

# Annual Financial Statements

for

## **MBHASHE LOCAL MUNICIPALITY**

for the year ended 30 June: **2011**

Province: 

Eastern Cape
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AFS Rounding: 

Nearest Rand
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### **Contact Information:**

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<b>Name of Acting Chief Financial Officer:</b>	Mr. Siyasanga Ndakisa
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**MBHASHE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
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**General information**

**Members of the Council at at 30 June 2011**

Ms N O Mfecane	<b>Mayor</b>
Mr P Madingana	<b>Speaker</b>
Ms N Stefana	Member of the Executive Committee
Ms N Xhungu	Member of the Executive Committee
Mr DT Tsengwa	Member of the Executive Committee
Miss X O Willie	Member of the Executive Committee
Mr M Peter	Member of the Executive Committee
Mr M Mbomvu	Member of the Executive Committee
Mr VSK Mbewu	Member of the Executive Committee
Mr F Khekhetshe	Member of the Executive Committee
Mr M Noyila	Member of the Executive Committee
Mr M Bhele	<b>Chief WHIP</b>
Mr A Bambiso	Member
Mr A T Magoda	Member
Mr P D Methu	Member
Mr A L Xana	Member
Mr M W Jiya	Member
Ms C N Buyeye	Member
Mr J S Tutsheni	Member
Mr M J Savu	Member
Miss N Tswila	Member
Mr B Jamda	Member
Mr M Ndinisa	Member
Mr M Mapungu	Member
Mr M Khwakhwi	Member
Miss F Ndaule	Member
Mr T Tshika	Member
Mr S Hoyo	Member
Mr M G Mgushelo	Member
Ms I N Quvile	Member
Ms N Janda	Member
Mr S Mfihlo	Member
Ms N Mangaliso	Member
Mrs T Mafanya	Member
Ms N Sigcawu	Member
Mr SS Futshane	Member
Mr S S Magwa	Member
Ms T Z Lubaxa	Member
Mr B Mqoqi	Member
Mr X A Zimba	Member
Mr T Nodlewa	Member
Mrs N Magatya	Member
Mr B Sigcawu	Member
Ms N B Benya	Member
Mr S Wulana	Member
Ms Z Pencil	Member

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**Members of the Council (continued)**

Mr M Zidlele	Member
Mrs N N Nkqwiliso	Member
Mrs G Y Mhlathi	Member
Ms N Lumkwana	Member
Mr P Faniso	Member
Ms F Mbiko	Member
Mr N N Ndlodaka	Member
Miss N V Nonjaca	Member
Mr M Tetyana	Member
Mrs B Mbalela	Member
Mr M Takani	Member
Ms X P Baleni	Member
Ms Tyodana	Member
Mr M M Mcotsho	Member
Mr MS Jafta	Member

***Traditional leaders***

Mr S V Qothongo
Mr S X Ndevu
Mr S Nyendani
Mr M P G Manxiwa
Mr M A B Dumalisile
Mr M Titshala
Mr N Ngubechanti
Mr B S Sigidi
Mrs A N Sigcawu
Mr F F Ndim
Mr N W Zenani

**Members of the Council up to 18 May 2011**

Ms P P Dyantyi	<b>Mayor</b>
Ms N Nyalambisa	<b>Speaker</b>
Ms N Nqwena	Member of the Executive Committee
Mr S Tyali	Member of the Executive Committee
Mr M Ngxelo	Member of the Executive Committee
Ms N Qasana	Member of the Executive Committee
Ms N Mtsi	Member of the Executive Committee
Ms F Qina	Member of the Executive Committee
Ms N Stefana	Member of the Executive Committee
Mr M Sangqu	Member of the Executive Committee
Mr S Mhaga	Member of the Executive Committee
Mr M Jiya	<b>Chief WHIP</b>
Ms S Sovita	Member
Ms N Nonxuba	Member
Ms N Tswila	Member
Mr S Kalityi	Member
Mr P Raxangana	Member
Mr G Z Matshandana	Member
Mr M Khwakhwi	Member

**MBHASHE LOCAL MUNICIPALITY**  
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**Members of the Council (continued)**

Mr B Jamba	Member
Mr M Peter	Member
Mr A T Magoda	Member
Mr E N Manqina	Member
Ms X O Willie	Member
Mr T Tshika	Member
Mr N Genukile	Member
Mr P Madingana	Member
Mr Q Nozwi	Member
Mr q Xozumthi	Member
Mr J M Savu	Member
Ms Qungqe	Member
Mr M Ndinisa	Member
Mr M Mapungu	Member
Mr I M Dubula	Member
Mr A L Xana	Member
Mr M A Voyi	Member
Mr J R Macamba	Member
Ms Mnqumeni	Member
Ms N Nightngale	Member
Mr D T Tsengwa	Member
Ms N Siswana	Member
Ms S Jinoyi	Member
Mr M Ntsasa	Member
Ms Q N Dwakasa	Member
Mr J S Tutsheni	Member
Ms N Buyeye	Member
Ms N O Mfecane	Member
Ms N Klass	Member
Ms F Ndaule	Member
Ms N Mlungu	Member

**Municipal Manager (Acting)**

Mr. S Caga

**Chief Financial Officer (Acting)**

Mr. S Ndakisa

**Grading of Local Authority**

Grade 3

**Capacity of Local Authority**

Low

**Auditors**

Auditor-General of South Africa

**Bankers**

The Municipality's primary bank account is held with First National Bank.

**MBHASHE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
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**General information (continued)**

**Registered Office:** Mbhashe Local Municipality

**Physical address:**  
454 Steatfield Road  
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:** [cagas@mbhashemun.gov.za](mailto:cagas@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, issue of learners licences and renewal of drivers licences

**Relevant legislation** The Municipality is governed by the following key legislation:  
- Municipal Finance Management Act 56 of 2003  
- Division of Revenue Act 1 of 2010  
- Division of Revenue Act 6 of 2011  
- Municipal Structures Act No. 117 of 1998  
- Municipal Systems Act No. 32 of 2000  
- Property Rates Act No. 6 of 2004

**MBHASHE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

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**Approval of annual financial statements**

The accounting officer is responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003). The salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in notes 17 and 18 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The accounting officer is required by the Municipal Finance Management Act, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity.

While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the economic entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the economic entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the economic entity's annual financial statements. The annual financial statements have been examined by the economic entity's external auditors and their report is presented on page \_\_\_\_\_.

The annual financial statements set out on pages 7 to 47, which have been prepared on the going concern basis, were approved by the accounting officer and were signed on its behalf by:

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Acting Municipal Manager: Mr S Caga

DATE: 31 August 2011

**MBHASHE LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

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**Abbreviations:**

AFS	Annual Financial Statements
ASB	Accounting Standards Board
FMG	Financial Management Grant
GRAP	Generally Recongised Accounting Practices
MFMA	Municipal Finance Management Act
MIG	Municipal infrastructure Grant
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SARS	South African Revenue Services
UIF	Unemployment Insurance Fund
VAT	Value Added Tax

**MBHASHE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION**  
as at 30 June 2011

Figures in Rands	Note	2011	2010 Restated
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	2	11 436 544	23 687 545
Trade and other receivables	3	1 713 308	3 647 079
Inventories	4	-	-
VAT receivable	9	4 471 001	7 016 396
<b>Non-current assets</b>			
Property, plant and equipment	5	92 419 288	46 984 198
Intangible assets	6	-	-
Investment property	7	-	-
<b>Total assets</b>		<b>110 040 141</b>	<b>81 335 218</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	8	6 665 195	6 331 490
Provisions	10	-	-
Unspent conditional grants and receipts	11	3 999 890	3 754 578
<b>Total liabilities</b>		<b>10 665 085</b>	<b>10 086 068</b>
<b>Net assets</b>		<b>99 375 056</b>	<b>71 249 150</b>
<b>Net assets</b>			
Accumulated surplus		99 375 056	71 249 150
<b>Total net assets</b>		<b>99 375 056</b>	<b>71 249 150</b>



**MBHASHE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2011

Figures in Rands	Note	2011	2010 Restated
<b>Revenue from exchange transactions</b>			
Service charges	13	701 768	695 851
Rental of facilities and equipment	14	536 249	543 279
		1 238 017	1 239 130
<b>Revenue from non-exchange transactions</b>			
Property rates	12	6 971 504	8 714 382
Fines		462 460	512 315
Licences and permits		984 768	607 047
Government grants and subsidies	16	120 722 277	99 459 098
		129 141 009	109 292 842
Other income	17	327 936	548 892
Interest earned - external investments	15	643 896	1 061 005
<b>Total revenue</b>		<b>131 350 858</b>	<b>112 141 869</b>
<b>Expenses</b>			
Employee related costs	18	34 131 385	21 806 426
Remuneration of councillors	19	12 600 886	10 869 624
Impairment losses		6 605 943	4 479 439
Depreciation and amortisation expense	20	-	-
Repairs and maintenance		7 523 770	2 632 984
General expenses	21	42 362 968	36 718 933
<b>Total expenses</b>		<b>103 224 952</b>	<b>76 507 406</b>
<b>Surplus for the period</b>		<b>28 125 906</b>	<b>35 634 463</b>

**MBHASHE LOCAL MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS**  
for the year ended 30 June 2011

Figures in Rands	Note	Accumulated Surplus	Total Net Assets
<b>Balance at 30 June 2009</b>		<b>34 251 674</b>	34 251 674
Correction of prior period errors	24	1 326 648	1 326 648
<i>Take on of previously unidentified bank accounts</i>	24	36 365	36 365
<b>Restated balance</b>		<b>35 614 687</b>	35 614 687
Surplus for the period		35 634 463	35 634 463
<b>Balance at 30 June 2010</b>		<b>71 249 150</b>	<b>71 249 150</b>
Surplus for the period		28 125 906	28 125 906
<b>Balance at 30 June 2011</b>		<b>99 375 056</b>	<b>99 375 056</b>

<b>MBHASHE LOCAL MUNICIPALITY</b>			
<b>CASH FLOW STATEMENT</b>			
for the year ended 30 June 2011			
Figures in Rands	<b>Note</b>	<b>2011</b>	<b>2010</b> <b>Restated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		129 469 392	96 588 471
Sales of goods and services		7 529 971	(652 875)
Grants		120 967 589	95 631 449
Interest received		643 896	1 061 005
Other receipts		327 936	548 892
Payments		96 285 304	72 697 637
Employee costs		46 732 271	32 676 050
Suppliers		49 529 319	39 910 567
Interest paid		23 714	111 020
<b>Net cash flows from operating activities</b>	<b>22</b>	<b>33 184 088</b>	<b>23 890 834</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(45 435 089)	(31 958 309)
<b>Net cash flows from investing activities</b>		<b>(45 435 089)</b>	<b>(31 958 309)</b>
<b>Decrease in net cash and cash equivalents</b>		<b>(12 251 001)</b>	<b>(8 067 475)</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>23 687 545</b>	<b>31 755 020</b>
<b>Net cash and cash equivalents at end of period</b>	<b>23</b>	<b>11 436 544</b>	<b>23 687 545</b>

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

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**1 BASIS OF PREPARATION**

Mbhashe Local Municipality ("the municipality") is a low capacity local government institution covering Dutywa, Willowvale and Elliotdale 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 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 include:

- Impairment of debtors. Management is required to assess the debtors portfolio on an individual and collective basis and to determine an appropriate impairment based on the collection trends, type of consumer and the general economic environment.
- Provision for landfill sites. Management is required to base the provision for the rehabilitation of the landfill sites on appropriate supporting documentation and assumptions.
- Assessment of conditions related to unspent grants. Management must exercise judgement in assessing the extent to which the conditions pertaining to grants have been met in order to release an appropriate amount to revenue.

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 will be 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. Inventories have therefore not been measured in accordance with GRAP 12 during the current and previous reporting periods, and are stated at provisional amounts. Full compliance is expected by the end of June 2012.

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

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 will be 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 will be applied retrospectively.

The municipality has applied the three year exemption for measuring investment property. 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.

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

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**1.2 BASIS OF MEASUREMENT**

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

All changes resulting from the application of GRAP 17 will be accounted for retrospectively.

The municipality has applied the three year exemption for measuring property, plant and equipment.

No depreciation expense has been recognised 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

Full compliance is expected by the end of June 2012.

*(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.

*(f) GRAP 19 Provisions, Contingent Liabilities and Contingent Assets*

The Municipality has applied the three year exemption for measuring provisions, contingent liabilities and contingent assets.

The Municipality has therefore not calculated the present value of the landfill sites. No measurement period adjustments have been recognised during the reporting period.

The Municipality is in the process of identifying the required cashflows, preparing a discounting model and establishing an appropriate discount rate. Full compliance with GRAP 19 is expected by the end of June 2012.

*(g) GRAP 101 Agriculture*

The municipality has applied the three year exemption for recognising and measuring biological assets 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 will be accounted for retrospectively.

The municipality has applied the three year exemption for measuring intangible assets 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.

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 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**  
for the year ended 30 June 2011

**1.3 Approved Standards not yet effective for the current reporting period**

The following standards have been approved but are not yet effective for the current reporting period:

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 20 - Related Parties	<p>A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.</p> <p>An entity shall apply this Standard in:</p> <p>(a) identifying related party relationships and transactions;</p> <p>(b) identifying outstanding balances, including commitments, between an entity and its related parties;</p> <p>(c) identifying the circumstances in which disclosure of the items in (a) and (b) is required; and</p> <p>(d) determining the disclosures to be made about those items.</p>	<p>The Municipality will be required to enhance the processes required to identify, track and report on related party transactions. Limited information regarding related party transactions is currently reported in the Annual Financial Statements.</p>
GRAP 21 - Impairment of non-cash generating assets	<p>Non-cash-generating assets are 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>

**MBHASHE LOCAL MUNICIPALITY**  
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<p>GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)</p>	<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 recognise an amount 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 GAMAP 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>
<p>GRAP 24 - Presentation of Budget Information in Financial Statements</p>	<p>The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts 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>Where the municipality prepares its budget and <u>annual financial statements on a comparable basis, it</u></p>	<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>
<p>GRAP 25 - Employee Benefits</p>	<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 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 2010/11 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 service costs to be recognised as an 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>

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<p>GRAP 26 - Impairment of cash-generating assets</p>	<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>
<p>GRAP 103 - Heritage Assets</p>	<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>	<p>The municipality does not own significant heritage assets and the standard is therefore not expected to have a significant impact.</p>
<p>GRAP 104 - Financial Instruments</p>	<p>The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results 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>No material impact is expected on the measurement of financial instruments as the measurement basis of the municipality's financial instruments is expected to remain unchanged (i.e., at amortised cost and at fair value).</p>



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	<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>	
GRAP 105 - Transfer of Functions between Entities under Common Control	<p>A transfer of functions between entities under common control is a reorganisation and/or reallocation of functions between entities that are ultimately controlled by the same entity before and after a transfer of functions, and that control is not transitory.</p> <p>Transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions as well as transfers of functions between entities not under common control and mergers are excluded from the scope of this Standard.</p>	The Standard is not expected to have any impact on the Municipality's operations
GRAP 106 - Transfer of Functions between Entities not under Common Control	<p>A transaction or event in which an acquirer can be identified, and that occurs between entities not under common control falls within the scope of this Standard. A transfer of functions between entities not under common control is a reorganisation and/or reallocation of functions between entities that are not ultimately controlled by the same entity both before and after the transfer of functions and that control is not transitory.</p> <p>Transfers of individual or groups of assets and/or liabilities that do not meet the definition of a transfer of functions, a transfer of functions undertaken between entities under common control, mergers and joint ventures are excluded from the scope of this Standard.</p>	The Standard is not expected to have any impact on the Municipality's operations
GRAP 107 - Mergers	<p>A transaction or event for where no acquirer can be identified falls within the scope of this Standard. A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified. Determining whether an acquirer can be identified includes a consideration of, amongst other things, which of the combining entities initiated the transaction or event, the relative size of the combining entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. A merger can either involve the combination of two or more entities in which one of the combining entities continues to become the new reporting entity, or a new reporting entity is established from the combining entities. The concept of control and a function is not relevant in a transaction or event that meets the definition of a merger.</p>	The Standard is not expected to have any impact on the Municipality's operations

The relevant Standards will be applied by the Municipality from the effective date to be determined by the Minister of Finance. GRAP 21, 23, 24, 26 and 103 are effective for period commencing on or after 1 April 2012. The effective dates for the other GRAP Standards are currently unknown.

In addition to the above the following GRAP Standards have been amended effective for years beginning on or after 1 April 2011: GRAP 1, 2, 3, 4, 9, 10,11, 12,13,14,16,17,19. The effective dates for amendments to GRAP 6, 7 and 8 is 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.

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**1.7 PROPERTY, PLANT AND EQUIPMENT**

**1.7.1 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.

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, residual values or depreciation methods they are accounted for as separate items (major components) of property, plant and equipment for the purposes of calculating depreciation. The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

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.

**1.7.2 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 is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably.

**1.7.3 Depreciation and impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Useful lives, residual values and depreciation methods will be reassessed annually and changes are accounted for as a change in estimate. 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 average asset lives:

<b>Infrastructure</b>		<b>Other</b>	
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
		Computer equipment	3 years
<b>Community</b>			
Buildings	30 years		
<b>Land and buildings</b>			
Buildings	30 years		
Land	Indefinite		

**Finance lease assets**

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

**1.7.4 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 surplus or deficit.

**1.8 INTANGIBLE ASSETS**

**1.8.1 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.

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 meets the definition of an intangible asset and 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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**1.8 INTANGIBLE ASSETS (continued)**

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.

**1.8.2 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.

**1.8.3 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 recognised in surplus or deficit.

**1.8.4 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 surplus or deficit.

**1.9 INVESTMENT PROPERTY**

**1.9.1 Initial recognition**

Refer to Note 7 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.

**1.9.2 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 still to be determined.

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.

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

**1.10.1 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.

**1.10.2 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.

**1.11 INVENTORIES**

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.

**1.11.1 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.

**1.11.2 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 surplus or deficit in the year in which they arose. 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.

**1.12 FINANCIAL INSTRUMENTS**

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

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. Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

**1.12.1 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 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 counterparty. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are recognised on the date that they are originated.

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 for objective evidence of impairment. 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, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. 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 recognised in surplus or deficit.

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.

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**1.12 Financial assets (continued)**

Financial assets are derecognised when the contractual rights to the cash flows from the asset expires or it 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.

**1.12.2 Financial liabilities**

A Financial Liability is a contractual obligation to deliver cash or another financial asset to another entity. Trade and other payables from exchange transactions reflected on the face of the Statement of Financial Position or in the notes thereto are classified as financial liabilities.

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

**1.13 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 unless it meets the definition and recognition criteria of an asset.

**1.14 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 unless it meets the definition and recognition criteria of an asset.

**1.15 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 unless it meets the definition and recognition criteria of an asset.

**1.16 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 or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential 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.

**1.17 LEASES**

**1.17.1 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.

**1.17.2 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.

**1.18 VALUE ADDED TAX**

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

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**1.19 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.

**1.19.1 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.

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 municipality 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.

**1.19.2 Revenue from non-exchange transactions**

Revenue from non-exchange transactions refers to transactions where the municipality 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.

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 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 definition and recognition criteria of an asset have been met.

**1.19.3 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 and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached restrictions, the grants are recognised as revenue in the reporting period in which the recognition criteria are met.

*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.

**MBHASHE LOCAL MUNICIPALITY**  
**SIGNIFICANT ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

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**1.20 EMPLOYEE BENEFITS**

**1.20.1 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.

**1.20.2 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
- Bonitas
- LA Health

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

Changes in accounting policies have 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.

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

**2011**      **2010**  
**Restated**

**2 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Cash held with banking institutions	11 431 809	23 682 810
Cash on hand	4 735	4 735
	<b>11 436 544</b>	<b>23 687 545</b>

**Cash and cash equivalents pledged as security**

No cash or cash equivalents are pledged as security.

**Cash held with banking institutions**

The Municipality had the following bank accounts: -

	Bank account balance (per bank statements)			Cash book balance (per trial balance)		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
<b>Current Account (Primary Bank Account)</b>						
ABSA Bank Limited - Account Number 4048384454	2 616 782	4 089 714	5 037 681	1 523 723 <sup>(*)</sup>	-39 504 354	211 663
First National Bank Limited - Account Number 62231175953	1 819 447	1 968 777	-	-2 771 098	42 336 868	-
	<b>4 436 229</b>	<b>6 058 491</b>	<b>5 037 681</b>	<b>-1 247 375</b>	<b>2 832 514</b>	<b>211 663</b>
<b>Current Account (Other cheque accounts)</b>						
First National Bank Limited - Account Number 62231177280 (FMG)	413 590	397 085	-	483 590	467 084	-
First National Bank Limited - Account Number 62231176935 (MSIG)	590 428	566 672	-	590 428	566 672	-
ABSA Bank Limited - Account Number 4054446052	29 650	30 225	-	29 650	30 225	-
Standard Bank Limited - Account Number 280775954	1 436 978	1 437 298	1 437 298	1 436 978	1 437 298	1 437 298
Standard Bank Limited - Account Number 280763921	11 356	12 518	13 853	11 356	12 518	13 853
	<b>2 482 002</b>	<b>2 443 798</b>	<b>1 451 151</b>	<b>2 552 002</b>	<b>2 513 797</b>	<b>1 451 151</b>
<b>Investment accounts</b>						
ABSA Bank Limited - Account Number 9056683798	67 788	65 626	62 937	67 788	65 626	62 937
ABSA Bank Limited - Account Number 9059705408	647 236	624 636	596 982	647 236	624 636	596 982
ABSA Bank Limited - Account Number 9056533262	6 494	6 342	6 138	6 494	6 342	6 138
ABSA Bank Limited - Account Number 9056685669	2 877	2 814	2 725	2 877	2 814	2 725
ABSA Bank Limited - Account Number 9057376730	103 904	100 533	96 421	103 904	100 533	96 421
ABSA Bank Limited - Account Number 9056617880	15 205	14 837	14 313	15 205	14 837	14 313
ABSA Bank Limited - Account Number 9057233364	582 484	563 118	538 622	582 484	563 118	538 622
ABSA Bank Limited - Account Number 9056533115	38 336	37 259	35 880	38 336	37 259	35 880
ABSA Bank Limited - Account Number 9061831536	3 523	3 521	3 538	3 523	3 521	3 538
ABSA Bank Limited - Account Number 9092743314	308 744	307 289	302 673	308 744	307 289	302 673
ABSA Bank Limited - Account Number 9092743005	533 466	530 951	522 976	533 466	530 951	522 976
ABSA Bank Limited - Account Number 9092742368	792 138	788 405	776 562	792 138	788 405	776 562
ABSA Bank Limited - Account Number 9057228882	27 791	27 018	26 024	27 791	27 018	26 024
ABSA Bank Limited - Account Number 9057225135	464 827	449 324	429 756	464 827	449 324	429 756
ABSA Bank Limited - Account Number 9057252990	142 178	137 558	131 771	142 178	137 558	131 771
ABSA Bank Limited - Account Number 9056686013	240 358	232 645	222 902	240 358	232 645	222 902
ABSA Bank Limited - Account Number 9110890209	1 259 273	1 253 338	1 235 221	1 259 273	1 253 338	1 235 221
Standard Bank Limited Account Number 38 873 187 7	298 698	289 035	276 533	298 698	289 035	276 533
First National Bank Limited - Account Number 62015966099	5 587	6 126	6 893	5 587	6 126	6 893
ABSA Bank Limited - Account Number 9185789267	-	-	15 896 380	-	-	15 896 380
ABSA Bank Limited - Account Number 9205591041	1 730 633	3 296 285	3 245 908	1 730 633	3 296 285	3 245 908
ABSA Bank Limited - Account Number 9215148412	-	-	4 258 620	-	-	4 258 620
ABSA Bank Limited - Account Number 9065656825	191	191	-	191	191	-
First National Bank Limited - Account Number 62231177769	804 144	7 598 877	-	804 144	7 598 877	-
First National Bank Limited - Account Number 62231195323	780 543	748 942	-	780 543	748 942	-
First National Bank Limited - Account Number 62001250000	-	-	159 232	-	-	159 232
ABSA Bank Limited - Account Number 9100317908	335 029	333 239	328 658	335 029	333 239	328 658
First National Bank - Account Number 6223280487	651 395	635 645	635 645	651 395	635 645	635 645
ABSA Bank Limited - Account Number 9110889747	279 015	277 700	274 158	279 015	277 700	274 158
Standard Bank Limited - Account Number 388732180	5 325	5 245	-	5 325	5 245	-
	<b>10 127 182</b>	<b>18 336 499</b>	<b>30 087 468</b>	<b>10 127 182</b>	<b>18 336 499</b>	<b>30 087 468</b>
<b>Total cash at banks</b>	<b>17 045 413</b>	<b>26 838 788</b>	<b>36 576 300</b>	<b>11 431 809</b>	<b>23 682 810</b>	<b>31 750 282</b>

During the previous 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. 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 vote resulting in one vote reflecting an "overdraft" while the other reflects a surplus. The Municipality has performed a full reconciliation between the bank accounts.

**Cash on hand**

Cash on hand consists of the following:-

Petty cash	4 735	4 735
	<b>4 735</b>	<b>4 735</b>



**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands	Note	2011	2010 Restated
<b>3 TRADE AND OTHER RECEIVABLES</b>			
<b>Trade and other receivables comprise:</b>			
Consumer debtors	3.1	1 458 553	3 184 285
Sundry debtors	3.2	254 755	462 794
<b>Total</b>		<b>1 713 308</b>	<b>3 647 079</b>
<b>Trade and other receivables are analysed as follows:</b>			
Trade and other receivables from exchange transactions		4 101 947	3 837 685
Trade and other receivables from non-exchange transactions		18 474 556	14 066 645
<b>Total</b>		<b>22 576 503</b>	<b>17 904 330</b>
Less: provision for debt impairment		(20 863 195)	(14 257 251)
<b>Net trade and other receivables</b>		<b>1 713 308</b>	<b>3 647 079</b>
<b>Trade and other receivables from exchange transactions:</b>			
Refuse debtors		3 735 834	3 263 533
Sundry debtors		366 113	574 152
<b>Total trade and other receivable from exchange transactions</b>		<b>4 101 947</b>	<b>3 837 685</b>
<b>Trade and other receivables from non-exchange transactions:</b>			
Rates debtors		18 474 556	14 066 645
<b>Total trade and other receivable from non-exchange transactions</b>		<b>18 474 556</b>	<b>14 066 645</b>
<b>3.1 Consumer debtors</b>			
Gross balances			
Rates		18 474 556	14 066 645
Refuse		3 735 834	3 263 533
<b>Total</b>		<b>22 210 390</b>	<b>17 330 178</b>
Less: provision for debt impairment		(20 751 837)	(14 145 893)
<b>Net consumer debtors</b>		<b>1 458 553</b>	<b>3 184 285</b>

Refer to Note 29 for a list of Councillors in arrears.

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 to cleanse the existing debtors information. The unreconciled difference has been included in the debtors impairment calculation. The effect of the unreconciled differences is as follows:

	Debit balances	Credit balances (Refer Note 8)	Net
<b>as at 30 June 2011</b>			
Gross consumer debtors per trial balance	22 210 390	(857 768)	21 352 622
Debtors per the age analysis	20 906 802	(858 218)	20 048 584
Unreconciled difference	<b>1 303 588</b>	<b>450</b>	<b>1 304 038</b>
<b>as at 30 June 2010</b>			
Gross consumer debtors per trial balance	17 330 178	(698 347)	16 631 831
Debtors per the age analysis	15 960 458	(698 797)	15 261 661
Unreconciled difference	<b>1 369 720</b>	<b>450</b>	<b>1 370 170</b>

**Rates: Ageing**

	2011	2010
Current (0 – 30 days)	528 658	546 631
31 - 60 Days	526 983	544 583
61 - 90 Days	524 438	542 562
90 Days +	16 415 724	11 954 116
<b>Total</b>	<b>17 995 803</b>	<b>13 587 892</b>

**Refuse: Ageing**

	2011	2010
Current (0 – 30 days)	60 699	60 460
31 - 60 Days	60 190	59 672
61 - 90 Days	60 004	60 657
90 Days +	2 730 106	2 191 777
<b>Total</b>	<b>2 910 999</b>	<b>2 372 566</b>

**Total consumer debtors: Ageing**

	2011	2010
Current (0 – 30 days)	589 357	607 091
31 - 60 Days	587 173	604 255
61 - 90 Days	584 442	603 219
90 Days +	19 145 830	14 145 893
<b>Total</b>	<b>20 906 802</b>	<b>15 960 458</b>

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

	Note	2011	2010 Restated
<b>3 TRADE AND OTHER RECEIVABLES (continued)</b>			
<b>Summary of Debtors by Customer Classification</b>			
	<b>Total</b>	<b>Residential consumers</b>	<b>Business and commercial consumers</b>
			<b>Government owned consumers</b>
<b>as at 30 June 2011</b>			
Current (0 – 30 days)	589 358	352 529	187 776
31 - 60 Days	587 173	351 089	187 776
61 - 90 Days	584 443	350 314	186 190
90 Days +	19 145 829	11 314 739	5 800 600
Sub-total	<u>20 906 803</u>	<u>12 368 671</u>	<u>6 362 342</u>
Less: Impairment	(19 448 248)	(11 930 821)	(6 089 302)
<b>Total debtors by customer classification</b>	<b><u>1 458 555</u></b>	<b><u>437 850</u></b>	<b><u>2 175 790</u></b>
<b>as at 30 June 2010</b>			
Current (0 – 30 days)	607 091	352 178	186 948
31 - 60 Days	604 255	350 582	186 836
61 - 90 Days	603 218	349 623	189 200
90 Days +	14 145 894	7 733 514	4 743 942
Sub-total	<u>15 960 458</u>	<u>8 785 897</u>	<u>5 306 926</u>
Less: Impairment	(14 145 892)	(8 171 628)	(4 285 927)
<b>Total debtors by customer classification</b>	<b><u>1 814 566</u></b>	<b><u>614 269</u></b>	<b><u>1 020 999</u></b>
		<b>2011</b>	<b>2010</b>
<b>Reconciliation of debt impairment relating to consumer debtors</b>			
Balance at beginning of the year		14 145 893	9 777 812
Contributions to provision		6 605 943	4 368 081
<b>Balance at end of year</b>		<b><u>20 751 836</u></b>	<b><u>14 145 893</u></b>
<b>3.2 Other receivables</b>			
Sundry debtors		145 939	574 152
Staff debtors		220 174	-
		<u>366 113</u>	<u>574 152</u>
Less: Impairment		(111 358)	(111 358)
<b>Net sundry debtors</b>		<b><u>254 755</u></b>	<b><u>462 794</u></b>
As of 30 June 2011 other receivables of R 111 358 (2010: R 111 358) were impaired and provided for.			
The ageing of these receivables is as follows:			
- Less than 1 year		254 755	462 794
- Between 1 and 5 years		111 358	111 358
		<u>366 113</u>	<u>574 152</u>

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

#### 4 INVENTORIES

##### 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 process of assessing its inventory holdings.

The Municipality holds no consumable inventory items at the end of the financial period. As the Municipality does not have appropriate stores facilities inventory items are acquired when the need arises.

Initial findings indicate that a portion of the municipality's property portfolio may meet the recognition criteria applicable to inventories. The municipality has 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:

- An external service provider has undertaken the first phase of a project to identify and consolidate all infrastructure, land and buildings into a single asset register (including land that may be classified as inventory). The first phase entailed a desk top assessment to identify these assets. A service provider has been appointed to undertake the verification an valuation exercise relating to these assets.

- The Municipality is in the process of converting an existing warehouse into a stores facility.

- Property held for sale is only considered to be inventory once basic services have been installed by the Municipality.

Budget has been secured to service specific erven which, once serviced, will be sold. At that point in time the Municipality will recognise the property as inventory.

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

**5 PROPERTY, PLANT AND EQUIPMENT**

Reconciliation of Carrying Value - 2011	Buildings	Infrastructure	Other Assets	Total
<b>as at 1 July 2010</b>	-	<b>42 117 200</b>	<b>4 866 998</b>	<b>46 984 198</b>
Cost/Revaluation	-	42 117 200	4 866 998	46 984 198
Accumulated depreciation and impairment losses	-	-	-	-
Acquisitions	87 122	44 190 220	1 157 748	45 435 090
<b>as at 30 June 2011</b>	<b>87 122</b>	<b>86 307 420</b>	<b>6 024 746</b>	<b>92 419 288</b>
Cost/Revaluation	87 122	86 307 420	6 024 746	92 419 288
Accumulated depreciation and impairment losses	-	-	-	-
<b>Reconciliation of Carrying Value - 2010</b>	<b>Buildings</b>	<b>Infrastructure</b>	<b>Other Assets</b>	<b>Total</b>
<b>as at 1 July 2009</b>	-	<b>12 484 123</b>	<b>2 541 766</b>	<b>15 025 889</b>
Cost/Revaluation	-	12 484 123	2 541 766	15 025 889
Accumulated depreciation and impairment losses	-	-	-	-
Acquisitions	-	29 633 077	2 325 232	31 958 309
<b>as at 30 June 2010</b>	-	<b>42 117 200</b>	<b>4 866 998</b>	<b>46 984 198</b>
Cost/Revaluation	-	42 117 200	4 866 998	46 984 198
Accumulated depreciation and impairment losses	-	-	-	-

Refer to Appendix A 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 additions of its property, plant and equipment at provisional amounts.

During the current year the municipality capitalised expenditure as set out in Appendix A to property, plant and equipment.

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

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. Movable assets acquired subsequent to 1 July 2008 are recorded on the 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 a 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.
- A service provider has been appointed to undertake the verification and valuation of infrastructure assets.

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2011**

Figures in Rands

**5 PROPERTY, PLANT AND EQUIPMENT (continued)**

Initial information collated as part of the desk top study indicates that the municipality infrastructure assets currently consist of the following:

	<b>Estimated value</b>	<b>Quantity Measurement</b>	
- Roads	-	789.187	km
- Buildings (per General Valuation Roll)	93 674 000	150	units
- Land parcels (Per General Valuation Roll excluding the buildings above)	38 655 000	1 675	units
- Streetlights in Willowvale, Dutywa and Elliotdale	-	Not established	Not applicable
- Electricity infrastructure	8 771 931	Not established	Not applicable
- Solid waste	-	3 land fill sites to be restored	Not applicable
<b>Total</b>	<b><u>141 100 931</u></b>		

The values for the above assets must still be established

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

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

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**6 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 (2010: R 0.00) at provisional amounts.

During the current year the municipality has provisionally capitalised computer software expenditure (Intangible assets) to the amount of R74 000 (2010: R111 354) as part of computer equipment.

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 BAUD 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.

**7 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 investment property with a carrying value of R0.00 (2010: R0.00) at provisional amounts.

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 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 a 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.
- A service provider has been appointed to undertake the verification and valuation of infrastructure assets.

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

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

	<b>2011</b>	<b>2010</b> <b>Restated</b>
<b>8 TRADE AND OTHER PAYABLES</b>		
Trade creditors	1 952 918	2 690 475
Payments received in advance	857 768	698 347
Accrued bonus	590 067	375 834
Staff leave accrual	2 302 395	1 803 180
Arrear contributions in respect of Councillors UIF	962 047	763 654
<b>Total creditors</b>	<b>6 665 195</b>	<b>6 331 490</b>

The fair value of trade and other payables approximates their carrying amounts. Trade creditors includes transactions totalling R373 783 (2010:R253 333) representing unidentified deposits.

*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 3.

*Bonuses*

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

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.

*Arrear contributions in respect of Councillors UIF*

Amounts have been accrued to provide for monies owing to SARS in respect of past and present UIF contributions by Councillors. The matter dates back as far as 2003.

**9 VAT RECEIVABLE**

VAT receivable	4 471 001	7 016 396
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The Municipality is registered for VAT on the payments basis. VAT is claimed from/paid over to SARS only once payment is made to suppliers or cash is collected on vatable supplies.

**10 PROVISIONS**

Landfill site restoration	-	-
<b>Total Provisions</b>	-	-

The municipality has an obligation to restore 3 landfill sites, one in Willowvale one in Dutywa and one in Elliotdale. Detailed planning and implementation processes have commenced to make use of transfer stations when dealing with solid waste disposal. Legal dumpsites in Elliotdale and Butterworth (provided by the Amathole District Municipality) will be used for waste disposal purposes.

**Transitional provisions**

In accordance with Directive 4 transitional provisions the Municipality has commenced with the process of planning for the rehabilitation of the landfill sites.

**11 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**Unspent Conditional Grants from other spheres of Government**

IGG Fund 1 (ABSA - 9056685669)	2 247	2 247
IGG Fund 2 (ABSA - 9057228882)	23 072	23 072
Housing Development Fund (ABSA - 9059705408)	575 099	575 099
Pilot Housing Fund (STD - 388732180)	4 577	4 577
Willowvale roads (ABSA - 9056533262)	5 456	5 456
Town planning 1 (ABSA - 9057225135)	450 378	450 378
Town planning 2 (ABSA - 90927430005)	400 198	400 198
Survey fund (ABSA - 9056686013)	193 283	193 283
Ntlonyane fund (ABSA - 9110890209)	1 126 903	1 126 903
Finance Management Grant	245 312	-
LGSETA Fund	111 463	111 463
Extension fund (ABSA - 9056533115)	31 578	31 578
Water reticulation (FNB - 6201596609)	6 674	6 674
IDP Fund 2 (ABSA - 9057252990)	709 287	709 287
IDP Fund 3 (ABSA - 9092742368)	114 363	114 363
<b>Total Unspent Conditional Grants and Receipts</b>	<b>3 999 890</b>	<b>3 754 578</b>

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**11 UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)**

**Unfulfilled conditions and restrictions:**

***Housing related grants***

A number of the above grants relate to housing projects that have been temporarily halted due to various reasons. The Municipality is in the process of attempting to resolve the challenges in order to complete the projects.

**Finance Management Grant**

The Municipality did not spend the full grant during the financial period and has applied to Treasury for a roll over of the funds.

**12 PROPERTY RATES**

Residential, Business, Government and other

6 971 504

8 714 382

**Total**

**6 971 504**

**8 714 382**

**Valuations**

Property rates for the 2010/11 period were based on the property values summarised below:

Residential

135 717 000

135 717 000

Business

180 199 500

180 199 500

Government

74 694 000

74 694 000

Municipal

70 061 500

70 061 500

**Total property valuations as at 30 June 2010**

**460 672 000**

**460 672 000**

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 is applied to property valuations to determine assessment rates. A rebate of R15 000 is granted on residential properties. Rates are levied on an annual basis on property owners.

**13 SERVICE CHARGES**

Refuse removal

701 768

695 851

**Total Service Charges**

**701 768**

**695 851**

**14 RENTAL OF FACILITIES AND EQUIPMENT**

Rental of facilities

267 108

262 654

Rental of commonage

269 141

280 625

**Total rentals**

**536 249**

**543 279**

**15 INTEREST EARNED - EXTERNAL INVESTMENTS**

Interest on bank accounts

273 183

235 067

Interest on investment accounts

370 713

825 938

**Total interest**

**643 896**

**1 061 005**

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<b>16 GOVERNMENT GRANTS AND SUBSIDIES</b>		
Equitable share	77 759 389	63 589 923
Municipal Infrastructure Grant (MIG)	27 280 000	23 466 000
Municipal Systems Improvement Grant (MSIG)	750 000	735 000
Financial Management Grant (FMG)	1 004 688	1 000 000
Electrification Grant	10 000 000	10 000 000
Grants received from local government entities	-	36 131
Grants received from provincial government entities	1 928 200	632 044
Independent Electoral Committee Grant	2 000 000	-
<b>Total Government Grant and Subsidies</b>	<b>120 722 277</b>	<b>99 459 098</b>

**16.1 Equitable Share**

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 stoves, biofuel gel and subsidised electricity (provided by Eskom directly to the consumers).

**16.2 Municipal Infrastructure Grant (MIG)**

<b>Balance unspent at beginning of year</b>	-	2 501 000
Current year receipts	27 280 000	20 965 000
Conditions met - transferred to revenue	(27 280 000)	(23 466 000)
<b>Unspent conditional grant</b>	<b>-</b>	<b>-</b>

During the financial period the MIG projects spent R6,9 million more the current year's receipts. The Municipality advanced a funding for the projects. The situation arose due to the timing of MIG receipts being affected by the realignment of the MIG financial period to correspond with the municipal financial period. These funds will be recovered from the next MIG receipt.

**16.3 Municipal Systems Improvement Grant (MSIG)**

<b>Balance unspent at beginning of year</b>	-	-
Current year receipts	750 000	735 000
Conditions met - transferred to revenue	(750 000)	(735 000)
<b>Unspent conditional grant</b>	<b>-</b>	<b>-</b>

**16.4 Financial Management Grant (FMG)**

<b>Balance unspent at beginning of year</b>	-	-
Current year receipts	1 250 000	1 000 000
Conditions met - transferred to revenue	(1 004 688)	(1 000 000)
<b>Unspent conditional grant (see note 11)</b>	<b>245 312</b>	<b>-</b>

The Municipality has applied for a roll over of the funds as it was not able to spend the full grant in the current financial period.

**16.5 Electrification Grant**

<b>Balance unspent at beginning of year</b>	-	-
Current year receipts	10 000 000	10 000 000
Conditions met - transferred to revenue	(10 000 000)	(10 000 000)
<b>Unspent conditional grant</b>	<b>-</b>	<b>-</b>



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<b>17 OTHER INCOME</b>		
Administration fees	188 994	252 790
Sale of land	2 000	20 147
Revenue from minor services	118 935	158 120
Sundry sales	13 255	2 254
Sundry revenue	4 752	115 581
<b>Total Other Income</b>	<b>327 936</b>	<b>548 892</b>

**18 EMPLOYEE RELATED COSTS**

Basic salaries and wages (*)	25 943 701	16 799 088
Bonus	1 160 101	605 801
Medical aid contributions	1 190 113	789 539
UIF contributions	383 764	290 766
Post employment benefits - Pension - defined contribution plan	2 579 854	1 648 004
Travel, subsistence and other allowances	1 092 292	818 165
Housing benefits and allowances	339 756	115 637
Overtime payments	711 886	387 637
Movement in leave and bonus accrual	713 448	294 268
Other employee related costs	16 470	57 521
<b>Total Employee Related Costs</b>	<b>34 131 385</b>	<b>21 806 426</b>

(\*) Basic salaries and wages include acting allowances, casual wages and wage curve adjustments.

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

**Remuneration of the Acting Municipal Manager (\*)**

Annual remuneration	210 909	398 954
Acting allowance	-	440 564
Travel, motor car, accommodation, subsistence and other allowances	-	168 458
Contributions to UIF, Medical and Pension Funds	-	69 084
Total	<b>210 909</b>	<b>1 077 060</b>

(\*) The current Acting Municipal Manager was seconded from Provincial Government and commenced duties in January 2011. Prior to his deployment the role of Municipal Manager was filled (in an acting capacity) by the Land and Housing Manager (July 2010 to October 2010) and the Chief Financial Officer (November and December 2010). The acting allowances for the execution of these duties are disclosed below as part of the analysis of the respective Officials remuneration.

**Remuneration of the Chief Finance Officer**

Annual Remuneration	398 580	385 689
Acting allowance	76 454	-
Travel, motor car, accommodation, subsistence and other allowances	183 125	168 458
Contributions to UIF, Medical and Pension Funds	73 731	69 084
Total	<b>731 890</b>	<b>623 231</b>

**Remuneration of the Technical Services Manager**

Annual remuneration	441 774	265 852
Travel, motor car, accommodation, subsistence and other allowances	187 572	94 712
Contributions to UIF, Medical and Pension Funds	68 828	34 689
Total	<b>698 174</b>	<b>395 253</b>

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<b>18 EMPLOYEE RELATED COSTS (continued)</b>		
<i><b>Remuneration of the Human Resource and Administration Manager</b></i>		
Annual remuneration	398 580	385 689
Travel, motor car, accommodation, subsistence and other allowances	183 125	168 458
Contributions to UIF, Medical and Pension Funds	73 731	69 084
Total	<u>655 436</u>	<u>623 231</u>
<i><b>Remuneration of the Community Services Manager</b></i>		
Annual remuneration	398 580	385 689
Travel, motor car, accommodation, subsistence and other allowances	166 258	155 716
Contributions to UIF, Medical and Pension Funds	77 267	71 126
Total	<u>642 105</u>	<u>612 531</u>
<i><b>Remuneration of the Local Economic Development Manager</b></i>		
Annual remuneration	400 707	385 689
Travel, motor car, accommodation, subsistence and other allowances	175 945	159 541
Contributions to UIF, Medical and Pension Funds	78 780	78 000
Total	<u>655 432</u>	<u>623 230</u>
<i><b>Remuneration of the Land and Housing Manager</b></i>		
Annual remuneration	398 580	183 970
Acting Allowance	191 135	335 747
Performance- and other bonuses	-	14 999
Travel, motor car, accommodation, subsistence and other allowances	256 856	-
Total	<u>846 571</u>	<u>534 716</u>

**19 REMUNERATION OF COUNCILLORS**

Salaries	7 585 279	7 705 527
Backpay	1 401 952	598 970
Acting allowances	187 315	-
Travel allowances	2 510 984	2 565 127
Cellphone allowances	915 356	-
<b>Total Council remuneration</b>	<u>12 600 886</u>	<u>10 869 624</u>
<b>Analysis of council remuneration:</b>		
Mayor	618 831	554 999
Speaker	1 001 556	444 003
Executive Committee Members	1 528 266	2 622 413
Councillors	5 612 226	5 130 055
Councillors' allowances	2 736 572	1 643 968
Traditional Leaders	1 103 435	474 186
<b>Total Councillors' Remuneration</b>	<u>12 600 886</u>	<u>10 869 624</u>

**In-kind Benefits**

The Mayor, Speaker and certain Executive Committee Members are full-time. The Mayor and Speaker were provided with an office and secretarial support at the cost of the Council.

The Mayor and Speaker have the use of the Council owned vehicles for official duties. A full time driver is at their disposal.

In addition to the above personal security arrangements have been provided to the Mayor from June 2011.



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**23 CASH AND CASH EQUIVALENTS**

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

Bank balances and cash	1 304 627	5 346 311
Call investments and notice deposits	10 127 182	18 336 499
Petty Cash	4 735	4 735
<b>Net cash and cash equivalents</b>	<b>11 436 544</b>	<b>23 687 545</b>

**24 PRIOR PERIOD ERRORS AND RESTATEMENTS**

**24.1 Retrospective restatement:**

During the current financial period the following errors were identified with regards to transactions processed against accumulated surpluses prior to 1 July 2009. The corrections restated below have been effected to reverse the effects of those errors. The net effect on Accumulated Surpluses is summarised below:

- Correction of unspent conditional grants balances as at 1 July 2009. Revenue released to accumulated surplus as the grants were incorrectly reflected as unspent in prior periods.	1 326 648
- Take on of two previously unidentified bank accounts	36 365
<b>Net increase in Accumulated Surpluses</b>	<b>1 363 013</b>

**24.2 Restatement of prior period figures as a result of errors identified:**

The amounts reported in the 2009/10 annual financial statements have been restated for the errors identified below. A summary of the adjustments follows:

**Statement of Financial Performance**

<b>Surplus for the year as previously reported for the year ended 30 June 2010</b>	<b>35 732 876</b>
- Sundry revenue: Accounting for reconciling items reflected on the 30 June 2010 bank reconciliation not taken into account in the financial records as at 30 June 2010	10 192
- General expenses: Accounting for reconciling items reflected on the 30 June 2010 bank reconciliation not taken into account in the financial records as at 30 June 2010	(14 724)
- General expenses: Correction of VAT adjustments relating to the 2009/10 financial period.	(93 881)
<b>Restated deficit for the year ended 30 June 2010</b>	<b>35 634 463</b>

**Statement of Financial Position**

**Cash and cash equivalents**

Balance previously reported as at 30 June 2010	23 815 663
- Accounting for reconciling items reflected on the 30 June 2010 bank reconciliation not taken into account in the financial records as at 30 June 2010	(128 118)
Restated balance as at 30 June 2010	<b>23 687 545</b>

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<b>24 PRIOR PERIOD ERRORS AND RESTATEMENTS (continued)</b>		
<i>Trade and other receivables from exchange transactions</i>		
Balance previously reported as at 30 June 2010		3 194 214
- Accounting for reconciling items reflected on the 30 June 2010 bank reconciliation not taken into account in the financial records as at 30 June 2010		123 588
- Recognition of payments made to incorrect supplier. Amounts are to be recovered.		329 277
Restated balance as at 30 June 2010		<u>3 647 079</u>
<i>Vat receivable</i>		
Balance previously reported as at 30 June 2010		7 150 712
- Correction of VAT related to a payment made to an incorrect supplier. The amount paid was subsequently recovered		(40 438)
- Correction of VAT receivable. Net adjustment reflected as an expense in the income statement		(93 878)
Restated balance as at 30 June 2010		<u>7 016 396</u>
<i>Trade and other payables</i>		
Balance previously reported as at 30 June 2010		5 278 997
- Additional creditors raised due to payment made to incorrect supplier. The payment to the correct supplier was only effected in the 2010/11 period. A creditor was raised for this timing issue		288 840
- Reclassification of arrear UIF contributions relation to Councillors from Provisions to Trade Payables.		763 653
Restated balance as at 30 June 2010		<u>6 331 490</u>
<i>Provisions</i>		
Balance previously reported as at 30 June 2010		763 653
- Reclassification of arrear UIF contributions relation to Councillors from Provisions to Trade Payables.		(763 653)
Restated balance as at 30 June 2010		<u>-</u>
<i>Unspent conditional grants</i>		
Balance previously reported as at 30 June 2010		5 081 226
- Grant receipts (Equitable Share, MSIG and FMG) relating to prior financial periods released to revenue		(1 326 648)
Restated balance as at 30 June 2010		<u>3 754 578</u>
<b>25 UNAUTHORISED, IRREGULAR, FRUITLESS/WASTEFUL EXPENDITURE</b>		
Unauthorised expenditure	3 780 393	-
Irregular expenditure	29 253 927	376 465
Fruitless and wasteful expenditure	2 704 860	2 036 788
<b>Total</b>	<u>35 739 180</u>	<u>2 413 253</u>
<b>25.1 Unauthorised expenditure</b>		
Reconciliation of unauthorised expenditure		
Opening balance	-	-
Unauthorised expenditure current year	3 780 393	-
Unauthorised expenditure awaiting authorisation	3 780 393	-
	<u>3 780 393</u>	<u>-</u>
<b>Incidents identified for which the Municipality has yet take appropriate actions</b>		
The budget relating to Employee related expenditure was overspent. The Municipality however did not overspend on the total budget. A report on this matter has been prepared for submission to Council.	3 780 393	-
<b>25.2 Irregular expenditure</b>		
Reconciliation of irregular expenditure		
Opening balance -	376 465	-
Irregular expenditure current year	28 877 462	376 465
Irregular expenditure under investigation	29 253 927	376 465
	<u>29 253 927</u>	<u>376 465</u>

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<b>25 UNAUTHORISED, IRREGULAR, FRUITLESS/WASTEFUL EXPENDITURE (continued)</b>		
<b>Incidents identified for which the Municipality has instituted disciplinary steps/criminal proceedings</b>		
Contracts allegedly awarded in contravention of the the Supply Chain Management Policy. The awarding of the contracts is under investigation and disciplinary proceedings have been instituted against the relevant Officials.	28 183 501	-
Goods and services procured in contravention of the Supply Chain Management policy. The goods and services were procured as part of the State of the Municipality Address. A report on this expenditure has been submitted to Council.	88 179	
<b>Incidents identified for which the Municipality has yet to institute disciplinary steps/criminal proceedings</b>		
Various contracts allegedly awarded in contravention of the Supply Chain Management Policy.	352 528	-
Amounts paid from the Mayors Discretionary Fund not in accordance with the Supply Chain Management Policy	253 254	
Accommodation costs refunded to an Official without adequate supporting documentation being provided.	-	1 200
Amounts paid from the Mayors Discretionary fund not in accordance with the policy.	-	375 265
<b>Total</b>	<b>28 877 462</b>	<b>376 465</b>
<b>25.3 Fruitless/wasteful expenditure</b>		
Reconciliation of fruitless and wasteful expenditure		
Opening balance -	2 036 788	172 212
Fruitless and wasteful expenditure current year	668 072	1 864 576
Fruitless and wasteful expenditure awaiting condonement	<b>2 704 860</b>	<b>2 036 788</b>
<b>Incidents identified for which the Municipality has instituted disciplinary steps/criminal proceedings</b>		
- Overpayment of Backpay to employees. The Municipality has identified the matter and is in the process of initiating actions to recover the amounts that were incorrectly paid. A staff debtor has been raised to recover the amount.	220 174	-
- 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	-	1 079 199
- 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.	-	64 000

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<b>25 UNAUTHORISED, IRREGULAR, FRUITLESS/WASTEFUL EXPENDITURE (continued)</b>		
<b>Matters identified on which the Municipality has not yet initiated any action:</b>		
- Penalties paid on the service of a Municipal vehicle as the service interval was not adhered to	2 317	-
- Legal costs incurred regarding long outstanding payments	421 867	
- Interest incurred when the primary bank account was overdraft due to timing delays in deposits. No action initiated as yet.	1 734	2 226
- Interest incurred on overdue creditors accounts. The main portion of the prior period amount relates to an amount due to SARS in respect of PAYE. No action initiated as yet.	21 980	108 794
- Travel claim paid to the Officials based on a rate in excess of the maximum rate prescribed by the South African Revenue Service.	-	4 555
- Unnecessary printing costs relating to the procurement and distribution of copies of the Municipal Structures Act, a document that is freely available on the internet or could have been printed in-house.	-	56 544
- Excessive transportation costs from Elliotdale to Dutywa.	-	27 550
- Excessive transportation costs from Willowvale to Dutywa.	-	9 000
- Travel claim paid to the Officials based on a rate in excess of the maximum rate prescribed by the South African Revenue Service.	-	2 588
- Travel claim paid to the Officials based on a rate in excess of the maximum rate prescribed by the South African Revenue Service.	-	783
- Unnecessary land disposal workshop arranged for Councillors.	-	56 407
- Sitting allowance for committee members paid to a Committee Member for distribution to other members. No evidence was provided that these funds were actually distributed.	-	18 700
- Accommodation and meals for an Mbashe beach festival to promote tourism however no evidence was provided to support that the expenditure was incurred in pursuit of promoting tourism.	-	68 400
- Expenditure incurred to develop a strategy. Based on the limited supporting documentation provided the expenditure appears excessive.	-	186 000
- Payment for beadwork skills workshop not made in accordance with supporting documentation		29 300
- Expenditure incurred to host a workshop for hawkers regarding small business management. Attendance was poor and insufficient quotes were obtained.	-	82 970
- Cleaning services not procured using the basis of accepting the lowest quote.	-	48 525
- Excessive expenditure regarding the procurement of marketing banners.	-	19 035
<b>Total</b>	<b>668 072</b>	<b>1 864 576</b>

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**26 FINANCIAL INSTRUMENTS**

**26.1 Classification of financial instruments**

**Financial assets**

The financial assets of the municipality are classified as follows:

**Loans and receivables**

Trade receivables from exchange transactions (excluding impairments):

Refuse	3 735 834	3 263 533
Sundry debtors	366 113	574 152
VAT receivable	4 471 001	7 016 396
<b>Total Loans and Receivables from exchange transactions</b>	<b>8 572 948</b>	<b>10 854 081</b>
Add: Loans and receivables from non-exchange transactions	18 474 556	14 066 645
Less: Impairment	(20 863 195)	(14 257 251)
<b>Total net loans and receivables</b>	<b>6 184 309</b>	<b>10 663 475</b>

**Cash and cash equivalents**

Cash held with banking institutions	11 431 809	23 682 810
Cash on hand	4 735	4 735
	<b>11 436 544</b>	<b>23 687 545</b>

**Total financial assets**

**17 620 853**      **34 351 020**

**Financial liabilities**

The financial liabilities of the municipality are classified as follows:

**Other financial liabilities**

**Employee benefits**

Accrued bonus	590 067	375 833
Staff leave accrual	2 302 395	1 803 181
Arrear UIF contributions pertaining to Councillors	962 047	763 654
	<b>3 854 509</b>	<b>2 942 668</b>

**Trade and other payables**

Trade payables	1 952 918	2 690 475
Provision for rehabilitation of landfill sites	-	-
Payments received in advance (being debtors with credit balances)	857 768	698 347
	<b>2 810 686</b>	<b>3 388 822</b>

**Total financial liabilities**

**6 665 195**      **6 331 490**

**26.2 Fair value of financial instruments**

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values due to the short repayment terms of the instruments.

**27 FINANCIAL RISK MANAGEMENT**

**27.1 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 interest rate 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 municipality does not enter into or trade in financial instruments for speculative purposes.



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**27 FINANCIAL RISK MANAGEMENT (continued)**

**27.2 Market risk**

Market risk is the risk that changes in market prices, such as interest rates 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.

The exposure to interest rate risk is limited as the municipality's investment portfolio entirely cash based. The Municipality's primary focus is not to generate interest income but rather to preserve the capital value of the funds. 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 primarily of 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)

11 431 809                      23 682 811

**Total**

**11 431 809                      23 682 811**

Due to the short term nature of the portfolio a sensitivity analysis is not required.

**27.3 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.

The Municipality's investment portfolio consists of short term deposits and current accounts with a notice period of 30 days or less. Due to the short term nature of the portfolio a maturity analysis is not required.

**27.4 Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. Due to the nature of the the municipality's operations has an obligation to provide services to all qualifying people in its area. As such the Municipality is not able to select only creditworthy counterparties.

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

Trade receivables comprise of a large number of consumers, 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 3 for more detailed information on the composition of the trade receivables portfolio.

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

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

ABSA Bank

9 134 864                      -30 421 499

First National Bank (Primary Banker)

544 588                      52 360 213

Standard Bank

1 752 357                      1 744 097

**Total (refer to cash balances per Note 2)**

**11 431 809                      23 682 811**

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**28 COMMITMENTS**

**28.1 Commitments in respect of capital expenditure**

**- Approved and contracted for**

Infrastructure	32 809 000	41 979 122
Community Heritage		
Other		

**- Approved but not yet contracted for**

Infrastructure	-	8 366 536
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**Total**

<u>32 809 000</u>	<u>50 345 658</u>
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This expenditure will be financed from:

- Government Grants	32 809 000	50 345 658
	<u>32 809 000</u>	<u>50 345 658</u>

**28.2 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	313 352	354 372
In the second to fifth year inclusive	170 304	483 657
<b>Total</b>	<u>483 656</u>	<u>838 029</u>

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.

The assets to which these leases relate have not, in accordance with Directive 4, been included in the asset balance as the assets were put into use prior to 1 July 2008. As a result of the above the leases relating to these assets also fall within the scope of Directive 4. As such the information pertaining to these leases is subject to change.

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

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

Opening balance	-	-
Council subscriptions	380 916	-
Amount paid - current	(207 693)	-
Amount paid - previous years	(173 223)	-
<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>

**29.2 Audit fees**

Opening balance	-	1 462 436
Audit fees - 2009/10 audit	1 609 254	
Audit fees - 2010/11 audit planning and interim	311 015	
Amount paid - current year	(1 609 254)	-
Amount paid - previous years	(311 015)	(1 462 436)
<b>Balance unpaid (included in payables)</b>	<u>-</u>	<u>-</u>

The audit fee for the execution of the final 2010/11 audit has not yet been agreed on.

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

2011

2010  
Restated

**29 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**  
(continued)

**29.3 VAT**

VAT input receivables and VAT output payables are shown in note 9. All VAT returns have been submitted.

**29.4 PAYE and UIF**

Opening balance	1 264 232	926 457
Current year payroll deductions	5 914 386	4 612 625
Amount paid - current year	(5 888 056)	(4 274 850)
Amount paid - previous years	(926 457)	-
<b>Balance unpaid (included in payables)</b>	<b><u>364 105</u></b>	<b><u>1 264 232</u></b>

**29.5 Pension and Medical Aid Deductions**

Opening balance	108 761	
Current year payroll deductions and Council Contributions	5 926 982	3 029 233
Amount paid - current year	(5 926 982)	(2 920 472)
Amount paid - previous years	-	-
<b>Balance unpaid (included in payables)</b>	<b><u>108 761</u></b>	<b><u>108 761</u></b>

**29.6 Councillor's arrear consumer accounts**

Councillor M. Jafa	45 571	Not disclosed
Councillor N Janda	2 235	Not disclosed
Councillor N Nonjaca	15 183	Not disclosed
	<b><u>62 989</u></b>	

**30 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. Refer to Note 18.

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands	2011	2010 Restated
<b>31 CONTINGENT LIABILITY</b>		
<b>Legal action</b>		
The municipality is currently party to the following litigation:		
Pending matter 1: Case No: 301/2008 - The Municipality is being sued by a service provider for payments owing with regards to services rendered. The contract with the Municipality was signed by a Section 57 manager without proper approval (the manager has since left the employ of the municipality). Not all payments were made to the service provider in terms of the contract in question. The matter is still in court.	252 440	252 440
Pending matter 2: Case No: 291/07 - 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.	75 363	75 363
Pending matter 3: Garnishee order not yet effected	3 000	-
Pending matter 4: Disciplinary hearings dealing with labour matters	200 000	-
Pending matter 5: Case No: 1122/2011 - Costs for the application for interdict	100 000	-
Pending matter 6: Application for eviction orders:		
- Ruth Onukwe	200 000	-
- Tamsanqa Somkoko	30 000	-
- Case No: 846/2011	-	-
- Case No: 843/2011	15 000	-
- Case No: 842/2011	140 000	-
- Case No: 844/2011	40 000	-
- Case No: 845/2011	15 000	-
- Case No: 847/2011	15 000	-
- Case No: 848/2011	15 000	-
Pending matter 7: Case No: 415/09: Application for review of taxation	20 000	-
Various pending matters:		
- Combo Consulting CC vs Mbhashe Local Municipality	3 000	-
- L W Habe vs Mbhashe Local Municipality	12 000	-
- NE Rulashe vs Idutywa Municipality	18 000	-
<b>Total for contingent liabilities</b>	<b>1 153 803</b>	<b>327 803</b>

**MBHASHE LOCAL MUNICIPALITY**  
**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2011

Figures in Rands

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**32 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 key management personnel and close members of 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 18 and 19)

**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 all Councillors to ensure that all accounts are paid to date.

**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
GCNS Communications	R 199 956	Councillor S. Tyali
Golden Security Services CC - Security services	R 504 000	Councillor DD Magodla
Amatola Telecommunications	R 13 201	Councillor P Dyantyi

**33 EVENTS AFTER THE REPORTING DATE**

No events have been identified.

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

<b>Net surplus per the statement of financial performance</b>	<b>28 125 906</b>	<b>35 634 463</b>
Adjusted for non cash transactions:		
- Impairments recognised	6 605 943	4 479 439
- Increase in land fill provision	0	-
- Increase in employee related provisions	911 841	610 923
- Increase in UIF payable	198 393	-
- VAT recovery budgeted for as revenue but allocated to VAT control account (receipt was not classified as revenue for financial statement purposes)	10 000 999	-
- Difference in revenue (rates and refuse) due to the budget being prepared on the cash basis while the financial statements are prepared on the accrual basis of accounting	(5 349 771)	-
- Revenue over budgeted for	12 638 957	-
- Expenditure over budgeted for (adjusted for movement in provisions)	(8 278 199)	-
- Other revenue over budgeted for	1 183 684	-
- Difference due to under spend and additional revenue recognised when compared with budget	-	(6 650 834)
<b>Net surplus/deficit per approved budget</b>	<b>46 037 753</b>	<b>34 073 991</b>

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX A TO THE ANNUAL FINANCIAL STATEMENTS**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**

as at 30 June 2011

	Cost / Revaluation				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Depreciation	Disposals	Closing Balance	
<b>Buildings</b>	-	87 122	-	87 122	-	-	-	-	87 122
<b>Infrastructure</b>									
Roads	33 895 100	34 923 439	-	68 818 539	-	-	-	-	68 818 539
Electricity Mains	8 222 100	8 771 931	-	16 994 031	-	-	-	-	16 994 031
Sakwe Park Extension 2	-	494 850	-	494 850	-	-	-	-	494 850
	42 117 200	44 190 220	-	86 307 420	-	-	-	-	86 307 420
<b>Other Assets</b>									
Office Equipment	1 737 023	240 718	-	1 977 741	-	-	-	-	1 977 741
Furniture & Fittings	927 531	142 733	-	1 070 264	-	-	-	-	1 070 264
Motor vehicles	1 612 192	738 803	-	2 350 995	-	-	-	-	2 350 995
Plant and equipment	590 252	35 494	-	625 746	-	-	-	-	625 746
	4 866 998	1 157 748	-	6 024 746	-	-	-	-	6 024 746
<b>Total</b>	<b>46 984 198</b>	<b>45 435 090</b>	<b>-</b>	<b>92 419 288</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92 419 288</b>

**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	
<b>Infrastructure</b>									
Roads	12 484 123	21 410 977	-	33 895 100			-		33 895 100
Electricity Mains	-	8 222 100	-	8 222 100	-	-	-	-	8 222 100
	12 484 123	29 633 077	-	42 117 200	-	-	-	-	42 117 200
<b>Other Assets</b>									
Office Equipment	411 270	1 325 753	-	1 737 023	-	-	-	-	1 737 023
Furniture & Fittings	921 148	6 383	-	927 531	-	-	-	-	927 531
Motor vehicles	848 469	763 723	-	1 612 192	-	-	-	-	1 612 192
Plant and equipment	360 879	229 373	-	590 252	-	-	-	-	590 252
	2 541 766	2 325 232	-	4 866 998	-	-	-	-	4 866 998
<b>Total</b>	<b>15 025 889</b>	<b>31 958 309</b>	<b>-</b>	<b>46 984 198</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46 984 198</b>

**MBHASHE LOCAL MUNICIPALITY**  
**APPENDIX B TO THE ANNUAL FINANCIAL STATEMENTS**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2011

2010			Figures in Rands	2011		
Actual Income	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)
-	16 795 987	(16 795 987)	Executive & Council	-	21 868 456	(21 868 456)
100 078 728	27 899 199	72 179 528	Finance & Admin	117 571 104	39 367 821	78 203 283
523 000	8 387 338	(7 864 338)	Planning & Development	140 343	9 107 345	(8 967 002)
-	6 990 463	(6 990 463)	Housing	-	5 012 336	(5 012 336)
296 533	650 604	(354 071)	Community & Social Services	125 162	1 027 824	(902 662)
70 546	2 035 003	(1 964 456)	Public Safety	61 784	4 135 909	(4 074 125)
-	2 859 693	(2 859 693)	Sport & Recreation	(28 803)	1 912 718	(1 941 521)
53 700	4 298 624	(4 244 924)	Waste Management	34 040	5 970 283	(5 936 243)
11 119 362	5 959 446	5 159 916	Road Transport	13 447 228	13 896 720	(449 492)
-	645 304	(645 304)	Electricity	-	917 541	(917 541)
-	(14 253)	14 253	Other	-	7 999	(7 999)
<b>112 141 869</b>	<b>76 507 406</b>	<b>35 634 463</b>	Total	<b>131 350 858</b>	<b>103 224 952</b>	<b>28 125 906</b>