue</b>		<u>112 123 585</u>	<u>74 830 836</u>
<b>Expenses</b>			
Employee related costs	17	21 653 696	20 779 091
Remuneration of councillors	18	10 869 623	9 291 246
Impairment losses		3 642 083	3 358 701
Depreciation and amortisation expense	19	-	3 430 715
Repairs and maintenance		2 632 984	4 737 582
General expenses	20	36 610 328	36 790 429
<b>Total expenses</b>		<u>75 408 714</u>	<u>78 387 764</u>
Loss on sale of assets	21	-	(111 756)
<b>Surplus / (deficit) for the period</b>		<u>36 714 841</u>	<u>(3 668 684)</u>

**MBHASHE LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
for the year ended 30 June 2010

Figures in Rands	Note	Government		Total Net Assets
		Grant Reserve	Accumulated Surplus/(Deficit)	
		R	R	R
Balance at 30 June 2008		9 652 509	77 007 076	86 659 585
Correction of prior period error	24	(9 652 509)	10 471 579	819 070
Restated balance		-	87 478 655	87 478 655
Deficit for the period		-	(3 668 684)	(3 668 684)
Balance at 30 June 2009		-	83 809 971	83 809 971
Take on of previously unidentified bank accounts (*)		-	31 120	31 120
Surplus for the period		-	36 714 841	36 714 841
Balance at 30 June 2010		-	120 555 932	120 555 932

(\*) Information to enable a prior period adjustment was not available.

**MBHASHE LOCAL MUNICIPALITY**  
**CASH FLOW STATEMENT**  
for the year ended 30 June 2010

Figures in Rands	Note	2010	2009 Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		102 163 821	71 653 701
Sales of goods and services		3 070 705	705 410
Grants		96 958 099	67 575 717
Interest received		1 052 882	2 111 322
Other receipts		1 082 135	1 261 252
Payments		78 411 564	62 609 256
Employee costs		32 393 969	29 249 763
Suppliers		45 906 575	33 187 281
Interest paid		111 020	172 212
Net cash flows from operating activities	22	<u>23 752 257</u>	<u>9 044 445</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(31 953 313)	(15 025 891)
Proceeds from sale of fixed assets		-	47 320
Net cash flows from investing activities		<u>(31 953 313)</u>	<u>(14 978 571)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net cash flows from financing activities		-	-
Decrease in net cash and cash equivalents		(8 206 056)	(5 934 126)
Net cash and cash equivalents at beginning of period		31 152 203	37 086 329
Net cash and cash equivalents at end of period	23	<u>22 946 147</u>	<u>31 152 203</u>

**MBHASHHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ending 30 June 2010

**1 BASIS OF PREPARATION**

Mbhashhe Local Municipality ("the municipality") is a local government institution in Duijwa in the Province of the Eastern Cape. The address of its registered office, principal place of business and its principal activities are disclosed under "General Information" in the annual report.

**1.1 Statement of compliance**  
These annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations and directives issued by the Accounting Standards Board.

**1.2 Basis of measurement**  
The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The accounting policies set out below have been applied consistently in all periods presented in these financial statements except to the extent that a transitional provision has been applied. The approved and effective standards are summarised below:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The effect of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

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 Accounting policies, changes in accounting estimates and errors. These accounting policies and the applicable disclosures have been based on International Public Sector Accounting Standards (IPSAS), the South African Statements of Generally Accepted Accounting Practices (SA GAAP) (including any interpretations of such Statements issued by the Accounting Practices Board), Generally Accepted Municipal Accounting Practices and International Financial Reporting Standards.

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

The preparation of financial statements in conformity with GRAP requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by Management. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of GRAP that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 26.

The municipality applied the following transitional provisions in accordance with ASB Directive 4:

**(a) GRAP 1 Presentation of Financial Statements**  
All provisions of GRAP 1 have been applied except in relation to items that have not been recognised or measured in accordance with other GRAP standards as a result of the transitional provisions listed below.

**(b) GRAP 12 Inventories**  
All changes resulting from the application of GRAP 12 have been applied retrospectively in accordance with GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors.

The municipality has applied the three year exemption for measuring inventories in accordance with GRAP 12, including those inventories acquired through a transfer of functions (from the effective date of the transfer of functions or the effective date of the GRAP 12, whichever is later). Inventories have therefore not been measured in accordance with GRAP 12 during the current and previous reporting periods, and are stated at provisional amounts.

No measurement period adjustments have been recognised during the reporting period.

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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**1 BASIS OF PREPARATION (continued)**

The Municipality intends to implement measures during the transitional period aimed at correctly identifying and measuring inventory. Initial investigations indicate that the various properties may need to be recognised as inventory however this fact must still be established.

*(c) GRAP 13 Leases*

All changes resulting from the application of GRAP 13 have been applied retrospectively.

GRAP 13 was not applied to leased items that had not been recognised and/or measured as a result of the transitional provisions listed in these annual financial statements.

The municipality is currently updating its systems and records to determine whether any office equipment or other assets are leased under finance leases which have not been measured in accordance with GRAP 17 due to the application of the three year transitional provision. Full compliance with GRAP 13 is expected by the end of June 2012.

*(d) GRAP 16 Investment properties*

All changes resulting from the application of GRAP 16 have been applied retrospectively.

The municipality has applied the three year exemption for measuring investment property, including those acquired in a transfer of functions. In accordance with GRAP 16, The Municipality is in the process of identifying investment properties which have to be identified and recognised separately from property, plant and equipment, but no depreciation has been recognised as the investment property register is still in the process of being updated. The amounts presented in the statement of financial position are provisional

No measurement period adjustments have been recognised during the reporting period.

Full compliance is expected by the end of June 2012.

*(e) GRAP 17 Property, plant and equipment*

All changes resulting from the application of GRAP 17 have been accounted for retrospectively.

The municipality has applied the three year exemption for measuring property, plant and equipment, including those acquired in a transfer of functions, in accordance with GRAP 17.

No depreciation expense had been recognised assets as the asset register (encompassing infrastructure, land, buildings and movable assets) is still in the process of being compiled. The compilation of the asset register includes identifying separate components of property, plant and equipment. The amounts presented in the statement of financial position are provisional.

The following provisional measurement period adjustments have been recognised during the reporting period:

- provisional capitalisation of infrastructure asset related expenditure

- provisional capitalisation of movable asset related expenditure including vehicles, plant and equipment

*(f) GRAP 100 Non-current Assets Held for Sale and Discontinued Operations*

GRAP 100 has been applied prospectively in accordance with the requirements of the transitional provisions from 1 July 2009, except for non-current assets (or disposal groups) that have not been recognised or measured as a result of other transitional provisions listed in these annual financial statements.

Full compliance is expected when the transitional provisions relating to assets falling within the scope of GRAP 100 expire.

*(g) GRAP 101 Agriculture*

The municipality has applied the three year exemption for recognising and measuring biological assets, including those acquired in a transfer of functions. In accordance with GRAP 101, Accordingly, no biological assets have been recognised in the statement of financial position as the municipality is still in the process of identifying whether or not it controls assets or conducts activities that fall within the scope of the standard. Consequently no gains or losses have been recognised in surplus or deficit due to changes in fair value less estimated point-of-sale costs. No measurement period adjustments have been recognised during the reporting period.

Full compliance is expected by the end of June 2012

*(h) GRAP 102 Intangible assets*

All changes resulting from the application of GRAP 102 have been accounted for retrospectively.

The municipality has applied the three year exemption for measuring intangible assets, including those acquired through a transfer of functions, in accordance with GRAP 102. No amortisation expense had been recognised on software as the municipality is still in the process of determining the estimated useful lives. The amounts presented in the statement of financial position are provisional.

The following provisional measurement period adjustments have been recognised during the reporting period:

- provisional capitalisation of software related expenditure

In accordance with ASB Directive 7, deemed cost, using fair value at the date of adopting the relevant Standards of GRAP, is determined as follows:

- The fair value of items of property, plant and equipment is determined with reference to a market based appraisal performed professionally by valuers. Where no evidence is available to determine the market value in an active and liquid market, the fair value of the item of property, plant and equipment is established by reference to other items with similar characteristics, in similar circumstances and location. For specialised items of property, plant and equipment such as infrastructure assets, the depreciated replacement cost has been used as deemed cost.
- The fair value of investment properties is determined in accordance with the requirements of GRAP 16. The depreciated replacement cost has been used as deemed cost for this property.

- The fair value of intangible assets is determined in accordance with GRAP 102.

- The fair value of heritage assets is the price at which the assets could be exchanged between knowledgeable, willing parties in an arm's length transaction. Where this information is not available, the replacement cost is deemed to be the fair value.

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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**1.3 Standards not yet effective**

The following standards have been approved but are not yet effective:

Standard Title	General requirements	Anticipated impact on the financial statements
GRAP 18 - Segment Reporting	<p>Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management. Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission.</p> <p>Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.</p>	<p>Additional disclosure is required, which includes segment revenue and expenses as well as the carrying amount of segment assets and liabilities.</p>
GRAP 21 - Impairment of non-cash generating assets	<p>Non-cash-generating assets other than cash-generating assets.</p> <p>When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.</p> <p>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, an entity estimates the recoverable service amount of the asset.</p> <p>The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:</p> <ul style="list-style-type: none"> <li>• Depreciated replacement cost approach</li> <li>• Restoration cost approach</li> <li>• Service units approach</li> </ul> <p>If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.</p>	<p>The municipality is as yet unable to estimate the potential impact as information on assets is still being collated in terms of the transitional provisions contained in Directive 4.</p>
GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)	<p>Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.</p> <p>This revenue will be measured at the amount of increase in net assets recognised by the municipality.</p> <p>An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow.</p> <p>As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as revenue equal to that reduction as revenue.</p>	<p>GRAP 23 contains additional guidance on conditions, restrictions and stipulations which may result in revenue being recognised at a different stage as under GAMA 9.</p> <p>Due to the nature of the non-exchange revenue received by the municipality, the impact of implementing GRAP 23 is not expected to be significant.</p>

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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GRAP 24 - Presentation of Budget Information in Financial Statements	<p>The municipality is required to present a comparison of budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts is required to be presented separately for each level of legislative oversight:</p> <ul style="list-style-type: none"> <li>• the approved and final budget amounts;</li> <li>• the actual amounts on a comparable basis; and</li> <li>• by way of note disclosure, an explanation of material differences between the budget for which the municipality entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.</li> </ul>	<p>Although the municipality currently presents budget information in terms of legislation, additional disclosure is required in terms of GRAP 24.</p> <p>The standard will however not impact the measurement of figures presented in the annual financial statements and will only result in additional detail being disclosed in relation to the budget.</p>
GRAP 25 - Employee Benefits	<p>The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise:</p> <ul style="list-style-type: none"> <li>• a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and</li> <li>• an expense when the municipality consumes the economic benefits or service potential arising from the service provided by an employee in exchange for employee benefits.</li> </ul> <p>GRAP 25 must be applied by an employer in accounting for all employee benefits, except share-based payment transactions.</p> <p>The standard also includes detailed requirements to be applied in the accounting for:</p> <ul style="list-style-type: none"> <li>• Post-employment benefits;</li> <li>• Other long-term employee benefits; and</li> <li>• Termination benefits.</li> </ul>	<p>Requirements of GRAP 25 are similar to the requirements of IAS 19 Employee Benefits applied by the municipality during the 2008/09 financial year except for the fact that GRAP 25 requires actuarial gains and losses to be recognised in full in the year that they occur and past expense in the reporting period in which the plan is amended. No material impact is expected from these changes. The main impact appears to be from a disclosure perspective as the Municipality does not participate in defined benefit schemes.</p>
GRAP 26 - Impairment of cash-generating assets	<p>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.</p> <p>When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.</p> <p>An entity 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. When estimating the value in use of an asset, a municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality should apply the appropriate discount rate to those future cash flows.</p> <p>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.</p> <p>Any impairment loss of a revalued cash-generating asset is treated as revaluation decrease.</p>	<p>The municipality is as yet unable to estimate the potential impact as information on assets is still being collated in terms of the transitional provisions contained in Directive 4.</p>



**MBHASHHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
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GRAP 103 - Heritage Assets	<p>Heritage assets are assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.</p> <p>Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.</p> <p>A heritage asset is recognised as an asset only if:</p> <ul style="list-style-type: none"> <li>• it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and</li> <li>• the cost of fair value of the asset can be measured reliably.</li> </ul> <p>Heritage assets are recognised at cost unless it is acquired through a non-exchange transaction, in which case it is recognised at its fair value as at the date of acquisition.</p> <p>The municipality has a choice between the cost and revaluation model as accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets.</p> <p>Heritage assets are subsequently carried at its cost or revalued amount less accumulated impairment. These assets are not depreciated.</p>	The municipality does not own significant heritage assets and the standard is therefore not expected to have a significant impact.
GRAP 104 - Financial Instruments	<p>The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that result in a financial asset in one entity and a financial liability or residual interest in another entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.</p> <p>One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.</p> <p>Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.</p> <p>Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.</p> <p>The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.</p>	No material impact is expected on the measurement of financial instruments as the municipality's financial instruments is expected to remain unchanged (i.e., at amortised cost).

The relevant Standards will be applied by the Municipality from the effective date to be determined by the Minister of Finance. The effective dates are currently unknown.

- 1.4 Functional and presentation currency**  
These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. Amounts are rounded off to the nearest Rand.

- 1.5 Going concern assumption**  
These annual financial statements have been prepared on a going concern basis.

- 1.6 Comparative information**  
When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

**2 PROPERTY, PLANT AND EQUIPMENT**

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**2.1 Initial recognition**

Refer to note 4 for details of the transitional provisions applied during the financial year. The policy set out below has been applied only to the extent that the requirement is not covered by the transitional provision.

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 year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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 costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**2.3 Subsequent measurement**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

**2.4 Depreciation and impairment**

For assets that have been recognised and measured depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 Non-current assets held for sale and discontinued operations. A non-current asset or disposal group is not depreciated while it is classified as held for sale. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated

Infrastructure		Other	
Roads and Paving	25 years	Vehicles	5 years
Electricity	Still to be determined	Plant and equipment	7 years
Streetlights	Still to be determined	Furniture and fittings	5 years
Community		Computer equipment	3 years
Buildings	30 years	Mayoral Chair	5 years
Land and buildings			
Buildings	30 years		
Land	Not applicable		

**Finance lease assets**

Assets held under finance leases are depreciated over the shorter of their expected useful lives or the lease term.

**2.5 Derecognition**

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**3 INTANGIBLE ASSETS**

**3.1 Initial recognition**

Refer to note 5 for details of the transitional provisions applied during the financial year. The policy set out below has been applied only to the extent that the requirement is not covered by the transitional provision.

An intangible asset is an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

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**3 INTANGIBLE ASSETS (continued)**

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale,
- it is technically feasible to complete the intangible asset,
- the municipality has the resources to complete the project, and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

**3.2 Subsequent measurement**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**3.3 Amortisation and impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**3.4 Derecognition**

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**4 INVESTMENT PROPERTY**

**4.1 Initial recognition**

Refer to note 6 for details of the transitional provisions applied during the financial year. The policy set out below has been applied only to the extent that the requirement is not covered by the transitional provision.

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

**4.2 Subsequent measurement**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset, and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property	Still to be determined
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Investment property is derecognised on disposal when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

The fair value of investment property is determined at the reporting date based on the latest general valuation roll.

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**5 NON-CURRENT ASSETS HELD FOR SALE**

**5.1 Initial recognition**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**5.2 Subsequent measurement**

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

**6 INVENTORIES**

Refer to note 3 for details of the transitional provisions applied during the financial year. The policy set out below has been applied only to the extent that the requirement is not covered by the transitional provision.

**6.1 Initial recognition**

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

**6.2 Subsequent measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, or they are held for consumption in the production process of goods to be distributed at no charge or for a nominal charge, in which case they are measured at the lower of cost and current replacement cost. Current replacement cost is the cost the municipality would incur to acquire the asset on the reporting date. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**7 FINANCIAL INSTRUMENTS**

The Municipality has various types of financial instruments broadly classified as either Financial Assets or Financial Liabilities

**7.1 Financial assets**

A Financial Asset is any asset that is cash or a contractual right to receive cash. The Municipality has the following Financial Assets reflected on the face of the Statement of Financial Position or the notes thereto:

Type of financial asset	Classification
- Trade and other receivables from exchange and non-exchange transactions	Loans and receivables
- Other receivables from non-exchange transactions	Loans and receivables
- Cash and cash equivalents (including investments)	Loans and receivables

Loans and receivables are financial assets that are created by providing money, goods or services directly to a customer. Loans and receivables are non-derivative financial assets with fixed or determinable payments.

Trade and other receivables are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. The review is conducted on an individual and collective basis through applying the principles contained in IAS 39 (AC133) *Financial Instruments: Recognition and Measurement*. Significant financial difficulties of the debtor, probably 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. Impairments are determined with reference to the period for which debts have been outstanding and the rate at which the Municipality has collected cash from its debtors. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of

Cash includes cash on hand (including petty cash) and investments comprising cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

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**7.1 Financial assets (continued)**

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires or if transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except where Council approves the write-off of financial assets due to non-recoverability.

**7.2 Financial liabilities**

A Financial Liability is a contractual obligations to deliver cash or another financial asset to another entity. The Municipality has the following types of financial liabilities reflected on the face of the Statement of Financial Position or in the notes thereto:

- Trade and other payables from exchange transactions

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

**8 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**9 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**10 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**11 PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

*Site restoration*

In accordance with applicable legal requirements, a provision for site restoration in respect of landfill sites is recognised when the land is contaminated. The related expense is capitalised against the cost of the landfill sites.

**12 LEASES**

**12.1 Municipality as lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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

Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**12.2 Municipality as lessor**

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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

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

**13 VALUE ADDED TAX**

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, exemplified in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

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**14 REVENUE**

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied and grants from other spheres of government.

**14.1 Revenue from exchange transactions**

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Municipality and these benefits can be measured reliably, except when specifically stated otherwise. Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from the sale of goods in the ordinary course of the Municipality's activities is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts. Revenue from the rendering of the services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements and receiving service. Tariffs are determined per category of property usage, and are levied at a fixed monthly rate based the category of the customer.

Interest revenue is recognised in surplus on a time proportion basis

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipally acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

**14.2 Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipally received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and if applicable, there has been compliance with the relevant legal requirements or restrictions.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Fines constitute both spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fined as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses, the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. As a result, revenue from spot fines and summonses is recognised when payment is received.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

**14.3 Grants, transfers and donations**

*Unconditional grants and receipts*

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

*Conditional grants and receipts*

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

Interest earned on investments is treated in accordance with grant conditions. If interest is payable to the grantor, it is recognised as a liability and if not, it is recognised as interest earned in the statement of financial performance.

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**15 EMPLOYEE BENEFITS**

**15.1 Short-term employee benefits**

Remuneration to employees is recognised in Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

Short term employee benefits (those payable within 12 months after the service is rendered) are measured on an undiscounted basis.

An accrual is recognised for the amount expected to be paid in terms of short term bonus or leave arrangements when the Municipality has a present legal or constructive obligation to pay the amount as a result of a past service provided by an employee and the amount can be estimated reliably.

Liabilities for annual leave are recognised as they accrue to the employees. The liability is based on the total amount of leave days due to the employee and the total related remuneration package.

The Municipality recognises the expected cost of the performance bonuses only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

**15.2 Defined contribution plans**

A defined contribution plan is a plan under which the Municipality pays fixed contributions to a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The Municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

The Municipality makes contributions to the following plans:

- South African Municipal Workers Union National Provident Fund
- Eastern Cape Municipal Pension Fund
- Eastern Cape Municipal Gratuity Fund

The Municipality makes contributions to the following Medical Aid Schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bontas
- LA Health

**16 IMPAIRMENT OF ASSETS**

The policy set out below has been applied only to the extent that the requirement is not covered by the transitional provision.

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

Irrespective of whether there is any indication of impairment, the 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.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service 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.

In the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service 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.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.



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**CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are affected by management have not in all cases been applied retrospectively as is required by GRAP 3. The transitional provisions on the adoption of the new GRAP standards have also not in all cases been applied retrospectively.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period specific effects or the cumulative effect of the error. In such cases the Municipality will restate the opening balances of assets, liabilities and net assets for the earliest period for which the respective restatement is practicable. Refer to note 24 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

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Figures in Rands 2010 2009  
R R  
Restated

**1 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Cash held with banking institutions					
Cash on hand					
Classification on the face of the Statement of Financial Position:					
Current assets					
Current liabilities					

Cash and cash equivalents pledged as security  
No financial assets are pledged as security  
Cash held with banking institutions

The Municipality had the following bank accounts: -

	Bank Account Balance	Cash book balance
	30 June 2010	30 June 2009
<b>Current Account (Primary Bank Account)</b>		
ABSA Bank Limited - Account Number 4048384454	4 089 714	5 037 681
First National Bank Limited - Account Number 62231175935	1 988 777	-
	<u>6 058 491</u>	<u>5 037 681</u>
	7 662 117	(39 629 875)*
	-	42 337 175
	<u>2 707 300</u>	<u>211 663</u>
	-	-
	<u>2 707 300</u>	<u>211 663</u>
	-	-
	<u>2 707 300</u>	<u>4 375 526</u>

During the financial period the municipality changed its primary banker from ABSA Bank Limited to FNB Limited. Both bank accounts are currently in existence however the majority of the transactions now take place through the new FNB Primary bank account. The Municipality intends to close the ABSA account in the 2010/11 financial period. Notification of the change in bank accounts was provided as required by the MFMA.

(\*During the change over from one bank account to another the Municipality encountered obstacles in opening a new bank account on the financial reporting system. Due to these difficulties a number of transactions were captured against the incorrect general ledger code resulting in one code reflecting an "overdraft" while the other reflects a surplus. The net of the two accounts is a surplus. The Municipality has performed a full reconciliation between the bank accounts and the general ledger codes and will be pursuing a solution to correct the situation.

	30 June 2010	30 June 2009	30 June 2008	30 June 2010	30 June 2009	30 June 2008
<b>Current Account (Other cheque accounts)</b>						
First National Bank Limited - Account Number 62231177280 (FMG)	397 085	-	-	467 084	-	-
First National Bank Limited - Account Number 62231175935 (MSIG)	566 672	-	-	566 672	-	-
ABSA Bank Limited - Account Number 4054446052	30 225	-	-	30 225	-	-
ABSA Bank Limited - Account Number 2807759564	1 437 298	1 437 298	-	1 437 298	1 437 298	-
Standard Bank Limited - Account Number 280763921	12 518	13 853	-	12 518	13 853	-
	<u>2 443 798</u>	<u>1 451 151</u>	<u>-</u>	<u>2 513 797</u>	<u>1 451 151</u>	<u>-</u>

**Investment accounts**

ABSA Bank Limited - Account Number 9056863798	65 626	62 937	57 929,35	65 626	62 937	57 929,35
ABSA Bank Limited - Account Number 9058705408	624 635	596 982	550 261,75	624 635	596 982	550 261,75
ABSA Bank Limited - Account Number 9056533262	6 342	6 138	5 712,01	6 342	6 138	5 712,01
ABSA Bank Limited - Account Number 9056865669	2 725	2 725	2 533,32	2 815	2 725	2 533,32
ABSA Bank Limited - Account Number 9057376730	100 534	96 421	88 704,24	100 534	96 421	88 704,24
ABSA Bank Limited - Account Number 9056617880	14 837	14 313	13 268,68	14 837	14 313	13 268,68
ABSA Bank Limited - Account Number 9056533115	37 258	35 880	33 219,59	37 258	35 880	33 219,59
ABSA Bank Limited - Account Number 9061831536	3 521	3 538	3 457,06	3 521	3 538	3 457,06
ABSA Bank Limited - Account Number 9092743015	307 289	302 673	286 894,53	307 289	302 673	286 894,53
ABSA Bank Limited - Account Number 9092743005	530 952	522 976	495 717,96	530 952	522 976	495 717,96
ABSA Bank Limited - Account Number 9092742368	788 405	776 562	736 086,66	788 405	776 562	736 086,66
ABSA Bank Limited - Account Number 9057228882	27 019	26 024	24 099,35	27 019	26 024	24 099,35
ABSA Bank Limited - Account Number 9057225135	449 324	429 756	395 182,65	449 324	429 756	395 182,65
ABSA Bank Limited - Account Number 9057252990	137 559	131 771	121 177,86	137 559	131 771	121 177,86
ABSA Bank Limited - Account Number 9056866019	232 645	222 902	204 847,28	232 645	222 902	204 847,28
ABSA Bank Limited - Account Number 9110980203	1 253 338	1 235 221	1 170 050,50	1 253 338	1 235 221	1 170 050,50
Standard Bank Limited Account Number 38 873 187 7	289 035	276 533	252 399,54	289 035	276 533	252 399,54
Standard Bank Limited Account Number 38 873 218 0	-	-	4 577,06	-	-	4 577,06
First National Bank Limited - Account Number 62015966099	6 126	6 893	6 674,00	6 126	6 893	6 674,00
ABSA Bank Limited - Account Number 9185789287	-	15 896 380	18 135 482,95	-	15 896 380	18 135 482,95
ABSA Bank Limited - Account Number 9205591041	3 266 264	3 245 908	-	3 266 264	3 245 908	-
ABSA Bank Limited - Account Number 9215148412	-	4 258 620	-	-	4 258 620	-
ABSA Bank Limited - Account Number 90656556825	191	-	-	191	-	-
First National Bank Limited - Account Number 62231177769	7 598 877	-	-	7 598 877	-	-
First National Bank Limited - Account Number 62231195323	748 942	-	-	748 942	-	-
First National Bank Limited - Account Number 62001250000	-	159 232	-	-	159 232	-
	<u>17 084 671</u>	<u>28 849 009</u>	<u>23 083 695</u>	<u>17 084 671</u>	<u>28 849 009</u>	<u>23 083 695</u>

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R                                      R  
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**† CASH AND CASH EQUIVALENTS (continued)**

<i>Investment funds held in suspense</i>	635 645	635 645	635 645	635 645	635 645	635 645	635 645
First National Bank - Account Number 62020609551	635 645	635 645	635 645	635 645	635 645	635 645	635 645
Total cash at banks	<u>26 222 605</u>	<u>35 973 487</u>	<u>31 381 457</u>	<u>22 941 412</u>	<u>31 147 458</u>	<u>28 094 866</u>	

**Previously unaccounted for bank accounts**

During the financial period the municipality identified the following previously unaccounted for bank accounts which have been taken into account in the above disclosures:

ABSA Bank Limited - Account Number 4054446052	30 225	30 871
ABSA Bank Limited - Account Number 9065656825	191	208
Adjustment to opening balance on ABSA account 62015968099	-	43
	<u>30 416</u>	<u>31 120</u>

During the financial period the municipality identified the following previously unaccounted for bank accounts which have not yet been taken into account in the above disclosures. The municipality has requested the relevant information from the bank however as at the time of submission of the annual financial statements the information had not yet been made available. A correction to prior periods will be affected upon receipt of the required information. The detailed of the relevant accounts are disclosed below.

ABSA Bank Limited - Account Number 9110889747	R 277 951.03
Balance per bank confirmation as at 30 June 2010	R 333 228.67
ABSA Bank Limited - Account Number 9100317908	<u>R 611 179.70</u>
Balance per bank confirmation as at 30 June 2010	

**Cash on hand**

Cash on hand consists of the following:-  
Petty cash

<u>4 735</u>	<u>4 735</u>
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**2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

Trade and other receivables comprise:

Consumer debtors	4 021 641	14 798
Sundry debtors	9 929	169 002
<b>Total</b>	<b>4 031 570</b>	<b>183 800</b>
<b>Consumer debtors</b>		
Gross balances	14 066 645	7 033 010
Rates	3 263 533	2 759 600
Refuse	17 330 178	9 792 610
Total	(13 308 537)	(9 777 812)
Less: provision for debt impairment		
Net consumer debtors	4 021 641	14 798

Included in the above consumer debtors balances are unreconciled differences between the balances per the debtors ledger and the debtors age analysis. The Municipality intends to initiate a project during the 2010/2011 financial period to cleanse the existing debtors base and at the same time reconcile the debtors ledger to the age analysis. The effect of the unreconciled differences is as follows:

	Debit balances	Credit balances	Net
as at 30 June 2010	17 330 178	(698 347)	16 631 831
Gross consumer debtors per trial balance	15 960 458	(698 797)	
Debtors per the age analysis	1 369 720	450	16 631 831
Unreconciled difference			

as at 30 June 2009

Gross consumer debtors per trial balance

Debtors per the age analysis

Unreconciled difference

	Debit balances	Credit balances	Net
Current (0 – 30 days)	9 792 610	(1 090 030)	8 702 580
31 - 60 Days	544 583	544 583	233 706
61 - 90 Days	542 562	542 562	229 145
90 Days +	11 954 116	11 954 116	7 344 828
<b>Total</b>	<b>13 587 892</b>	<b>13 587 892</b>	<b>8 041 874</b>

**Refuser: Ageing**

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

90 Days +

**Total**

Current (0 – 30 days)	60 460	53 222
31 - 60 Days	59 672	52 998
61 - 90 Days	60 667	51 552
90 Days +	2 191 777	1 640 299
<b>Total</b>	<b>2 372 566</b>	<b>1 798 071</b>

**Total consumer debtors: Ageing**

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

90 Days +

**Total**

Consumers	Industrial / Commercial	National and Provincial Government
607 091	604 255	287 417
603 219	14 145 893	286 705
15 960 458	4 743 942	280 698
9 839 946	5 306 926	8 985 126
(47 336)	(7 334 272)	9 839 946
450	1 020 999	(1 688 337)
8 702 580	1 451 625	179 298

**Summary of Debtors by Customer Classification**

as at 30 June 2010

Current (0 – 30 days)

31 - 60 Days

61 - 90 Days

90 Days +

Sub-total

Less: Provision for debt impairment

Total debtors by customer classification

352 178	186 948	67 965
350 582	186 836	66 837
349 623	189 200	64 395
7 733 514	4 743 942	1 668 438
8 785 897	5 306 926	1 867 635
(7 334 272)	(4 285 927)	(1 688 337)
1 451 625	1 020 999	179 298

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**2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)**

as at 30 June 2009	129 734	102 031	55 653
Current (0 – 30 days)	129 202	101 857	55 645
31 - 60 Days	125 045	100 008	55 645
61 - 90 Days	4 567 101	3 178 784	1 242 261
90 Days +	4 951 082	3 479 660	1 409 204
Sub-total	(4 951 082)	(3 417 526)	(1 409 204)
Less: Provision for debt impairment	0	62 134	-
<b>Total debtors by customer classification</b>	<b>0</b>	<b>62 134</b>	<b>-</b>

**Reconciliation of debt impairment relating to consumer debtors**

Balance at beginning of the year	9 777 812	6 419 111
Contributions to provision	3 530 725	3 358 701
<b>Balance at end of year</b>	<b>13 308 538</b>	<b>9 777 812</b>

**Other receivables**  
Sundry debtors (net of impairment)  
Prepayments

	121 287,35	111 358,00
	-	57 644
	(111 358)	169 002
	<b>9 929</b>	<b>169 002</b>

As at 30 June 2010 sundry debtors comprised various overpayments made to employees.

As of 30 June 2010 other receivables of R 111 358 (2009: R -) were impaired and provided for.  
The amount of the provision was R 111 358 as of 30 June 2010 (2009: R -).  
The ageing of these receivables is as follows:  
Over 1 year

111 358	111 358
---------	---------

This amount represents a take on balance from when the municipality migrated to its new financial system. No records are available to identify the parties from which the debts may be recovered, as such the amount has been impaired in full.

The fair value of trade and other receivables approximates their carrying amounts.

**3 INVENTORIES**

Consumable stores	-	-
Maintenance materials	-	-
Unsold properties held for resale	-	-
Fuel (Diesel and petrol)	-	-
Water	-	-

Less: Inventories write down/ (reversal of write down to net replacement value (NRV) or net replacement cost (NRC))

-	-
<b>-</b>	<b>-</b>

**Transitional provisions**

***Inventories recognised at provisional amounts***

The municipality has disclosed the provisional carrying amount of inventories held at net replacement cost at R 0.00 as the municipality is still in the initial stages of assessing its inventory holdings.

Initial findings indicate that a portion of the municipality's property portfolio may need to be classified as inventories. The municipality as initiated a project to identify all infrastructure assets, land and buildings falling under its ownership.

The following progress has been achieved with regards to this the identification and accounting for inventory:

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2010	2009
R	R

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**3 INVENTORIES (continued)**

- The General Valuation Roll was draw up as at 30 June 2009.
- An external service provider has undertake the first phase of an extensive project to identify and consolidate all infrastructure, land and buildings into a single asset register. The first phase entailed a desk top assessment to identify these assets. The municipality intends to commission additional projects aimed at the verification of assets and establishing an appropriate value in terms of the provisions contained within ASB Directive 7.

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**4. PROPERTY, PLANT AND EQUIPMENT**

	Reconciliation of Carrying Value - 2010					Total
	Land	Buildings	Infrastructure	Community	Other Assets	
as at 1 July 2009	9 366 112	1 699 421	45 551 521	4 481 221	3 477 806	64 576 081
Cost/Revaluation	9 366 112	2 486 834	53 446 539	6 546 301	9 258 569	81 104 355
Accumulated depreciation and impairment losses	-	(787 413)	(7 895 018)	(2 085 080)	(5 780 763)	(16 528 274)
Acquisitions	-	-	29 633 078	-	2 325 235	31 958 313
as at 30 June 2010	9 366 112	1 699 421	75 184 599	4 481 221	5 803 041	96 534 384
Cost/Revaluation	9 366 112	2 486 834	83 079 617	6 546 301	11 583 804	113 082 668
Accumulated depreciation and impairment losses	-	(787 413)	(7 895 018)	(2 085 080)	(5 780 763)	(16 528 274)
Reconciliation of Carrying Value - 2009						
	R	R	R	R	R	R
as at 1 July 2008	9 366 112	1 782 315	34 705 895	4 699 430	2 586 230	53 139 982
Cost/Revaluation	9 366 112	2 486 834	40 962 416	6 546 301	7 313 336	66 674 999
Accumulated depreciation and impairment losses	-	(704 519)	(6 256 521)	(1 846 871)	(4 727 106)	(13 535 017)
Acquisitions	-	-	12 484 123	-	2 541 786	15 025 889
Depreciation	-	(82 894)	(1 638 497)	(218 209)	(1 491 115)	(3 430 715)
Carrying value of disposals	-	-	-	-	(159 075)	(159 075)
Cost/Revaluation	-	-	-	-	(596 533)	(596 533)
Accumulated depreciation and impairment losses	-	-	-	-	437 458	437 458
as at 30 June 2009	9 366 112	1 699 421	45 551 521	4 481 221	3 477 806	64 576 081
Cost/Revaluation	9 366 112	2 486 834	53 446 539	6 546 301	9 258 569	81 104 355
Accumulated depreciation and impairment losses	-	(787 413)	(7 895 018)	(2 085 080)	(5 780 763)	(16 528 274)

Refer to Appendix B for more detail on property, plant and equipment

**Transitional provisions**

**Property, plant and equipment recognised at provisional amounts**

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the accounting policies, the municipality has disclosed all of its property, plant and equipment with a carrying value of R96 534 394 (2009: R64 576 081) at provisional amounts.

During the current year the municipality has provisionally capitalised the following expenditure to property, plant and equipment pending further confirmation based on the processes set out below:

	2010	2009
- Roads Infrastructure	21 410 977	12 484 123
- Electrification Infrastructure	8 222 101	-
- Computer equipment	1 325 754	411 270
- Vehicles	763 724	921 148
- Furniture and fittings	6 384	848 469
- Plant and equipment	229 373	360 879
	<b>31 958 313</b>	<b>15 025 889</b>

The municipality is in the process of developing a comprehensive asset register encompassing movable assets, land, buildings and infrastructure

The following progress has been achieved with regards to the development of an asset register:

- The municipality has procured the asset management system BAUD to assist with the maintenance of an appropriate asset register.
- The General Valuation Roll was drawn up as at 30 June 2009. This roll includes information regarding properties owned by the municipality. This information will be included in the asset register.
- An external service provider has undertaken the first phase of an extensive project to identify and consolidate all infrastructure, land and buildings into a single asset register. The first phase entailed a desk top assessment to identify these assets. The municipality intends to commission additional projects aimed at the verification of assets and establishing an appropriate value in terms of the provisions contained within ASB Directive 7.
- An external service provider is in the process of loading movable asset information onto the municipality's asset management system. This process has however not yet been finalised.



**Transitional provisions (continued)**  
 Initial information collated as part of the desk top study indicates that the municipally infrastructure assets currently consist of the following:

	Estimated value per the General Valuation Role - 30 June 2009	Quantity Measurement
- Roads	-	789,187 km
- Buildings	93 674 000	1 50 units
- Land parcels (excluding the buildings above)	38 695 000	1 675 units
- Streetlights in Millewale, Dulywa and Ellidale	-	Not established Not applicable
- Electricity infrastructure	8 222 101	Not established Not applicable
- Solid waste	-	3 land fill sites to Not applicable be restored
<b>Total</b>	<b>140 551 101</b>	

The values for the above assets must still be established

The municipally envisages that full compliance with GRAP 17 Property, plant and equipment will be achieved by 30 June 2012.

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	2010	2009
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**5 INTANGIBLE ASSETS**

Transitional provisions

*Intangible assets recognised at provisional amounts*

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the accounting policies, the municipality has disclosed all of its intangible assets with a carrying value of R0.00 (2009: R 0.00) at provisional amounts.

During the current year the municipality has provisionally capitalised the following expenditure to intangible assets pending further confirmation based on the processes set out below:

Computer software capitalised as part of computer equipment

	111 354	-
	111 354	-

The municipality is in the process of developing a comprehensive asset register including intangible assets:

The following progress has been achieved with regards to the development of an asset register:

- The municipality has procured the asset management system BALD to assist with the maintenance of an appropriate asset register;
- A separate project will be undertaken to identify and update the asset register for intangible assets.

The municipality envisages that full compliance with GRAP 102 Intangible assets will be achieved by 30 June 2012.

**6 INVESTMENT PROPERTY CARRIED AT COST**

Transitional provisions

*Investment property recognised at provisional amounts*

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in the accounting policies, the municipality has disclosed all of its property, plant and equipment with a carrying value of R0.00 (2009: R0.00) at provisional amounts.

During the current year the municipality has provisionally capitalised the following

- Investment property

	-	-
	-	-

No retrospective adjustments have been affected for provisional amounts during the current year.

The municipality is in the process of developing a comprehensive asset register including investment properties.

The following progress has been achieved with regards to the development of an asset register:

- The municipality has procured the asset management system BALD to assist with the maintenance of an appropriate asset register;
- The General Valuation Roll was drawn up as at 30 June 2009. This roll includes information regarding properties owned by the municipality. This information will be included in the asset register.
- An external service provider has undertake the first phase of an extensive project to identify and consolidate all infrastructure, land and buildings into a single asset register. The first phase entailed a desk top assessment to identify these assets. The municipality intends to commission additional projects aimed at the verification of assets and establishing an appropriate value in terms of the provisions contained within ASB Directive 7.
- An external service provider is in the process of loading movable asset information onto the municipality's asset management system. This process has however not yet been finalised.

The municipality envisages that full compliance with GRAP 16 Investment Property will be achieved by 30 June 2012.

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	2010	2009
	R	R
<b>7 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade creditors	2 148 303	3 250 543
Payments received in advance	698 347	1 090 031
Accrued bonus	375 834	540 792
Staff leave accrual	1 803 181	1 508 912
<b>Total creditors</b>	<b>5 025 665</b>	<b>6 390 238</b>

The fair value of trade and other payables approximates their carrying amounts.

*Payments received in advance*

Payments received in advance comprise those consumer debtors whose accounts reflect a credit balance. For additional details regarding debtors balances refer to note 2.

*Bonuses*

Performance bonuses are paid one year in arrears as the assessment of eligible employees had not taken place at the reporting date and no present obligation exists.

The accrued bonus relates to amounts not yet paid to non-management level employees whose bonuses accrue to them. Bonuses constitute a 13th cheque and are paid on in the birth month of the respective employee.

**8 VAT RECEIVABLE**

VAT receivable

	2010	2009
	R	R
<b>8 VAT RECEIVABLE</b>		
VAT receivable	7 150 712	1 870 352

VAT is payable on the receipt basis. VAT is paid over to SARS only once payment is made to suppliers.

During the financial period under review SARS performed a VAT audit covering the VAT periods 1 July 2008 to 30 April 2010. The audit has been substantially completed. As at the date of submission of the annual financial statements the Municipality and the appointed service provider have not yet successfully completed a reconciliation between the VAT 201 submissions, the results of the audit and the information recorded on the system. Preliminary findings indicate that the potential effect on the VAT receivable and the expenditure reported in the Statement of Financial Performance are as follows:

VAT receivable (as reported above)	7 150 712	1 870 352
VAT not allowed on operating expenditure	(1 300 087)	Not available
VAT not allowed on Capital expenditure	(814 507)	Not available
<b>Adjusted VAT receivable amount</b>	<b>5 236 119</b>	<b>1 870 352</b>

Communication from SARS regarding the final refund is still outstanding.

The corresponding information for comparative period was not available for disclosure.

Adjustments for the above will only be made once adequate detailed work has been performed to support the adjustments.

**9 PROVISIONS**

Landfill site restoration  
 Total Provisions

	2010	2009
	R	R
<b>9 PROVISIONS</b>		
Landfill site restoration	-	-
<b>Total Provisions</b>	<b>-</b>	<b>-</b>

The municipality has an obligation to restore 3 landfill sites, one in Willowvale one in Dukwa and one in Elliotdale. It is expected that the restoration process will start in the 2010/11 financial period. Detailed planning and implementation processes have commenced to make use of transfer stations when dealing with solid waste disposal. Legal dumpsites in Elliotdale and Bullerworth (provided by the Amathole District Municipality) will be used for waste disposal purposes.

The municipality has initiated the process of procuring service providers to quantify the costs of restoration. As at 31 August 2010 no estimation was available on which the provision to restore the landfill sites could be based.

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**10 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

Unspent Conditional Grants from other spheres of Government	
IGG Fund 1 (ABSA - 9056685669)	2 247
IGG Fund 2 (ABSA - 9057228892)	23 072
Housing Development Fund (ABSA - 9059705408)	575 099
Pilot Housing Fund (STD - 389732180)	4 577
Willowvale roads (ABSA - 9056533282)	5 456
Town planning 1 (ABSA - 9057225135)	450 378
Town planning 2 (ABSA - 90927430005)	400 198
Survey fund (ABSA - 9056686013)	193 283
Nitonyane fund (ABSA - 9110890209)	1 126 803
Finance Management Grant	704 678
LGSETFA Fund	111 463
MIG FUND	-
MSIG	618 496
Equitable share (ABSA - 9061831536)	3 475
Extension fund (ABSA - 9056533115)	31 578
Water reticulation (FNB - 6201586609)	6 674
IDP Fund 2 (ABSA - 9057252990)	709 286
IDP Fund 3 (ABSA - 9092742388)	114 363
<b>Total Unspent Conditional Grants and Receipts</b>	<b>7 582 227</b>

See Note 15 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investments until utilised

**11 PROPERTY RATES**

Residential, Business, Government and other  
Total

8 714 392	3 073 203
<b>8 714 392</b>	<b>3 073 203</b>

Valuations

Property rates for the 2009/10 period were based on the property values summarised below:

Residential  
Commercial  
State  
Municipal

Total property valuations as at 30 June 2009

135 717 000	Not available
180 199 500	Not available
74 694 000	Not available
70 061 500	Not available
<b>460 672 000</b>	<b>-</b>

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009

A general rate of R0.02 (2009: R0.15) is applied to property valuations to determine assessment rates. Rates are levied on an annual basis on property owners.

**12 SERVICE CHARGES**

Refuse removal  
Total Service Charges

695 851	659 415
<b>695 851</b>	<b>659 415</b>

**13 RENTAL OF FACILITIES AND EQUIPMENT**

Rental of facilities  
Rental of commonage  
Total rentals

262 653	104 091
280 625	261 314
<b>543 278</b>	<b>365 405</b>

**14 INTEREST EARNED - EXTERNAL INVESTMENTS**

Bank  
Total Interest

1 052 882	2 111 322
<b>1 052 882</b>	<b>2 111 322</b>

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	2010 R	2009 R
		Restated
<b>15 GOVERNMENT GRANTS AND SUBSIDIES</b>		
Equitable share	63 589 923	41 014 659
Municipal Infrastructure Grant (MIG)	23 466 000	13 606 000
Municipal Systems Improvement Grant (MSIG)	735 000	977 932
Financial Management Grant (FMG)	1 000 000	439 765
Electrification Grant	10 000 000	-
Free Basic Services (FBS)	-	7 164 097
Ward Committee Grant	-	280 995
Housing Development Grant	-	640 081
Grants received from local government entities (LGSETA)	36 131	225 984
Grants received from provincial government entities	632 045	208
Independent Electoral Committee Grant	-	1 693 750
Integrated Development Planning Grant	-	265 372
Total Government Grant and Subsidies	<u>99 459 099</u>	<u>65 308 833</u>
<b>15.1 Equitable Share</b>		
In terms of the Constitution, a portion of this grant is used to subsidise the provision of basic services to indigent community members. The Municipality is not an electricity or water services provider, as such the municipality provides registered indigents with 20 litres of paraffin per quarter.		
<b>15.2 Municipal Infrastructure Grant (MIG)</b>		
Balance unspent at beginning of year	2 501 000	-
Current year receipts	20 965 000	16 107 000
Conditions met - transferred to revenue	(23 466 000)	(13 606 000)
Conditions still to be met - remain liabilities (see note 10)	-	2 501 000
<b>15.3 Municipal Systems Improvement Grant (MSIG)</b>		
Balance unspent at beginning of year	618 486	861 428
Current year receipts	735 000	735 000
Conditions met - transferred to revenue	(735 000)	(977 932)
Conditions still to be met - remain liabilities (see note 10)	618 486	618 498
The Municipality intends to undertake a project to analyse unspent conditional funding to determine whether any conditions remain before the amounts may be recognised as revenue.		
<b>15.4 Financial Management Grant (FMG)</b>		
Balance unspent at beginning of year	704 678	644 443
Current year receipts	1 000 000	500 000
Conditions met - transferred to revenue	(1 000 000)	(439 765)
Conditions still to be met - remain liabilities	704 678	704 678
The Municipality intends to undertake a project to analyse unspent conditional funding to determine whether any conditions remain before the amounts may be recognised as revenue.		
<b>15.5 Electrification Grant</b>		
Balance unspent at beginning of year	-	-
Current year receipts	10 000 000	-
Conditions met - transferred to revenue	(10 000 000)	-
Conditions still to be met - remain liabilities	-	-
<b>15.6 Changes in levels of government grants</b>		
Based on the allocations set out in the Division of Revenue Act (Act 12 of 2009), the municipality is expecting a 23% increase in the Equitable Share allocation for 2010/11 and a 10% increase in 2011/12.		
<b>16 OTHER INCOME</b>		
Administration fees - third parties	252 791	146 987
Sale of land	20 147	35 760
Revenue from minor services	158 120	209 337
Sundry sales	2 254	4 148
Sundry revenue	105 389	1 916 516
Total Other Income	<u>538 701</u>	<u>2 312 658</u>

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	2010 R	2009 R
		Residual
<b>17 EMPLOYEE RELATED COSTS</b>		
Basic salaries and wages	16 799 088	17 477 254
Bonus	605 801	920 924
Medical aid contributions	789 540	78 400
UJF contributions	138 035	-
Post employment benefits - Pension - defined contribution plan	1 648 004	1 692 454
Travel, motor car, accommodation, subsistence and other allowances	818 165	-
Housing benefits and allowances	115 637	102 136
Overtime payments	387 637	-
Movement in leave accrual	294 289	507 281
Other employee related costs	57 520	642
<b>Total Employee Related Costs</b>	<b>21 653 696</b>	<b>20 779 091</b>

There were no advances to employees.

Remuneration paid to the below mentioned members of management is included in the above employee related costs:

<b>Remuneration of the Acting Municipal Manager (*)</b>		
Annual Remuneration	398 954	461 912
Acting allowance	440 584	69 190
Travel, motor car, accommodation, subsistence and other allowances	168 458	120 610
Contributions to UJF, Medical and Pension Funds	69 084	45 200
<b>Total</b>	<b>1 077 061</b>	<b>696 912</b>

The Land and Housing Director was the Acting Municipal Manager for full financial period under review.

<b>Remuneration of the Chief Finance Officer</b>		
Annual Remuneration	385 689	364 426
Travel, motor car, accommodation, subsistence and other allowances	168 458	135 410
Contributions to UJF, Medical and Pension Funds	69 084	69 742
<b>Total</b>	<b>623 231</b>	<b>569 578</b>

<b>Remuneration of the Technical Services Manager</b>		
Annual Remuneration	265 852	-
Travel, motor car, accommodation, subsistence and other allowances	94 712	-
Contributions to UJF, Medical and Pension Funds	34 689	-
<b>Total</b>	<b>395 253</b>	<b>-</b>

The Technical Services Manager post was vacant during 2009

<b>Remuneration of the Corporate Services Manager</b>		
Annual Remuneration	365 689	364 426
Travel, motor car, accommodation, subsistence and other allowances	168 458	133 410
Contributions to UJF, Medical and Pension Funds	69 084	61 742
<b>Total</b>	<b>623 231</b>	<b>569 578</b>

<b>Remuneration of the Community Services Manager</b>		
Annual Remuneration	365 689	434 984
Travel, motor car, accommodation, subsistence and other allowances	155 716	116 610
Contributions to UJF, Medical and Pension Funds	71 126	54 000
<b>Total</b>	<b>612 531</b>	<b>605 594</b>

<b>Remuneration of the Local Economic Development Manager</b>		
Annual Remuneration	365 689	434 889
Acting Allowance	-	-
Travel, motor car, accommodation, subsistence and other allowances	159 541	83 796
Contributions to UJF, Medical and Pension Funds	78 000	71 203
<b>Total</b>	<b>623 230</b>	<b>761 804</b>

<b>Remuneration of the Acting Land and Housing Manager (*)</b>		
Annual Remuneration	183 970	79 638
Acting Allowance	335 747	83 937
Performance- and other bonuses	14 999	4 424
Travel, motor car, accommodation, subsistence and other allowances	-	-
<b>Total</b>	<b>534 716</b>	<b>167 999</b>

(\*) - Packages as disclosed above are the subject of an internal enquiry aimed at establishing the validity of the information on the payroll system.

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	2010	2009
	R	R
<b>18 REMUNERATION OF COUNCILLORS</b>		<b>Restated</b>
Mayor	554 989	521 241
Speaker	444 093	418 618
Executive Committee Members	2 622 413	2 337 892
Councillors	5 130 054	4 166 401
Councillors' allowances	1 643 989	1 422 251
Traditional Leaders	474 185	428 853
<b>Total Councillors' Remuneration</b>	<b>10 869 633</b>	<b>9 231 246</b>
<b>In-kind Benefits</b>		
The Mayor, Speaker and certain Executive Committee Members are full-time		
Each is provided with an office and secretarial support at the cost of the Council		
The Mayor has use of the Council owned vehicle for official duties. A full time driver		
is at her disposal.		

**19 DEPRECIATION AND AMORTISATION EXPENSE**

Property, plant and equipment  
Total Depreciation and Amortisation

	3 430 715	3 430 715
	-	<u>3 430 715</u>

Depreciation is disclosed as a provisional amount of R0.00 under the transitional provisions contained in ASB Directive 4. The Municipality is in the process of compiling an asset register but it has not yet been finalised.

**20 GENERAL EXPENSES**

Included in general expenses are the following -

Admin fees	357 626	230 010
Advertising	76 406	148 278
Audit fees	1 462 436	1 515 056
Bank charges	192 551	89 551
Cleaning	321 802	311 999
Conferences and delegations	2 082 781	2 326 221
Consulting fees	2 196 245	1 118 607
Consumables	35 889	273 273
Electricity	157 555	243 691
Entertainment	363 472	406 108
FIFA 2010 World Cup	1 079 199	-
Free Basic Services	1 749 821	5 121 892
Fuel and oil	960 112	1 070 421
Insurance	147 646	214 855
Interest paid on bank overdrafts	2 226	-
Interest paid on overdue creditors	108 794	172 212
Legal expenses	1 231 811	464 036
Licence fees - vehicles	54 654	1 364
Memberships fees	18 650	180 965
Municipal projects and community development	17 535 484	17 570 208
Printing and stationery	537 051	231 997
Rental of office equipment	905 309	597 248
Security costs	982 644	178 398
Skills development levies	543 066	17 550
Stocks and material	181 405	151 432
Telephone and postage	2 028 857	1 675 817
Training	52 462	184 045
Travel and subsistence	639 456	486 121
Uniforms & overalls	264 351	228 912
Other	340 788	1 580 763
	<u>36 610 328</u>	<u>36 790 429</u>

**21 LOSS ON SALE OF ASSETS**

Property, plant and equipment  
Loss on sale of assets

	-	(111 756)
	-	<u>(111 756)</u>

Motor vehicles with a carrying value of R159 075 were disposed of resulting in proceeds of R47 320.



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	2010 R	2009 R
<b>22 CASH GENERATED BY OPERATIONS</b>		
Surplus/(deficit) for the year	36 714 841	(3 688 694)
Adjustment for:-		
Depreciation and amortisation	-	3 430 715
(Gain) / loss on sale of assets	-	1 117 756
Contribution to provisions - current	129 351	820 573
Impairment/loss	3 642 083	3 358 701
Other non-cash item: Adjustment to accumulated surpluses due to prior period errors and restatement of comparative period figures	-	(1 051 405)
Other non-cash item: Adjustments as a result of previously unaccounted for bank accounts	-	-
Operating surplus before working capital changes:	31 120	-
Increase in trade receivables	40 517 395	3 001 656
(Increase)/decrease in other receivables	(7 658 855)	(3 334 989)
(Increase)/decrease in VAT receivable	169 002	(57 644)
Increase/(decrease) in conditional grants and receipts	(5 280 561)	4 793 088
Increase/(decrease) in trade payables	(2 501 000)	1 268 883
Cash generated by/(utilised in) operations	(1 493 923)	3 375 430
	<u>23 757 257</u>	<u>9 044 446</u>

**23 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	22 946 147	31 152 203
Net cash and cash equivalents (net of bank overdrafts)	<u>22 946 147</u>	<u>31 152 203</u>

**24 PRIOR PERIOD ERRORS AND RESTATEMENTS**

**Retrospective restatement**

During the current financial period the following errors were identified with regards to transactions processed against accumulated surpluses prior to 1 July 2008. The corrections restated below have been effected to reverse the effects of those errors. The net effect on Accumulated Surpluses is summarised below:

- Transfer of Government Grant Reserve to Accumulated Surpluses	9 652 509
- Correction of opening balance on the general ledger bank account	(339 750)
- Restatement of debtors related amounts erroneously adjusted against Accumulated Surpluses	1 254 542
- Adjustments to opening balances of assets	(95 722)
<b>Net Increase in Accumulated Surpluses</b>	<u>10 471 579</u>

**Transfer of Government Grant Reserve to Accumulated Surpluses**

The correction of the error resulted in adjustments as follows:  
Transfer out of Government Grant Reserve to Accumulated Surpluses

9 652 509

The Government Grant Reserve arose during the Municipality's initial attempts to convert to GRAP. No documentation exists to support the reserve, furthermore the reserve is not required in terms of GRAP reporting framework.

**Correction of opening balance on the general ledger bank account**

The correction of the error resulted in adjustments as follows:  
Reduction (credit) of general ledger bank account

(339 750)

Complete bank reconciliations were not performed during prior years. During the financial period ended 30 June 2010 the Municipality conducted a full bank reconciliation to establish correct bank balances as at 30 June 2009 and 30 June 2010. The above adjustment to bank is required to reflect the correct balances on the general ledger bank account.

**Restatement of debtors related amounts erroneously adjusted against Accumulated Surpluses**

Restatement of amounts relating to invalid debtors accounts  
Restatement of previously unidentified differences relating to debtors

211 397  
1 043 145  
1 254 542

The above amounts relating to debtors were incorrectly adjusted directly against Accumulated Surpluses. The amounts have been restated and impairment of debtors has been adjusted accordingly.

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2010  
R  
2009  
R  
Restated

**24 PRIOR PERIOD ERRORS AND RESTATEMENTS (continued)**  
**Restatement of prior period figures as a result of errors identified**

The amounts reported in the 2008/09 annual financial statements have been restated for the errors identified below. A summary of the adjustments follows:

**Statement of Financial Performance**

<b>Deficit for the year as previously reported for the year ended 30 June 2009</b>	<b>(15 097 374)</b>
Capitalisation of expenditure on assets to the Statement of Financial Position	12 727 398
- Increase in impairment of debtors as a result of debtors balances erroneously written off against accumulated surpluses	(646 623)
- Reduction in depreciation charged	487 343
- Increase in employee related costs resulting from an unrecorded amount owing to SARS in respect of PAYE	(928 002)
- Increase in general expenditure due to reallocation of capital expenditure, previously unrecorded expenditure and expenditure captured under a revenue vote	(1 484 743)
- Loss on sale of asset previously not accounted for	(111 756)
- Reduction of repairs and maintenance expenditure	19 240
- Grant revenue incorrectly recognised relating to Ward Committee and IDP	(220 409)
- Increase in Revenue from Grants and Subsidies due to reallocation of expenditure incorrectly reflected under a revenue vote	1 161 827
- Reduction in sundry revenue recognised	(29 072)
- Increase in revenue from assessment rates due to reversal of debtors related adjustments	411 435
- Increase in refuse revenue due to reversal of debtors related adjustments	42 052
<b>Restated deficit for the year ended 30 June 2009</b>	<b>(3 658 664)</b>

**Statement of Financial Position**

<b>Cash and cash equivalents</b>	
Balance previously reported as at 30 June 2009	1 455 886
Reclassified from Investments	29 484 654
Reclassification of adjusted bank balance from Bank overdraft	211 663
Restated balance as at 30 June 2009	<u>31 152 203</u>
<b>Trade and other receivables from exchange transactions</b>	
Balance previously reported as at 30 June 2009	126 196
Reclassified from Prepayments	57 644
Restated balance as at 30 June 2009	<u>183 800</u>
<b>Prepayments</b>	
Balance previously reported as at 30 June 2009	57 644
Reclassified as Trade and other receivables from exchange transactions	(57 644)
Restated balance as at 30 June 2009	<u>-</u>
<b>Investments</b>	
Balance previously reported as at 30 June 2009	29 484 654
Reclassified to Cash and cash equivalents	(29 484 654)
Restated balance as at 30 June 2009	<u>-</u>
<b>Vat receivable</b>	
Balance previously reported as at 30 June 2009	1 743 748
Increase in VAT receivable resulting from asset additions not previously recorded	126 605
Restated balance as at 30 June 2009	<u>1 870 353</u>

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	2010 R	2009 R
		Restated
<b>24 PRIOR PERIOD ERRORS AND RESTATEMENTS (continued)</b>		
<i>Property, plant and equipment</i>		
Balance previously reported as at 30 June 2009	61 246 019	12 727 398
Capitalisation of asset related expenditure incorrectly recorded in the Statement of Financial Performance	12 727 398	639 398
Various corrections to assets purchased and disposed of not previously recorded	(95 172)	64 676 081
Adjustments to opening balances of assets as at 30 June 2008	64 676 081	-
Restated balance as at 30 June 2009	9 652 509	(9 652 509)
<i>Government Grant Reserve</i>		
Balance previously reported as at 30 June 2009	-	-
Transfer to Accumulated Surpluses	-	-
Restated balance as at 30 June 2009	-	-
<i>Trade and other payables</i>		
Balance previously reported as at 30 June 2009	4 227 904	(1 061 406)
Reversal of incorrect classification of debtors with credit balances	(1 061 406)	75 409
Additional creditors recognised as a result of asset additions	75 409	1 098 670
Recognition of amounts owing to SARS in respect of PAYE	1 098 670	1 508 912
Reclassification of Leave accrual from Provisions	1 508 912	540 752
Reclassification of bonus accrual from Provisions	540 752	6 390 238
Restated balance as at 30 June 2009	6 390 238	-
<i>Current provisions</i>		
Balance previously reported as at 30 June 2009	2 049 664	(1 508 912)
Reclassification of staff leave accrual to Trade and other payables	(1 508 912)	(540 752)
Reclassification of bonus accrual to Trade and other payables	(540 752)	-
Restated balance as at 30 June 2009	-	-
<i>Current portion of unspent conditional grants</i>		
Balance previously reported as at 30 June 2009	4 860 818	220 409
Grant income incorrectly released to revenue	220 409	2 501 000
Receipt of MIG funds previously not recorded	2 501 000	7 692 227
Restated balance as at 30 June 2009	7 692 227	-
<i>Bank Overdraft</i>		
Balance previously reported as at 30 June 2009	(1 413 514)	(399 750)
Correction of error with retrospective application	(399 750)	2 501 000
MIG receipt not previously recorded	2 501 000	18 248
Sundry revenue previously not recorded	18 248	(631 743)
Expenditure not captured	(631 743)	(78 821)
Debit orders not captured	(78 821)	58 243
Adjustments to cheques overstated on Venus	58 243	211 683
Restated balance as at 30 June 2009	211 683	(211 683)
Reclassified as cash and cash equivalents	(211 683)	0
Restated balance as at 30 June 2009	0	-
<b>25 FRUITLESS AND WASTEFUL EXPENDITURE</b>		
<b>Fruitless and wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure		
Opening balance -	172 212	-
Fruitless and wasteful expenditure current year	1 254 219	172 212
Fruitless and wasteful expenditure awaiting condemnation	1 426 431	172 212
	172 212	-
<b>Incident and disciplinary steps/criminal proceedings</b>		
Interest incurred on when the primary bank account was over-draft due to timing delays in deposits. No action initiated as yet	2 226	-
Interest incurred on overdue creditors accounts. The main portion of this relates to an amount due to SARS in respect of PAYE. No action initiated as yet	108 794	172 213
<b>Expenditure on FIFA World Cup events - Miscommunication between Council and Municipal Officials resulted in expenditure being incurred without Council approval. The matter is to be presented to Council for ratification</b>	1 079 199	-
<b>Insurance proceeds paid to a Municipal Official - A municipal vehicle was sold to an official by means of an auction. The vehicle was subsequently written off in an accident. The Municipality claimed from insurance and paid the proceeds to the Official. The matter is being investigated by the Mayor.</b>	64 000	-
<b>Total</b>	<b>1 254 219</b>	<b>172 213</b>

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R R  
R Restated

**26 ACCOUNTING ESTIMATES AND JUDGEMENTS**

*(a) Identification of impairment indicators*

Management is required to make judgements concerning the cause, timing and amount of impairment. In the identification of impairment indicators, management considers the impact of changes in current competitive conditions, cost of capital, availability of funding, technological obsolescence, discontinuance of services and other circumstances that could indicate that impairment exists. The municipality applies the impairment assessment to its assets or separate cash generating units. This requires management to make significant judgements and estimates concerning the existence of impairment indicators, separate cash generating units, remaining useful lives of assets, projected cash flows and net realisable values. Management's judgement is also required when assessing whether a previously recognised impairment loss should be reversed.

*(b) Determination of the recoverable amount of cash-generating assets*

Where impairment indicators exist, the determination of the recoverable amount of assets or cash generating units require management to make assumptions to determine the fair value less costs to sell. Key assumptions on which management has based its determination of fair values less costs to sell include projected revenues, earnings multiple, capital expenditure and market share. The judgements, assumptions and methodologies used can have a material impact on the fair value and ultimately the amount of the impairment.

*(c) Determination of the recoverable service amount of non-cash-generating assets*

Where impairment indicators exist, the determination of the recoverable service amount of a non-cash generating asset requires management to make assumptions to determine the fair value less costs to sell and the value in use based on the depreciated replacement cost model. Key assumptions include the current replacement cost of non-cash generating assets and in certain instances an assumption about the commissioning date which determines the depreciated replacement cost of the non-cash generating asset.

**27 FINANCIAL INSTRUMENTS**

**27.1 Classification of financial instruments**

**Financial assets**  
 The financial assets of the municipality are classified as follows:

*Loans and receivables*

Trade receivables from exchange transactions	3 263 533	2 759 600
Refuse	121 287	189 002
Sundry debtors	3 384 820	2 928 602
Trade receivables from non-exchange transactions	14 056 645	7 033 010
Rates	17 451 465	9 961 612
Less: Impairment of debt:	(13 419 896)	(9 777 812)
- Consumer debtors	(13 308 538)	(9 777 812)
- Sundry debtors	(111 358)	-
Total Loans and Receivables	4 031 559	183 800

*Cash and cash equivalents*

Cash held with banking institutions	22 941 412	31 147 488
Cash on hand	4 735	4 735
	22 946 147	31 152 203

**Total financial assets**

28 977 716 31 336 003

**Financial assets**

The financial liabilities of the municipality are classified as follows:

*Other financial liabilities*

<i>Employee benefits</i>	375 834	540 752
Accrued bonus	1 803 181	1 508 912
Staff leave accrual	2 179 015	2 049 684

*Trade and other payables*

Trade payables	2 148 303	3 250 543
Payments received in advance	698 347	1 090 031
	2 846 650	4 340 574

**Total financial liabilities**

5 025 665 6 390 238

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	2010	2009
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		Restated

**27 FINANCIAL INSTRUMENTS**

**27.2 Fair value of financial instruments**

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values

**28 FINANCIAL RISK MANAGEMENT**

**28.1 Objectives, policies and processes for managing risks**

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The Audit Committee is in the process of assisting the municipality to establish a Risk and Fraud Committee. This committee will report to the Audit Committee. The terms of reference for the committee must still be finalised and approved by Council. The municipality's audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by internal audit.

- The Municipality is exposed to the following risks:
- market risk (including currency risk, interest rate risk and price risk);
  - credit risk; and
  - liquidity risk

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk, credit risk and in the investment of excess liquidity. The municipality does not enter into or trade in financial instruments for speculative purposes.

**28.2 Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk

Market risk consists of the following risks:

(a) *Foreign currency risk*

The municipality does not enter into significant foreign currency transactions had has no exposure to foreign currency risk

(b) *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 municipality does not enter into long term financing arrangements thereby minimising the interest rate cash flow risk exposures on long-term financing

At year end, financial instruments exposed to interest rate risk were as follows:

- Short term deposits and current accounts (less than 30 days notice)	25 588 960	35 337 842
- Investments that may take longer than 30 days to access	1 246 825	635 645
<b>Total</b>	<b>26 833 785</b>	<b>35 973 487</b>

**28.3 Liquidity risk**

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

The Council has the ultimate responsibility for liquidity risk management, and has established an appropriate liquidity risk management framework for the management of the municipality's short, medium and long-term funding and cash flow requirements

The municipality manages liquidity risk by maintaining adequate reserves and banking facilities. The Finance Department monitors the cash flow requirements on a regular basis.

**28.4 Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has adopted a policy of only dealing with creditworthy counterparties to the extent possible and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Potential concentrations of credit risk consist mainly of investments, trade receivables and cash and cash equivalents.

Trade receivables comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Trade receivables are presented net of an allowance for impairment.

The existing trade receivable portfolio has historically been significantly impaired as a result of a number of contributing factors. The municipality intends to cleanse its trade receivable portfolio over the course of the next two financial periods. Policies have been developed to assist the Municipality with this process. Refer note 2 for more detailed information on the composition of the trade receivables portfolio.

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Figures in Rand	2010	2009
	R	R

**28 FINANCIAL RISK MANAGEMENT**

Except for trade receivables which have already been impaired the following financial assets are exposed to credit risk at year end:

*Cash and cash equivalents (including investments) are held with the following counter parties:*

ABSA Bank	13 172 810	33 444 033
First National Bank (Primary Banker)	11 922 123	801 770
Standard Bank	1 738 951	1 727 694
<b>Total</b>	<b>26 833 784</b>	<b>36 973 497</b>

**29 COMMITMENTS**

**29.1 Commitments in respect of capital expenditure**

- Approved and contracted for	41 979 122	25 983 868
Infrastructure		
Community		
Heritage		
Other		
- Approved but not yet contracted for	8 366 536	40 225 308
Infrastructure		
<b>Total</b>	<b>50 345 658</b>	<b>66 209 176</b>

This expenditure will be financed from:

- Government Grants	50 345 658	66 209 176
	<b>50 345 658</b>	<b>66 209 176</b>

**29.2 Operating leases**

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee		
Within one year	354 372	239 040
In the second to fifth year inclusive	483 657	835 587
<b>Total</b>	<b>838 029</b>	<b>1 074 727</b>

Operating Leases consists of the following:  
Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for a term not exceeding 60 months. All but two of the leases (which are subject to a 10% annual escalation) are at a fixed rate. No contingent rent is payable.

**30 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**30.1 Contributions to organised local government (SALGA)**

Opening balance	-	-
Council subscriptions	-	-
Amount paid - current	-	137 286
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b>-</b>	<b>137 286</b>

**30.2 Audit fees**

Opening balance	-	-
Current year audit fee	-	-
Amount paid - current year	-	-
Amount paid - previous years	1 492 438	1 515 056
<b>Balance unpaid (included in payables)</b>	<b>1 492 438</b>	<b>1 515 056</b>

The audit fee for the 2009/10 financial audit had not yet been agreed on by 31 August 2010

**30.3 VAT**

VAT input receivables and VAT output payables are shown in note 8. All VAT returns have been submitted throughout the year.

**MBHASHHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

Figures in Rands

2010                      2009  
R                                      R  
Restated

**30 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**  
**30.4 PAYE and UIF**

Opening balance	926 457	Not available
Current year payroll deductions	4 612 625	Not available
Amount paid - current year	(4 274 850)	Not available
Amount paid - previous years		
<b>Balance unpaid (included in payables)</b>	<b><u>1 264 232</u></b>	<b><u>171 926 457</u></b>

(\*) Amount confirmed by SARS as outstanding as at 30 June 2009

**30.5 Pension and Medical Aid Deductions**

Opening balance	3 029 293	Not available
Current year payroll deductions and Council Contributions	(2 920 472)	Not available
Amount paid - current year		
Amount paid - previous years		
<b>Balance unpaid (included in payables)</b>	<b><u>108 761</u></b>	<b><u>Not available</u></b>

**30.6 Councillor's arrears consumer accounts**

During the year the municipality monitored the amounts outstanding by Councillors and sent communications to remind them to pay outstanding amounts. Due to the challenges experienced with the billing system, reliable information in this regard is not available for disclosure

**31 RETIREMENT BENEFIT INFORMATION**

**Defined contribution plans**

- The Municipality makes contributions to the following plans:
- South African Municipal Workers Union National Provident Fund
  - Eastern Cape Municipal Pension Fund
  - Eastern Cape Municipal Gratuity Fund

The Municipality makes contributions to the following Medical Aid Schemes:

- HOSMED
- Key Health
- South African Municipal Workers Union Medical Aid
- Bonitas
- LA Health

These contributions have been expensed

<b>32 CONTINGENT LIABILITY</b>	
<b>UIF relating to Councillors' remunerations</b>	<b>2 000 000</b>

The Municipality has a potential liability to settle amounts owing relating to remuneration paid to Councillors from 2003. The Municipality is investigating the matter further. The contingent liability is estimated to be approximately R2 million.

**Legal action**

The municipality is currently party to the following litigation:

Pending matter 1:

Case No. 30142008 - The Municipality is being sued by a service provider for payments owing with regards to services rendered. The contact with the Municipality was signed by a Section 57 manager without proper approval (the manager has since left the employ of the municipality). Payments were made to the service provider in terms of the contact in question. The matter is still in court.

Pending matter 2:

Case No. 291407 - One of the municipality's former employees has instituted legal proceedings against the municipality to recover amounts owing for accrued leave, back pay and short payment on salary. The matter is still in court.

**Total for contingent liabilities**

	75 363	75 363
	<b><u>2 327 803</u></b>	<b><u>327 803</u></b>

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

	2010	2009
Figures in Rand	R	R
		Restated

**33 RELATED PARTIES**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:  
- entities that are directly or indirectly controlled by the municipality,  
- key management personnel, and close members of the family of key management personnel.

Key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004.

For compensation to councillors and other key management (refer to note 17 and 18)

**Related party transactions**

**Services rendered to related parties**

During the year the Municipality rendered services to various Councillors, the Municipal Manager and certain Section 57 personnel residing within its jurisdiction. These services include rates and refuse charges. The Municipality does not have a process in place to quantify the value of the services rendered.

The services rendered to related parties are charged at approved tariffs that were advertised to the Public. Amounts outstanding are unsecured and will be settled in cash.

During the year the Municipality actively monitored the amounts outstanding by Councillors and sent communications to remind

**Services rendered by related parties**

The following transactions have been identified as services rendered by an entity in which a Councillor has a business interest. Service provider and type of service

Value of the transaction	Related party
T. Siva's tents and other related services CC - Hire of tent	4 000 Councillor S. Tyall
Golden Security Services CC - Security services	138 600 Councillor DD Magodla

**Grants and subsidies received**

The following significant grants and subsidies were received from related parties:

National Treasury	63 589 923	41 014 669
- Equitable share	23 486 000	13 606 000
- Municipal Infrastructure Grant	735 000	735 000
- Municipal Systems Improvement Grant	1 000 000	500 000
- Financial Management Grant	10 000 000	-
Department of Minerals and Energy	98 790 923	55 958 669
	<u>98 790 923</u>	<u>55 958 669</u>

**34 EVENTS AFTER THE REPORTING DATE**

On 30 June 2010 Councillor Dyanthi was elected as the new Mayor, replacing Councillor Wwama. The speaker and 11 new Councillors were also sworn in. The new Councillors are as follows:

Nyalambisa N (Speaker)  
Mlungu N (Ms)  
Nkasa M  
Jirayi S (Ms)  
Jiya M  
Malashe A  
Mecane O (Ms)  
Sijadu M  
Sivwana N (Ms)  
Buyeya N (Ms)  
Tusheni J  
Kaas N (Ms)

Subsequent to year end the Municipality received confirmation that the amount of R835 644,86 held in suspense by First National Bank will be refunded to the Municipality.

**35 RECONCILIATION OF BUDGET SURPLUS/DEFICIT WITH THE SURPLUS/DEFICIT IN THE STATEMENT OF FINANCIAL PERFORMANCE**

<b>Net surplus/deficit per the statement of financial performance</b>	36 714 841	
Adjusted for:		
Impairments recognised / reversed	(3 642 083)	
Surplus / deficit on the sale of assets	(129 351)	
Increases / decreases in provisions	1 130 584	
Difference due to under spend and additional revenue recognised when compared with budget	34 073 991	
<b>Net surplus/deficit per approved budget</b>		<u>36 047 982</u>



**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX A TO THE ANNUAL FINANCIAL STATEMENTS**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	
<b>Land</b>									
Land	9 366 112	-	-	9 366 112	-	-	-	-	9 366 112
	9 366 112	-	-	9 366 112	-	-	-	-	9 366 112
<b>Buildings</b>	2 486 834	-	-	2 486 834	(787 413)	-	-	(787 413)	1 699 421
<b>Infrastructure</b>									
Roads	53 446 539	21 410 977	-	74 857 516	(7 895 018)	-	-	(7 895 018)	66 962 498
Electricity Mains	-	8 222 101	-	8 222 101	-	-	-	-	8 222 101
	53 446 539	29 633 078	-	83 079 617	(7 895 018)	-	-	(7 895 018)	75 184 599
<b>Community Assets</b>									
Libraries	172 031	-	-	172 031	(46 563)	-	-	(46 563)	125 468
Taxi rank development	598 843	-	-	598 843	(189 633)	-	-	(189 633)	409 210
Community Arts centre	1 589 713	-	-	1 589 713	(1 010 870)	-	-	(1 010 870)	578 843
Sports facilities and grounds	804 962	-	-	804 962	(477 250)	-	-	(477 250)	327 712
Community halls	3 380 752	-	-	3 380 752	(340 764)	-	-	(340 764)	3 039 988
	6 546 301	-	-	6 546 301	(2 065 080)	-	-	(2 065 080)	4 481 221
<b>Total carried forward</b>	71 845 786	29 633 078	-	101 478 864	(10 747 511)	-	-	(10 747 511)	90 731 353

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX A TO THE ANNUAL FINANCIAL STATEMENTS**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R
<b>Total brought forward</b>	71 845 786	29 633 078	-	101 478 864	(10 747 511)	-	-	(10 747 511)	90 731 353
<b>Other Assets</b>									
Office Equipment	1 407 385	1 325 754	-	2 733 139	(1 040 717)	-	-	(1 040 717)	1 692 422
Furniture & Fittings	1 483 161	6 384	-	1 489 545	(680 968)	-	-	(680 968)	808 577
Motor vehicles	4 611 545	763 724	-	5 375 269	(3 142 080)	-	-	(3 142 080)	2 233 189
Plant and equipment	1 752 005	229 373	-	1 981 378	(913 396)	-	-	(913 396)	1 067 982
Mayoral chain	4 473	-	-	4 473	(3 602)	-	-	(3 602)	871
	9 258 569	2 325 235	-	11 583 804	(5 780 763)	-	-	(5 780 763)	5 803 041
<b>Total</b>	<b>81 104 355</b>	<b>31 958 313</b>	<b>-</b>	<b>113 062 668</b>	<b>(16 528 274)</b>	<b>-</b>	<b>-</b>	<b>(16 528 274)</b>	<b>96 534 394</b>

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX A TO THE ANNUAL FINANCIAL STATEMENTS**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2009

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	
<b>Land</b>									
Land	9 366 112	-	-	9 366 112	-	-	-	-	9 366 112
Landfill Sites	-	-	-	-	-	-	-	-	-
	9 366 112	-	-	9 366 112	-	-	-	-	9 366 112
<b>Buildings</b>	2 486 834	-	-	2 486 834	(704 519)	(82 894)	-	(787 413)	1 699 421
<b>Infrastructure</b>									
Roads	40 962 416	12 484 123	-	53 446 539	(6 256 521)	(1 638 497)	-	(7 895 018)	45 551 521
Electricity Mains	-	-	-	-	-	-	-	-	-
	40 962 416	12 484 123	-	53 446 539	(6 256 521)	(1 638 497)	-	(7 895 018)	45 551 521
<b>Community Assets</b>									
Libraries	172 031	-	-	172 031	(40 829)	(5 734)	-	(46 563)	125 468
Taxi rank development	598 843	-	-	598 843	(169 672)	(19 961)	-	(189 633)	409 210
Community Arts centre	1 589 713	-	-	1 589 713	(957 880)	(52 990)	-	(1 010 870)	578 843
Sports facilities and grounds	804 962	-	-	804 962	(450 418)	(26 832)	-	(477 250)	327 712
Community halls	3 380 752	-	-	3 380 752	(228 072)	(112 692)	-	(340 764)	3 039 988
	6 546 301	-	-	6 546 301	(1 846 871)	(218 209)	-	(2 065 080)	4 481 221
<b>Total carried forward</b>	<b>59 361 663</b>	<b>12 484 123</b>	<b>-</b>	<b>71 845 786</b>	<b>(8 807 911)</b>	<b>(1 939 600)</b>	<b>-</b>	<b>(10 747 511)</b>	<b>61 098 275</b>

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX A TO THE ANNUAL FINANCIAL STATEMENTS**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2009

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R
<b>Total brought forward</b>	59 361 663	12 484 123	-	71 845 786	(8 807 911)	(1 939 600)	-	(10 747 511)	61 098 275
<b>Other Assets</b>									
Office Equipment	996 115	411 270	-	1 407 385	(910 255)	(130 462)	-	(1 040 717)	366 668
Furniture & Fittings	562 013	921 148	-	1 483 161	(446 444)	(234 524)	-	(680 968)	802 193
Motor vehicles	4 359 609	848 469	(596 533)	4 611 545	(2 658 345)	(921 193)	437 458	(3 142 080)	1 469 465
Plant and equipment	1 391 126	360 879	-	1 752 005	(709 354)	(204 042)	-	(913 396)	838 609
Mayoral chain	4 473	-	-	4 473	(2 708)	(894)	-	(3 602)	871
	7 313 336	2 541 766	(596 533)	9 258 569	(4 727 106)	(1 491 115)	437 458	(5 780 763)	3 477 806
<b>Total</b>	<b>66 674 999</b>	<b>15 025 889</b>	<b>(596 533)</b>	<b>81 104 355</b>	<b>(13 535 017)</b>	<b>(3 430 715)</b>	<b>437 458</b>	<b>(16 528 274)</b>	<b>64 576 081</b>

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX B TO THE ANNUAL FINANCIAL STATEMENTS**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2010

2009		2009		2009		2010		2010		2010	
Actual Income	Actual Expenditure	Actual Expenditure	Surplus/(Deficit)	Actual Income	Actual Expenditure	Actual Expenditure	Surplus/(Deficit)	Actual Income	Actual Expenditure	Actual Expenditure	Surplus/(Deficit)
R	R	R	R	R	R	R	R	R	R	R	R
-	15 084 452	-15 084 452	Executive & Council	-	16 795 987	-16 795 987		-	26 800 507	-16 795 987	
74 519 664	36 324 528	38 195 136	Finance & Admin	100 060 414	8 387 338	73 259 906		100 060 414	26 800 507	73 259 906	
-2 316	10 411 528	-10 413 844	Planning & Development	523 000	6 990 463	-7 864 338		523 000	8 387 338	-7 864 338	
-	2 883 823	-2 883 823	Housing	-	6 500 604	-6 500 604		-	6 990 463	-6 990 463	
114 526	882 411	-767 885	Community & Social Services	296 533	650 604	-354 071		296 533	650 604	-354 071	
107 877	305 746	-197 869	Public Safety	70 546	2 035 003	-1 964 456		70 546	2 035 003	-1 964 456	
-	2 148 753	-2 148 753	Sport & Recreation	-	2 859 893	-2 859 893		-	2 859 893	-2 859 893	
91 085	1 950 445	-1 859 360	Waste Management	53 700	4 298 624	-4 244 924		53 700	4 298 624	-4 244 924	
-	5 862 251	-5 862 251	Road Transport	11 119 362	5 959 446	5 159 916		11 119 362	5 959 446	5 159 916	
-	1 691 008	-1 691 008	Electricity	-	645 304	-645 304		-	645 304	-645 304	
-	994 575	-994 575	Other	-	-14 253	14 253		-	-14 253	14 253	
<b>74 830 836</b>	<b>78 499 520</b>	<b>(3 668 684)</b>	<b>Total</b>	<b>112 123 555</b>	<b>75 408 714</b>	<b>36 714 841</b>		<b>112 123 555</b>	<b>75 408 714</b>	<b>36 714 841</b>	