



## **MBIZANA LOCAL MUNICIPALITY**

Annual Financial Statements  
for the year ended 30 June 2011

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## General Information

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### Executive committee

D.D. Mnisi  
W.A. Hlangabezo  
E.F. Matekana  
N. Msokana  
F. Siramza  
S. Magini  
N. Giyama  
L. Makholosa  
Hon. Cllr Z. Busuku  
N. Kwelemtini  
F. Mbuyelwa  
L. Nojila  
B. Matshoba  
V.T. Mbele  
S. Godi  
P. Booie  
M. Mfingwana  
P.S. Ndakayi  
S. Faku  
Z. Mhlwazi  
N. Madikizela  
N. Mbewu  
L.G. Mcambalala  
S.M. Thukwana  
A. Maquthu  
R.T. Nkomo  
H.P. Nonqane  
T. Maphasa  
W.M. Diya  
M. Xesibe  
P.V. Ndovela  
N. Hlebo  
N.B. Mteki  
W.A. Hlangabezo  
A.I. Guqaza  
M.J. Dimane  
B.A. Jalubane  
N. Sibutha  
T. Faku  
N. Mlomo  
J.N. Madikizela  
H.M. Mpukwana  
A.R. Ngubo  
Z. Nohiya  
Z.W. Mqokolwana  
N. Saeed  
P. Mfingwana  
N.N. Mhlelebana  
K. Ndzinya  
N. Stata

Mayor  
Councillors

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## General Information

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	J.V.Sodiya S. Ngonini T.H. Kango P. Sramza N. Mbadlanyana M.J.Ndesi I.M. Sabuka N. Madikizela N. Magqabi M. Mahlaba
<b>Grading of local authority</b>	Grade 3
<b>Chief Finance Officer (CFO)</b>	N. Boti
<b>Accounting Officer</b>	E.N.N. Bunguza
<b>Registered office</b>	51 Main Street Bizana 4800
<b>Business address</b>	51 Main Street Bizana 4800
<b>Postal address</b>	PO Box 12 Bizana 4800
<b>Bankers</b>	First National Bank

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

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

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### Abbreviations

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

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

# **Mbizana Local Municipality**

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), 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) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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 municipality 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 municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year ended 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The annual financial statements set out on pages 5 to 49, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

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**E.N.N. Bunguza**  
**Municipal Manager**

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2	45 833 404	33 508 540
Consumer debtors	3	9 723 078	3 188 149
Other receivables from non-exchange transactions	4	3 907 028	3 907 028
Other current financial asset	5	210 030	210 030
Inventories	6	111 725	145 274
VAT receivable	7	4 175 432	8 120 118
Operating lease asset		1 735 129	1 679 400
		<b>65 695 826</b>	<b>50 758 539</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	220 820 361	243 396 023
Intangible assets	9	-	184 844
Investment property	10	8 001 000	8 001 000
		<b>228 821 361</b>	<b>251 581 867</b>
<b>Total Assets</b>		<b>294 517 187</b>	<b>302 340 406</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables from exchange transactions	11	8 138 544	5 609 181
Consumer deposits	12	315 269	307 769
Unspent conditional grants and receipts	13	8 664 601	14 922 318
Provisions	14	841 390	755 425
Bank overdraft	2	534 059	4 572 486
		<b>18 493 863</b>	<b>26 167 179</b>
Non-Current Liabilities		-	-
Current Liabilities		18 493 863	26 167 179
<b>Total Liabilities</b>		<b>18 493 863</b>	<b>26 167 179</b>
Assets		294 517 187	302 340 406
Liabilities		(18 493 863)	(26 167 179)
<b>Net Assets</b>		<b>276 023 324</b>	<b>276 173 227</b>
<b>Net Assets</b>			
Accumulated surplus		276 023 324	276 173 227

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Property rates	15	6 965 250	1 024 941
Service charges	16	9 291 538	8 048 500
Rental of facilities and equipment		1 037 192	915 659
Interest received - investment		2 340 863	1 600 862
Interest received		214 144	185 999
Fines		166 660	209 710
Licences and permits		951 653	933 285
Government grants & subsidies	17	111 628 234	84 622 756
Recoveries		11 306	-
Other income	18	1 500 881	870 818
<b>Total Revenue</b>		<b>134 107 721</b>	<b>98 412 530</b>
<b>Expenditure</b>			
Personnel	19	28 746 413	21 840 137
Remuneration of councillors	20	11 687 254	10 253 295
Depreciation and amortisation	21	32 752 287	32 642 102
Impairment expense		90 669	-
Repairs and maintenance		3 034 980	6 598 847
Bulk purchases	22	8 717 805	6 117 725
Grants and subsidies paid		13 358 617	1 898 860
General Expenses	23	20 292 433	16 246 730
<b>Total Expenditure</b>		<b>118 680 458</b>	<b>95 597 696</b>
<b>(Deficit) / surplus for the year</b>		<b>15 427 263</b>	<b>2 814 834</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	91 758 759	91 758 759
Adjustments		
Prior year adjustments	181 599 634	181 599 634
<b>Balance at 01 July 2009 as restated</b>	<b>273 358 393</b>	<b>273 358 393</b>
Changes in net assets		
Surplus for the year	2 814 834	2 814 834
Total changes	2 814 834	2 814 834
<b>Balance at 01 July 2010</b>	<b>260 596 061</b>	<b>260 596 061</b>
Changes in net assets		
Surplus for the year	15 427 263	15 427 263
Total changes	15 427 263	15 427 263
<b>Balance at 30 June 2011</b>	<b>276 023 324</b>	<b>276 023 324</b>
Note(s)		



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		125 017 786	97 849 988
Interest on investments		2 340 863	1 600 862
Interest received		214 144	185 998
		<u>127 572 793</u>	<u>99 636 848</u>
<b>Payments</b>			
Suppliers and Employee costs		<u>(101 127 052)</u>	<u>(66 501 064)</u>
Total receipts		127 572 793	99 636 848
Total payments		(101 127 052)	(66 501 064)
<b>Net cash flows from operating activities</b>	24	<u><b>26 445 741</b></u>	<u><b>33 135 784</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(10 082 450)	(26 334 821)
Proceeds from sale of property, plant and equipment	8	-	9 049 601
<b>Net cash flows from investing activities</b>		<u><b>(10 082 450)</b></u>	<u><b>(17 285 220)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>16 363 291</b>	<b>15 850 564</b>
Cash and cash equivalents at the beginning of the year		<u>28 936 054</u>	<u>13 085 490</u>
<b>Cash and cash equivalents at the end of the year</b>	2	<u><b>45 299 345</b></u>	<u><b>28 936 054</b></u>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

#### 1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

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

##### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

### 1.2 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

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

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

Property, plant and equipment is initially measured 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 management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

Item	Average useful life
Land	undefined
Buildings	30 years
Furniture and fixtures	7 - 10 years
Motor vehicles	3 - 7 years
Infrastructure	15 -30 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit under (a). If a revaluation is necessary, all assets of that class are revalued.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

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

<b>Item</b>	<b>Useful life</b>
Computer software, other	3 years

### 1.6 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

#### Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.6 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

#### Trade and other payables

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

#### Cash and cash equivalents

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

#### Bank overdraft and borrowings

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

### 1.7 Leases

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

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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

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

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

### 1.8 Inventories

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



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.8 Inventories (continued)

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

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

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.10 Employee benefits

#### Short-term employee benefits

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

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

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

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

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

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

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

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding agreement.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.11 Provisions and contingencies (continued)

- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.9 and .

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

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

### 1.12 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### 1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, 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
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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

#### Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines 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. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### Government grants

Government grants are recognised as revenue 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
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imburement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

### 1.14 Comparative figures

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

### 1.15 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

### 1.16 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

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

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.18 Presentation of currency

These annual financial statements are presented in South African Rand.

### 1.19 Offsetting

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

### 1.20 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>2. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	2 022	2 000
Short-term deposits	44 276 084	31 638 790
Other bank balances	1 555 298	1 867 750
Bank overdraft	(534 059)	(4 572 486)
	<b>45 299 345</b>	<b>28 936 054</b>
Current assets	45 833 404	33 508 540
Current liabilities	(534 059)	(4 572 486)
	<b>45 299 345</b>	<b>28 936 054</b>
<b>3. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	4 108 865	519 813
Electricity, Refuse and Other	8 645 931	6 517 010
	<b>12 754 796</b>	<b>7 036 823</b>
<b>Less: Provision for debt impairment</b>		
Rates and Electricity, Refuse and other	(3 031 718)	(3 848 674)
<b>Net balance</b>		
Rates	4 108 865	519 813
Electricity	8 645 931	6 517 010
Impairment	(3 031 718)	(3 848 674)
	<b>9 723 078</b>	<b>3 188 149</b>
<b>Summary of debtors according to Service types</b>		
<b>Rates</b>		
Current (0 -30 days)	452 558	71 062
31 - 60 days	209 112	62 395
61 - 90 days	208 597	65 193
91 - 120 days	3 238 598	321 163
	<b>4 108 865</b>	<b>519 813</b>
<b>Electricity, Refuse and other</b>		
Current (0 -30 days)	782 563	404 934
31 - 60 days	287 486	406 129
61 - 90 days	221 206	206 454
91 - 120 days	181 668	190 251
121 - 365 days	7 173 008	5 309 242
	<b>8 645 931</b>	<b>6 517 010</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(3 848 674)	(9 642 213)
Reversal of provision	816 956	5 793 539
	<b>(3 031 718)</b>	<b>(3 848 674)</b>
<b>Credit quality of consumer debtors</b>		

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 3. Consumer debtors (continued)

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

In determining the recoverability of consumer debtor the municipality considers any change in the credit quality of the consumer debtor from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the consumer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

### 4. Other receivables from non-exchange transactions

Pensions Councillors	32 805	32 805
Other debtors	3 874 223	3 874 223
	<u>3 907 028</u>	<u>3 907 028</u>

### Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information about counterparty default rates.

### 5. Other current financial asset

#### Transfer of properties

Other current financial asset	<u>210 030</u>	<u>210 030</u>
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### 6. Inventories

Consumables stores	<u>111 725</u>	<u>145 274</u>
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### 7. VAT receivable

VAT	<u>4 175 432</u>	<u>8 120 118</u>
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### 8. Property, plant and equipment

	2011			2010		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	32 245 690	-	32 245 690	32 245 690	-	32 245 690
Buildings	46 220 037	(7 046 020)	39 174 017	44 487 613	(3 715 694)	40 771 919
Furniture and fixtures	5 308 147	(3 038 067)	2 270 080	4 709 070	(1 858 817)	2 850 253
Motor vehicles	3 976 313	(1 437 317)	2 538 996	3 976 313	(915 489)	3 060 824
Infrastructure	201 830 385	(57 584 701)	144 245 684	194 295 176	(29 966 877)	164 328 299
Community	155 873	(23 322)	132 551	155 873	(16 835)	139 038
Other property, plant and equipment	215 740	(2 397)	213 343	-	-	-
<b>Total</b>	<b>289 952 185</b>	<b>(69 131 824)</b>	<b>220 820 361</b>	<b>279 869 735</b>	<b>(36 473 712)</b>	<b>243 396 023</b>

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



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 8. Property, plant and equipment (continued)

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	32 245 690	-	-	-	32 245 690
Buildings	40 771 919	1 732 424	(3 239 657)	(90 669)	39 174 017
Furniture and fixtures	2 850 253	599 077	(1 179 250)	-	2 270 080
Motor vehicles	3 060 824	-	(521 828)	-	2 538 996
Infrastructure	164 328 299	7 535 209	(27 617 824)	-	144 245 684
Community Housing	139 038	-	(6 487)	-	132 551
	-	215 740	(2 397)	-	213 343
	<b>243 396 023</b>	<b>10 082 450</b>	<b>(32 567 443)</b>	<b>(90 669)</b>	<b>220 820 361</b>

### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Depreciation	Total
Land	32 245 690	-	-	-	32 245 690
Buildings	41 300 849	6 846 909	(4 118 967)	(3 256 872)	40 771 919
Furniture and fixtures	3 670 992	403 832	(113 580)	(1 110 991)	2 850 253
Motor vehicles	3 581 473	1 160	-	(521 809)	3 060 824
Infrastructure	177 627 445	19 033 047	(4 817 054)	(27 515 139)	164 328 299
Community	95 400	49 873	-	(6 235)	139 038
	<b>258 521 849</b>	<b>26 334 821</b>	<b>(9 049 601)</b>	<b>(32 411 046)</b>	<b>243 396 023</b>

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

### 9. Intangible assets

	2011			2010		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	462 111	(462 111)	-	462 111	(277 267)	184 844

### Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software, other	184 844	(184 844)	-

### Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	415 900	(231 056)	184 844

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand 2011 2010

### 10. Investment property

	2011			2010		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	8 001 000	-	8 001 000	8 001 000	-	8 001 000

#### Reconciliation of investment property - 2011

	<b>Opening balance</b>	<b>Total</b>
Investment property	8 001 000	8 001 000

#### Reconciliation of investment property - 2010

	<b>Opening balance</b>	<b>Total</b>
Investment property	8 001 000	8 001 000

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

### 11. Trade and other payables from exchange transactions

Trade payables	173 366	622 428
Other payables	3 387 943	3 444 529
Provision for leave	2 123 991	1 542 224
Retention	2 453 244	-
	<b>8 138 544</b>	<b>5 609 181</b>

The average credit period on purchases is 30 days from the receipt of the invoice (as determined by the MFMA). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

Management of the municipality is of the opinion that the carrying value of accounts payable approximate their fair values.

### 12. Consumer deposits

Electricity	315 269	307 769
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Consumer deposits are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, Council can utilise the deposit as payment for the outstanding account.

Management of the municipality is of the opinion that the carrying value of consumer deposits approximate their fair values.

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>13. Unspent conditional grants and receipts (continued)</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	5 773 321	13 488 514
Municipal Systems Improvement Grant	205 826	494 356
Extension 2 Residents	33 802	33 802
Pilot Housing Fund	391 620	78 338
Financial Management Grant	-	391 880
Fraud Prevention Plan	160 280	160 280
LED Grant	645 520	-
Municipal Support Grant	275 148	275 148
IEC Grant	1 179 084	-
	<b>8 664 601</b>	<b>14 922 318</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 14. Provisions

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	755 425	85 965	841 390

#### Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	-	755 425	755 425

#### Environmental rehabilitation provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

### 15. Property rates

#### Rates received

Residential	6 965 250	1 024 941
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# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>16. Service charges</b>		
Service charges	186 266	198 790
Sale of electricity	8 340 025	7 178 653
Refuse removal	765 247	671 057
	<b>9 291 538</b>	<b>8 048 500</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>17. Government grants and subsidies</b>		
Equitable share	75 758 278	62 101 416
Municipal Infrastructure Grant	22 197 192	19 526 475
Municipal Systems Improvement Grant	1 038 530	641 860
Financial Management Grant	1 591 880	861 620
Provincial Grant	-	239 685
IDP Grant	445 428	110 000
LED Grant	476 010	200 000
IEC Grant	120 916	941 700
Integrated Electrification Grant	10 000 000	-
	<b>111 628 234</b>	<b>84 622 756</b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	13 488 514	-
Current-year receipts	14 482 000	33 014 989
Conditions met - transferred to revenue	(22 197 193)	(19 526 475)
	<b>5 773 321</b>	<b>13 488 514</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	494 356	636 216
Current-year receipts	750 000	500 000
Conditions met - transferred to revenue	(1 038 530)	(641 860)
	<b>205 826</b>	<b>494 356</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Extension 2 Residential</b>		
Balance unspent at beginning of year	33 802	33 802
Conditions met - transferred to revenue	-	-
	<b>33 802</b>	<b>33 802</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Pilot Housing Fund</b>		
Balance unspent at beginning of year	78 338	78 338
Current-year receipts	313 282	-
Conditions met - transferred to revenue	-	-
	<b>391 620</b>	<b>78 338</b>
Conditions still to be met - remain liabilities (see note 13)		
<b>Financial Management Grant</b>		
Balance unspent at beginning of year	391 880	453 500
Current-year receipts	1 200 000	800 000
Conditions met - transferred to revenue	(1 591 880)	(861 620)
	<b>-</b>	<b>391 880</b>
Conditions still to be met - remain liabilities (see note 13)		

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>17. Government grants and subsidies (continued)</b>		
<b>Fraud Prevention Plan</b>		
Balance unspent at beginning of year	160 280	-
Current-year receipts	-	400 000
Conditions met - transferred to revenue	-	(239 720)
	<u>160 280</u>	<u>160 280</u>
Conditions still to be met - remain liabilities (see note 13)		
<b>LED Grant</b>		
Current-year receipts	1 121 530	-
Conditions met - transferred to revenue	(476 010)	-
	<u>645 520</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13)		
<b>Municipal support Grant</b>		
Balance unspent at beginning of year	<u>275 148</u>	<u>275 148</u>
Conditions still to be met - remain liabilities (see note 13)		
<b>IEC Grant</b>		
Current-year receipts	1 300 000	-
Conditions met - transferred to revenue	(120 916)	-
	<u>1 179 084</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 13).		
<b>18. Other income</b>		
Other income	<u>1 500 881</u>	<u>870 818</u>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>19. Employee related costs</b>		
Basic	22 857 709	16 709 185
Bonus	1 093 536	828 263
Medical aid - company contributions	983 048	963 135
UIF	166 582	118 391
WCA	488 986	136 855
SDL	198 204	142 454
Other payroll levies	367 704	171 218
Leave pay provision charge	190 000	449 592
Post-employment benefits - Pension - Defined contribution plan	1 548 977	1 214 481
Travel, motor car, accommodation, subsistence and other allowances	363 647	589 322
Overtime payments	150 609	118 756
Housing benefits and allowances	225 213	320 285
Allowances	105 708	74 024
Bargaining Council	6 490	4 176
	<b>28 746 413</b>	<b>21 840 137</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	854 225	467 635
Contributions to UIF, Medical and Pension Funds	-	79 091
Performance and other bonuses	-	28 213
Travel, motor vehicle, accommodation subsistence and other allowances	14 400	195 740
	<b>868 625</b>	<b>770 679</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	696 977	393 614
Performance Bonuses	-	31 536
Contributions to UIF, Medical and Pension Funds	-	2 995
Travel, motor vehicle, accommodation subsistence and other allowances	-	217 537
Other	9 600	-
	<b>706 577</b>	<b>645 682</b>
<b>Director-Planning and Infrastructure</b>		
Annual Remuneration	700 194	375 027
Performance Bonuses	-	29 848
Travel, motor vehicle, accommodation subsistence and other allowances	9 600	243 191
	<b>709 794</b>	<b>648 066</b>
<b>Director-Corporate Services</b>		
Annual Remuneration	690 020	403 891
Performance Bonuses	9 600	30 339
Contributions to UIF, Medical and Pension Funds	-	27 145
Travel, motor vehicle, accommodation subsistence and other allowances	-	179 202
	<b>699 620</b>	<b>640 577</b>
<b>Director-Community Services</b>		
Annual Remuneration	694 817	382 997
Contributions to UIF, Medical and Pension Funds	-	29 769
Travel, motor vehicle, accommodation subsistence and other allowances	9 600	221 747
	<b>704 417</b>	<b>634 513</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>20. Remuneration of councillors</b>		
Mayor	433 366	420 448
Mayoral Committee Members	1 526 273	1 705 275
Speaker	198 964	182 988
Councillors	9 528 651	7 944 584
	<b>11 687 254</b>	<b>10 253 295</b>

### In-kind benefits

The Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

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

The Mayor has one full-time bodyguard .

### 21. Depreciation and amortisation

Property, plant and equipment	32 567 443	32 411 046
Intangible assets	184 844	231 056
	<b>32 752 287</b>	<b>32 642 102</b>

### 22. Bulk purchases

Electricity	8 717 805	6 117 725
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Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resell to the consumers. Electricity is purchased from Eskom.



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>23. General expenses</b>		
Advertising	225 116	188 087
Annual Report	133 860	149 934
Audit Committee Fees	55 953	47 092
Auditors remuneration	2 145 380	2 076 447
Bank charges	146 350	123 535
Books	188 291	88 974
Cemetery	146 850	87 308
Cleaning	48 173	49 477
Community Involvement	1 358 232	158 442
Consulting and professional fees	2 434 026	259 281
Entertainment	485 691	500 180
Environmental Projects	645 623	260 282
Free Basic Services	836 764	632 815
Fuel and oil	760 310	463 091
HIV/AIDS Programmes	256 174	427 309
IT expenses	431 267	521 331
Institutional Support	1 121 622	1 670 264
Insurance	342 413	382 244
Legal Fees	502 903	695 318
Licencing Fees	34 415	33 448
Local Economic Development Projects	251 586	711 669
Mayor's Special Programmes	378 867	423 708
Membership Fees	9 948	16 706
Other Expenses	1 744 931	677 355
Printing and stationery	354 526	278 434
Protective clothing	256 041	133 384
Public Participation	41 185	361 383
Rental of Equipment	-	18 809
Security (Guarding of municipal property)	428 224	409 673
Stocks and Material	42 613	87 432
Telephone and fax	610 823	181 430
Tourism development	170 956	93 051
Travelling and Accomodation	2 465 998	2 722 017
Ward Committee Fees	1 237 322	1 316 820
	<b>20 292 433</b>	<b>16 246 730</b>
<b>24. Cash generated from operations</b>		
Surplus	15 427 263	2 814 834
<b>Adjustments for:</b>		
Depreciation and amortisation	32 752 287	32 642 102
Impairment deficit	90 669	-
Movements in operating lease assets and accruals	(55 729)	(1 679 400)
Movements in provisions	85 965	755 425
Increase in staff leave	581 767	449 592
Provision for doubtful debts	(816 956)	(5 793 539)
Prior period adjustment	(15 577 165)	(2 350 459)
<b>Changes in working capital:</b>		
Inventories	33 549	35 686
Other receivables from non-exchange transactions	-	(1 884 875)
Consumer debtors	(5 717 973)	3 109 194
Trade and other payables from exchange transactions	1 947 595	2 697 206
VAT	3 944 686	(8 120 118)
Unspent conditional grants and receipts	(6 257 717)	10 451 136
Consumer deposits	7 500	9 000
	<b>26 445 741</b>	<b>33 135 784</b>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
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### 25. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	30 736 754	-
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

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

#### Audit fees

Current year fee	2 145 380	2 076 447
Amount paid - current year	(2 145 380)	(2 076 447)
	<u>-</u>	<u>-</u>

#### PAYE and UIF

Current year fee	5 232 012	4 330 540
Amount paid - current year	(5 232 012)	(4 330 540)
	<u>-</u>	<u>-</u>

#### Pension and Medical Aid Deductions

Current year fee	3 233 804	3 026 072
Amount paid - current year	(3 233 804)	(3 026 072)
	<u>-</u>	<u>-</u>

#### VAT

VAT receivable	4 175 432	8 120 118
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VAT output payables and VAT input receivables are shown in note .

#### Councillors' arrear consumer accounts

No Councillors' accounts were in arrears as at 30 June 2011.

### 27. Financial assets by category

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

#### 2011

	Loans and receivables	Held to maturity investments	Total
Consumer debtors	9 832 263	-	9 832 263
Other receivables from non-exchange transactions	3 797 843	-	3 797 843
Other bank balances	1 555 298	-	1 555 298
Short term deposits	-	44 276 084	44 276 084
Cash on hand	2 022	-	2 022
Other current financial asset	210 030	-	210 030
	<u>15 397 456</u>	<u>44 276 084</u>	<u>59 673 540</u>

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 27. Financial assets by category (continued)

2010

	<b>Loans and receivables</b>	<b>Held to maturity investments</b>	<b>Total</b>
Consumer debtors	3 297 334	-	3 297 334
Other receivables from non-exchange transactions	3 797 843	-	3 797 843
Other bank balances	1 867 750	-	1 867 750
Short term deposits	-	31 638 790	31 638 790
Cash on hand	2 000	-	2 000
Other current financial asset	210 030	-	210 030
	<b>9 174 957</b>	<b>31 638 790</b>	<b>40 813 747</b>

### 28. Employee benefit obligations

Defined contribution plan

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 28. Employee benefit obligations (continued)

Included in defined contribution plan information above, is the following plans which are a Multi-Employer Funds and are Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plans as a defined benefit plans. The municipality accounted for these plans as a defined contribution plans:

Councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident Funds as described below.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these afore-mentioned funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:-

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The Retirement Funds have been valued by making use of the Discounted Cash Flow method of valuation.

### DEFINED BENEFIT SCHEMES

#### ***Municipal Councillors Pension Fund:***

The scheme is subject to an annual actuarial valuation. The last statutory valuation was performed as at 30 June 2010.

The statutory valuation performed as at 30 June 2010 revealed that the fund had a funding ratio of 102.56%. (30 June 2006 106.5%). The contribution rate paid by the members (13,75%) and Council (15,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### ***South African Municipal Workers Union National Provident Fund:***

The scheme is subject to an tri-annual actuarial valuation. The last statutory valuation was performed as at 30 June 2005.

The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

#### ***Municipal Employees Pension Fund***

No details could be provided for the fund and of any valuation performed.

### 29. Financial liabilities by category

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

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

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	2011	2010
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### 29. Financial liabilities by category (continued)

#### 2011

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other payables	8 180 544	8 180 544
Bank overdraft	534 059	534 059
Consumer deposits	315 269	315 269
	<b>9 029 872</b>	<b>9 029 872</b>

#### 2010

	<b>Financial liabilities at amortised cost</b>	<b>Total</b>
Trade and other payables	5 609 181	5 609 181
Bank overdraft	4 572 486	4 572 486
Consumer deposits	307 769	307 769
	<b>10 489 436</b>	<b>10 489 436</b>

### 30. Rental of facilities and equipment

#### Premises

Premises	939 101	600 563
Venue hire	84 620	29 854
Billboards and advertising	13 471	22 419
Other	-	262 823
	<b>1 037 192</b>	<b>915 659</b>
Premises	1 037 192	915 659
Garages and parking	-	-
Facilities and equipment	-	-

### 31. Prior period errors

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 31. Prior period errors (continued)

*The correction of the error(s) results in adjustments as follows:*

#### .1. Accumulated surplus / (deficit)

Opening balance - as previously reported	(121 436 443)
Debtors incorrectly accounted for in the prior period	(222 744)
Rates on Municipal Properties	18 548
Rates incorrectly levied during the year	116 418
Debtors incorrectly accounted for in the prior period	(28 677)
Straight Line of Leases	(1 679 400)
Journal on the bank reconciliation	(863 352)
Creditor corrections	(541 585)
VAT correction	1 062 296
Correction of Property, plant and equipment	(152 598 288)

***Closing balance at the end of the year - 30 June 2010*** **(276 173 227)**

#### .2. Cash and cash equivalents

Opening balance - as previously reported	34 881 011
Corrections	(3 124 293)

***Closing balance at the end of the year - 30 June 2010*** **31 756 718**

#### .3. Trade and other receivables from exchange transactions

Opening balance - as previously reported	3 166 697
Corrections	130 637

***Closing balance at the end of the year - 30 June 2010*** **3 297 334**

#### .4. Other receivables from non-exchange transactions

Opening balance - as previously reported	1 242 176
Corrections	(264 993)

***Closing balance at the end of the year - 30 June 2010*** **977 183**

#### .5. Operating Lease Receipts

Opening balance - as previously reported -	
Corrections	1 679 400

***Closing balance at the end of the year - 30 June 2010*** **1 679 400**

#### .6. VAT receivable

Opening balance - as previously reported	9 182 415
Corrections	(1 062 296)

***Closing balance at the end of the year - 30 June 2010*** **8 120 119**

#### .7. Property, plant and equipment

Opening balance - as previously reported	98 508 880
Corrections	23 650
Correction of Property, plant and equipment	144 863 493

***Closing balance at the end of the year - 30 June 2010*** **243 396 023**

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>31. Prior period errors (continued)</b>		
<b>.8. Trade and other payables from exchange transactions</b>		
Opening balance - as previously reported	(10 251 083)	
Corrections	4 641 902	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>(5 609 181)</i></b>	
<b>.9. Intangible Assets</b>		
Opening balance - as previously reported	451 038	
Correction	(266 194)	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>184 844</i></b>	
<b>.10. Investment Property</b>		
Opening balance - as previously reported	4	
Correction of Property, plant and equipment	8 000 996	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>8 001 000</i></b>	
<b>.11. Current portion of unspent conditional grants and receipts</b>		
Opening balance - as previously reported	(15 036 807)	
Corrections	114 490	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>(14 922 317)</i></b>	
<b>.12. Property rates</b>		
Opening balance - as previously reported	(937 199)	
Corrections	(87 742)	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>(1 024 941)</i></b>	
<b>.13. Rental of facilities and equipment</b>		
Opening balance - as previously reported	(823 981)	
Corrections	(91 678)	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>(915 659)</i></b>	
<b>.14. Bulk purchases</b>		
Opening balance - as previously reported	6 892 086	
Corrections	(774 361)	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>6 117 725</i></b>	
<b>.15. Grants and subsidies paid</b>		
Opening balance - as previously reported -		
Corrections	1 898 860	
<b><i>Closing balance at the end of the year - 30 June 2010</i></b>	<b><i>1 898 860</i></b>	

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>31. Prior period errors (continued)</b>		
<b>.16. General expenses</b>		
Opening balance - as previously reported	18 232 711	
Corrections	(1 985 981)	
<b>Closing balance at the end of the year - 30 June 2010</b>	<b>16 246 730</b>	
<b>.17. Depreciation</b>		
Opening balance - as previously reported	8 103 700	
Corrections	24 538 402	
<b>Closing balance at the end of the year - 30 June 2010</b>	<b>32 642 102</b>	

### 32. Comparative figures

Certain comparative figures have been reclassified.

### 33. Risk management

#### Capital risk management

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

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in cash and cash equivalents disclosed in note 2, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to member, return capital to member, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

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

The gearing ratio at 2011 and 2010 respectively were as follows:

Less: Cash and cash equivalents	2	45 299 345	28 936 054
Net debt		(45 299 345)	(28 936 054)
Total equity		276 023 324	276 173 227
<b>Total capital</b>		<b>230 723 979</b>	<b>247 237 173</b>

#### Financial risk management

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

#### Liquidity risk



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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Figures in Rand

2011

2010

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### 33. Risk management (continued)

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

#### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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Figures in Rand	2011	2010
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### 34. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R 276 023 324 and that the municipality's total liabilities exceed its assets by R 276 023 324.

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

### 35. Events after the reporting date

No events having financial implications and requiring disclosure, occurred subsequent to 30 June 2011.

### 36. New standards and interpretations

#### 36.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

#### GRAP 18: Segment Reporting

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. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### GRAP 23: Revenue from Non-exchange Transactions

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.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

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. 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.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall 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 shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality 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.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 103: Heritage Assets

Grap 103 defines heritage assets as 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.

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.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

A heritage asset should be recognised as an asset only if:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

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

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 21: Impairment of non-cash-generating assets**

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

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

An 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.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

#### **GRAP 26: Impairment of cash-generating assets**

Cash-generating assets are those assets held by an 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.

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

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

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

## Notes to the Annual Financial Statements

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

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

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

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

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

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### **GRAP 25: Employee benefits**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;

## Notes to the Annual Financial Statements

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

- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### GRAP 104: Financial Instruments

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 municipality and a financial liability or residual interest in another municipality. 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.

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. 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. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.



# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

# Mbizana Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

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Figures in Rand	2011	2010
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### 37. Contingencies

There are currently 4 cases against the municipality to the amount of R400 000. These cases will only be finalised in the next financial year.

### Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note , civil proceedings have commenced against the employees concerned to recover an amount of R -. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

### 38. Irregular expenditure

Add: Irregular Expenditure - current year	<u>936 778</u>	<u>-</u>
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#### Details of irregular expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Deviation not authorised by the municipal manager	Currently none - subject to possible future investigation	123 905
Deviations approved by the municipal manager	Currently none - subject to possible future investigation	33 490
Money stolen	Diciplinary actions in progress	<u>779 38</u>
		<u><b>936 778</b></u>

**MBIZANA LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**APPENDIX A  
ACTUAL OPERATING VERSUS BUDGET**

	<b>2011 Actual R</b>	<b>2011 Budget R</b>	<b>2010 Actual</b>	<b>2011 Variance R</b>	<b>2011 Variance %</b>	<b>Explanations of significant variances greater than 10% versus budget</b>
<b>REVENUE</b>						
Property rates	6 965 250	7 018 829	937 199	( 53 579)	-0.01	
Service charges	9 291 538	9 440 940	8 048 499	( 149 402)	-0.02	
Rental of facilities and equipment	1 037 192	728 548	823 981	940 863	1.29	
Interest earned – external investments	2 340 863	1 400 000	1 600 863	0	-	
Interest earned – outstanding debtors	214 144	214 144	185 999	109 507	0.51	
Fines	166 660	57 153	209 710	( 677 729)	-11.86	
Licensing & permits	951 653	1 629 382	933 285	(2 465 857)	-1.51	
Government grants & subsidies – operating	79 431 042	81 896 899	65 105 061	(5 773 321)	-0.07	
Government grants & subsidies – capital	32 197 192	37 970 513	19 517 731	(19 193 615)	-0.51	
Other revenue	1 512 187	20 705 802	870 818	19 193 615	0.93	
<b>Total Revenue</b>	<b>134 107 721</b>	<b>161 062 210</b>	<b>98 233 146</b>	<b>(8 069 518)</b>	<b>( 11)</b>	
<b>EXPENDITURE</b>						
Employee related costs	28 746 413	29 286 222	21 840 130	16 989 021	0.58	
Remuneration of councillors	11 687 254	11 757 392	10 253 295	11 687 254	0.99	
Impairment	90 669			0		
Depreciation	32 752 287	32 752 287	8 103 700	0		
Repairs & maintenance	3 034 980	4 899 345	6 598 847	(1 864 365)	-0.38	
Bulk purchases	8 717 805	9 665 017	6 892 086	( 947 212)	-0.10	
General expenses	20 292 433	31 378 596	18 232 711	(11 086 163)	-0.35	
Government grants & subsidies	13 358 617	81 896 899		(68 538 282)	-0.84	
<b>Total Expenditure</b>	<b>118 680 458</b>	<b>201 635 757</b>	<b>71 920 769</b>	<b>(53 759 747)</b>	<b>-26.66</b>	
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>15 427 263</b>	<b>(40 573 547)</b>	<b>26 312 377</b>	<b>45 690 229</b>		

**APPENDIX B**

**MBIZANA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011**

Description	Historical Cost				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Impairment	Closing Balance	Opening Balance	Depreciation 2011	Disposals	Closing Balance	
<b><u>PROPERTY PLANT AND EQUIPMENT:</u></b>									
<b>BUILDINGS</b>									
BUILDINGS	44 363 615	1 732 424	90 669	46 005 371	3 591 696	3 239 657	-	6 831 353	39 174 017
<b>LAND</b>									
DEVELOPED LAND	32 245 690	-	-	32 245 690	-	-	-	-	32 245 690
UNDEVELOPED LAND	30 448 790	-	-	30 448 790	-	-	-	-	30 448 790
	1 796 900	-	-	1 796 900	-	-	-	-	1 796 900
<b>TOTAL LAND AND BUILDINGS</b>	<b>76 609 305</b>	<b>1 732 424</b>	<b>90 669</b>	<b>78 251 061</b>	<b>3 591 696</b>	<b>3 239 657</b>	<b>-</b>	<b>6 831 353</b>	<b>71 419 707</b>
<b>COMMUNITY ASSETS</b>									
CEMETERIES	155 873	-	-	155 873	16 835	6 487	-	23 322	132 551
<b>INFRASTRUCTURE ASSETS</b>									
INFRASTRUCTURE: ELECTRICITY Total	5 007 225	478 958	-	5 486 184	200 590	187 621	-	388 210	5 097 973
INFRASTRUCTURE: ROADS Total	177 915 461	6 902 251	-	184 817 712	29 126 466	26 819 777	-	55 946 244	128 871 468
INFRASTRUCTURE: STORM WATER Total	8 855 357	-	-	8 855 357	547 517	512 749	-	1 060 267	7 795 090
INFRASTRUCTURE: WATER Total	-	-	-	-	-	-	-	-	-
SOLID WASTE DISPOSAL Total	209 376	-	-	209 376	9 342	10 187	-	19 529	189 848
STREET LIGHTS Total	2 307 755	154 000	-	2 461 755	82 962	87 490	-	170 452	2 291 304
	<b>194 295 176</b>	<b>7 535 209</b>	<b>-</b>	<b>201 830 385</b>	<b>29 966 877</b>	<b>27 617 825</b>	<b>-</b>	<b>57 584 701</b>	<b>144 245 683</b>
<b>HOUSING Total</b>	<b>-</b>	<b>215 740</b>	<b>-</b>	<b>215 740</b>	<b>-</b>	<b>2 397</b>	<b>-</b>	<b>2 397</b>	<b>213 343</b>
<b>OTHER ASSETS</b>									
FURNITURE & EQUIPMENT	4 709 070	599 077	-	5 308 147	1 858 817	1 179 250	-	3 038 067	2 270 080
TRANSPORT ASSETS	3 976 313	-	-	3 976 313	915 489	521 828	-	1 437 317	2 538 996
	<b>8 685 383</b>	<b>599 077</b>	<b>-</b>	<b>9 284 460</b>	<b>2 774 306</b>	<b>1 701 078</b>	<b>-</b>	<b>4 475 384</b>	<b>4 809 076</b>
<b><u>TOTAL PROPERTY PLANT AND EQUIPMENT:</u></b>									
	<b>279 745 736</b>	<b>10 082 451</b>	<b>90 669</b>	<b>289 737 518</b>	<b>36 349 714</b>	<b>32 567 443</b>	<b>-</b>	<b>68 917 157</b>	<b>220 820 361</b>

**APPENDIX B**

**MBIZANA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011**

Description	Historical Cost				Accumulated Depreciation				Carrying Value
	Opening Balance	Additions	Impairment	Closing Balance	Opening Balance	Depreciation 2011	Disposals	Closing Balance	
<b>INTANGIBLES</b>									
Computer software	462 111	-	-	462 111	277 267	184 844	-	462 111	-
<b>INVESTMENT PROPERTY</b>									
	8 001 000	-	-	8 001 000	-	-	-	-	8 001 000
<b>TOTAL ASSET REGISTER</b>									
	288 208 847	10 082 451	90 669	298 200 629	36 626 980	32 752 288	-	69 379 268	228 821 361

## APPENDIX B

### MBIZANA LOCAL MUNICIPALITY : ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011

DEPARTMENT NAME	Cost / Revaluation					Accumulated Depreciation				Carrying Value
	Opening Balance	Additions 2011	Impairment	Disposals	Closing Balance	Opening Balance	Depreciation 2011	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R
BUDGET & TREASURY	41 114 464	-	-	-	41 114 464	450 818	196 799	-	647 618	40 466 846
COMMUNITY DEVELOPMENT	33 905 356	1 344 490	90 669	-	35 159 177	3 686 733	2 968 868	-	6 655 601	28 503 576
CORPORATE SERVICES	7 560 037	845 909	-	-	8 405 946	1 328 376	915 344	-	2 243 721	6 162 225
ELECTRICITY	5 225 588	483 570	-	-	5 709 158	260 508	227 859	-	488 368	5 220 790
LOCAL ECONOMIC DEVELOPMENT	1 024 939	3 577	-	-	1 028 516	55 432	76 332	-	131 764	896 752
MUNICIPAL MANAGER	888 744	84 594	-	-	973 338	295 166	228 087	-	523 253	450 085
PLANNING & INFRASTRUCTURE	198 449 816	7 287 807	-	-	205 737 623	30 533 422	28 117 712	-	58 651 134	147 086 489
WARD CLERKS	39 904	32 503	-	-	72 407	16 525	21 286	-	37 810	34 597
	<b>288 208 847</b>	<b>10 082 451</b>	<b>90 669</b>	<b>-</b>	<b>298 200 629</b>	<b>36 626 980</b>	<b>32 752 288</b>	<b>-</b>	<b>69 379 268</b>	<b>228 821 361</b>

**MBIZANA LOCAL MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**

**APPENDIX D**

**DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

**Grants and Subsidies Received**

<b>Name of Grant</b>	<b>Name of Organ of State or Municipality</b>	<b>Receipts</b>	<b>Expenditure</b>	<b>Grants Delayed/Withheld</b>	<b>Reason for Delay / Withholding of Funds</b>	<b>Compliance to Revenue Act (*) See below</b>	<b>Reason for Non-compliance</b>
						Yes / No	
MSIG	Nat Treasury	750 000	1 038 530	Nil	-	Yes	-
FMG	Nat Treasury	1 200 000	1 591 880	Nil	-	Yes	-
IDP Grant	Prov Treasury	445 428	445 428	Nil	-	Yes	-
Integrated Electrification	Nat Treasury	10 000 000	10 000 000	Nil	-	Yes	-
MIG	Nat Treasury	14 482 000	22 197 192	Nil	-	Yes	-
IEC Grant	IEC	1 300 000	120 916	Nil	-	Yes	-
LED Grant	Thina Sinako	1 121 530	476 010	Nil	-	Yes	-
<b>Total Grants and Subsidies Received</b>		<b>29 298 958</b>	<b>35 869 956</b>				