MKHAMBATHINI MUNICIPALITY
Annual financial statements
for the year ended 30 June 2009

# General Information

| | |
|---|---|
| **Legal form of entity** | Local Municipality |
| **Nature of business and principal activities** | Municipal services<br>Principal activities of the Municipality are characterized by improved quality of life for its people in the areas of environment, basic services, social services and economic development. Mkhambathini Local Municipality was established in terms of section 155(1) b of the Constitution of the Republic of South Africa. |
| **Mayoral committee** | |
| Executive Mayor | TE MAPHUMULO (Mrs)<br>DEPUTY MAYOR: E NGCONGO (Mr)<br>SPEAKER: TZ MAPHUMULO |
| Councilors | SP GOQO<br>TA GWALA<br>FP MSOMI<br>MK MKHIZE<br>S WANDA<br>ME NGCONGO<br>FJ NGUBANE<br>MR NTULI<br>S TOVENRATH<br>B ZONDI<br>M NENE |
| **Grading of local authority** | Grade 2 |
| **Accounting Officer** | D PILLAY |
| **Chief Finance Officer (CFO)** | S MAGCABA |
| **Registered office** | Civic Office<br>18 Old Main Road<br>Camperdown<br>3720 |
| **Business address** | Civic Office<br>18 Old Main Road<br>Camperdown<br>3720 |
| **Postal address** | Private Bag X04<br>Camperdown<br>3720 |
| **Bankers** | Standard Bank, Pietermaritzburg |
| **Auditors** | Auditor General South Africa |

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The reports and statements set out below comprise the annual financial statements presented to the members of the municipality:


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**Abbreviations**

| | |
|---|---|
| CRR | Capital Replacement Reserve |
| DBSA | Development Bank of South Africa |
| SA GAAP | South African Statements of Generally Accepted Accounting Practice |
| GAMAP | Generally Accepted Municipal Accounting Practice |
| HDF | Housing Development Fund |
| IAS | International Accounting Standards |
| ME's | Municipal Entities |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |
| UIF | Unemployment Insurance Fund |

# Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments 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 municipality sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 21, which have been prepared on the going concern basis, were approved by the 31st of August 2009 and were signed on its behalf by:

# Accounting Officer's Report

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## 1. Review of activities

**Main business and operations**

The principal activities of the municipality are characterized by improved quality of life for its people in the areas of environment, basic services, social services and economic development. Mkhambathini local municipality was established in terms of section 155(1) b of the constitution of the Republic of South Africa. and operates principally in South Africa.
The municipality is governed by the Municipal Finance Management Act (MFMA)

## 2. Going concern

We draw attention to the fact that at 30 June 2009, the municipality had accumulated losses of R 10 997 432.

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.

## 3. Subsequent events

The municipality is not aware of any matter or circumstance arising since the end of the financial year.

## 4. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

## 5. Bankers

Standard Bank, Pietermaritzburg.

## 6. Auditors

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

# Statement of Financial Position

| Figures in Rand | Note(s) | 2009 | 2008 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Trade and other receivables | 5 | 715 620 | 417 819 |
| Other receivables from non-exchange transactions, including taxes and transfers | 6 | 1 763 961 | 1 955 712 |
| Consumer debtors | 7 | 476 842 | 448 285 |
| Cash and cash equivalents | 8 | 3 413 332 | 8 489 703 |
| | | **6 369 755** | **11 311 519** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 2 | 18 767 882 | 15 422 664 |
| Intangible assets | 3 | 2 149 | - |
| | | **18 770 031** | **15 422 664** |
| **Total Assets** | | **25 139 786** | **26 734 183** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | 15 | 6 766 056 | 9 609 794 |
| Provisions | 14 | - | 1 053 593 |
| Bank overdraft | 8 | - | 2 214 002 |
| | | **6 766 056** | **12 877 389** |
| **Total Liabilities** | | **6 766 056** | **12 877 389** |
| | | **18 373 730** | **13 856 793** |
| Reserves | | | |
| Revaluation reserve | 9 | 140 701 | 140 701 |
| Capital replacement reserve | 10 | - | 6 267 376 |
| Capitalisation reserve | 11 | - | 3 708 472 |
| Government grant reserve | 12 | - | 1 035 435 |
| Donations and public contributions | 13 | - | 7 173 |
| Accumulated (deficit)/surplus | | 18 233 029 | 2 697 637 |
| **Total Net Assets** | | **18 373 730** | **13 856 793** |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2009 | 2008 |
|---|---|---|---|
| **Revenue** | | | |
| Property rates | 16 | 1 168 473 | 1 192 095 |
| Property rates - penalties imposed and collection | | 70 291 | 11 850 |
| Rental Income | | - | 24 758 |
| Fines | | 27 070 | 122 915 |
| Licences and permits | | 1 441 505 | 983 025 |
| Government grants | 17 | 12 478 872 | 13 952 037 |
| Commissions received | | 3 987 | - |
| Other income | | 739 678 | 1 443 841 |
| Interest received - investment | | 445 755 | 1 456 127 |
| **Total Revenue** | | **16 375 631** | **19 186 648** |
| **Expenditure** | | | |
| Employee related costs | 18 | (11 929 905) | (8 486 273) |
| Remuneration of councilors | 19 | (2 891 166) | (2 889 505) |
| Depreciation and amortisation | 20 | (2 929 580) | (1 041 864) |
| Repairs and maintenance | | (668 451) | (347 346) |
| Contracted services | | (195 815) | (2 380 109) |
| Interest earned – transferred to reserves and unspent grants | 21 | - | (1 441 741) |
| General Expenses | | (6 178 435) | (8 622 982) |
| **Total Expenditure** | | **(24 793 352)** | **(25 209 819)** |
| **Loss for the year** | | **(8 417 721)** | **(6 023 171)** |
| **Attributable to:** | | | |
| Net Asset holders of the controlling entity | | (8 417 721) | (6 023 171) |

# Statement of Changes in Net Assets

| Figures in Rand | Revaluation reserve | Capital replacement reserve | Capitalisation reserve | Government grant reserve | Donations and public contributions | Total reserves | Accumulated (deficit)/surplus | Total net assets |
|---|---|---|---|---|---|---|---|---|
| **Balance at 01 July 2007** | **140 701** | **5 842 473** | **3 943 597** | **5 970 977** | **8 069** | **15 905 817** | **3 448 160** | **19 353 977** |
| Changes in net assets | | | | | | | | |
| Loss for the year | - | - | - | - | - | - | (6 023 171) | (6 023 171) |
| Interest on external investments | - | 525 987 | - | - | - | 525 987 | - | 525 987 |
| Property, plant and equipment purchase | - | - | - | (4 565 721) | - | (4 565 721) | 4 565 721 | - |
| Offsetting of depreciation | - | (101 084) | (235 125) | (369 821) | (896) | (706 926) | 706 926 | - |
| Total changes | - | 424 903 | (235 125) | (4 935 542) | (896) | (4 746 660) | (753 970) | (5 500 630) |
| **Balance at 01 July 2008 Restated** | **140 701** | **6 267 376** | **3 708 472** | **1 035 435** | **7 173** | **11 159 157** | **2 697 637** | **13 856 793** |
| Prior year adjustments | - | - | - | - | - | - | 12 934 657 | 12 934 657 |
| Loss for the year | - | - | - | - | - | - | (8 417 721) | (8 417 721) |
| Transfer to Accumulated Surplus/(Deficit) | - | (6 267 376) | (3 708 472) | (1 035 435) | (7 173) | (11 018 456) | 11 018 456 | - |
| Transfer to Government Grant Reserve | - | - | - | - | - | - | - | - |
| Total changes | 140 701 | - | - | - | - | 140 701 | 18 233 029 | 18 373 730 |
| **Balance at 30 June 2009** | **140 701** | **-** | **-** | **-** | **-** | **140 701** | **18 233 029** | **18 373 730** |
| Note(s) | 9 | 10 | 11 | 12 | 13 | | | |

# Cash Flow Statement

| Figures in Rand | Note(s) | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 16 241 024 | 21 026 373 |
| Cash paid to suppliers and employees | | (13 144 785) | (27 388 193) |
| Cash used in operations | 26 | 3 096 239 | (6 361 820) |
| Interest income | | 445 755 | 1 456 127 |
| **Net cash from operating activities** | | **3 541 994** | **(4 905 693)** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 2 | (6 393 990) | (4 830 012) |
| **Total cash movement for the year** | | **(2 851 996)** | **(9 735 705)** |
| Cash at the beginning of the year | | 6 265 328 | 16 001 033 |
| **Net increase (decrease) in cash and cash equivalents** | 8 | **3 413 332** | **6 265 328** |

# Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognized Accounting Practices (GRAP).
There were no new Standards of Generally Recognized Accounting Practices (GRAP) that are not yet effective.
The standards are summarised as follows:

| Standard of GRAP | |
|---|---|
| GRAP 1 | Presentation of Financial Statements |
| GRAP 2 | Cash Flow Statements |
| GRAP 3 | Accounting Policies, Changes in Accounting Estimates and Errors |
| GRAP 4 | The Effects of Changes in Foreign Exchange Rates |
| GRAP 5 | Borrowing Costs |
| GRAP 6 | Consolidation and Separate Financial Statements |
| GRAP 7 | Investments in Associates |
| GRAP 8 | Interest in Joint Ventures |
| GRAP 9 | Revenue from Exchange Transactions |
| GRAP 10 | Financial Reporting in Hyperinflationary Economies |
| GRAP 11 | Construction Contracts |
| GRAP 12 | Inventories |
| GRAP 13 | Leases |
| GRAP 14 | Events after Reporting Date |
| GRAP 16 | Investment Property |
| GRAP 17 | Properties, Plant and Equipment |
| GRAP 18 | Segment Reporting |
| GRAP 19 | Provisions, Contingent Liabilities and Contingent Assets |
| GRAP 23 | Revenue from Non-Exchange Transactions |
| GRAP 24 | Presentation of Budget Information in the Financial Statements |
| GRAP 100 | Non-current assets Held for Sale and Discontinued Operations |
| GRAP 101 | Agriculture |
| GRAP 102 | Intangible Assets |

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

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

These accounting policies are consistent with the previous period.

### 1.1 Significant judgments 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 judgment 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 judgments include:

### 1.1 Significant judgments 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 Property, plant and equipment

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits associated with the item will flow to the municipality; and
- The cost of the item can be measured reliably.

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

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

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

| Item | Average useful life |
|---|---|
| Infrastructure | |
| • Roads and Paving | 10 |
| • Taxi Ranks | 20 |
| Community | |
| • Buildings | 30 |
| • Refuse Dump | 20 |
| Buildings | 30 |
| Motor Vehicles | 5 |
| Disaster Management | 2-10 |
| Office Equipment | 2-10 |
| Furniture and fittings | 2-10 |
| Plant and Equipment | 2-15 |

The residual value and the useful life of each asset were not reviewed at the financial period end.

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

The depreciation charge for each period is recognised in profit or loss unless it is included in the carrying amount of another asset. The depreciation method used is straight line over the useful life of the asset.

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

### 1.3 Intangible assets

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

Intangible assets are initially recognised at cost.

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

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

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

### 1.3 Intangible assets (continued)

| **Item** | **Useful life** |
| --- | --- |
| Computer software | 2 - 10 years |

### 1.4 Financial instruments

**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 profit or loss 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 loss is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the statement of financial performance.

Trade and other receivables are classified as loans and receivables.

**Trade and other payables**

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

**Cash and cash equivalents**

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

**Bank overdraft and borrowings**

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

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

### 1.5 Impairment of assets

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

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

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

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

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

### 1.5 Impairment of assets (continued)

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the units.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

### 1.6 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 profit 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 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 statement of financial position date 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 the statement of financial performance 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 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 the statement of financial performance, 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, plus the present value of available refunds and reduction in future contributions to the plan.

**Other post retirement obligations**

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

### 1.6 Employee benefits (continued)

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

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

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

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be 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 business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

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

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

### 1.8 Government grants

Government grants are recognised when there is reasonable assurance that:

- the  will comply with the conditions attaching to them; and
- The grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the statement of financial position by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

### 1.8 Government grants (continued)

Grants related to income are.

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the deferred income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

### 1.9 Types of revenue

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

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

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the statement of financial position date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the statement of financial position date can be measured reliably; and
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at statement of financial position date. Stage of completion is determined by the proportion of costs incurred to date bear to the total estimated costs of the transaction.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

### 1.10 Turnover

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

### 1.11 Borrowing costs

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

### 1.12 Presentation of Currency

These annual financial statements are presented in South African Rand.

### 1.13 Reserves

#### Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/ (deficit) to the CRR in terms of a Council resolution. A

**1.13 Reserves (continued)**

Corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/ (deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

**Capitalisation reserve**

On the implementation of GAMAP/GRAP, the balance of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to a Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular No. 18) issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from this reserve to the accumulated surplus/deficit.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/deficit.

**Government grant reserve**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

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

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

**Donations and public contributions reserve**

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

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

**Revaluation reserve**

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the Statement of Financial Performance.

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|

## 2. Property, plant and equipment

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation | Carrying value | Cost / Valuation | Accumulated depreciation | Carrying value |
| Land | 551 300 | - | 551 300 | 551 300 | - | 551 300 |
| Buildings | 9 255 137 | (604 858) | 8 650 279 | 9 255 137 | - | 9 255 137 |
| Plant and machinery | 399 770 | (54 631) | 345 139 | 346 686 | - | 346 686 |
| Furniture and fixtures | 776 098 | (79 765) | 696 333 | 730 140 | - | 730 140 |
| Motor vehicles | 1 082 344 | (239 343) | 843 001 | 1 082 344 | - | 1 082 344 |
| Office equipment | 1 004 213 | (115 291) | 888 922 | 1 033 964 | - | 1 033 964 |
| Infrastructure | 12 735 701 | (5 942 793) | 6 792 908 | 6 589 465 | (4 166 373) | 2 423 092 |
| **Total** | **25 804 563** | **(7 036 681)** | **18 767 882** | **19 589 036** | **(4 166 373)** | **15 422 663** |

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

| | Opening Balance | Additions | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|
| Land | 551 300 | - | - | - | 551 300 |
| Buildings | 9 255 137 | - | (322 313) | (282 545) | 8 650 279 |
| Plant and machinery | 346 686 | 56 409 | (21 846) | (36 110) | 345 139 |
| Furniture and fixtures | 730 140 | 42 313 | 3 645 | (79 765) | 696 333 |
| Motor vehicles | 1 082 344 | - | (108 961) | (130 382) | 843 001 |
| Office equipment | 1 033 964 | 8 310 | 8 927 | (162 279) | 888 922 |
| Infrastructure | 2 423 092 | 6 286 958 | (1 040 451) | (876 691) | 6 792 908 |
| | **15 422 663** | **6 393 990** | **(1 480 999)** | **(1 567 772)** | **18 767 882** |

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

| | Opening Balance | Additions | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|
| Land | - | - | 551 300 | - | 551 300 |
| Buildings | 7 638 471 | 1 661 123 | 260 819 | (305 276) | 9 255 137 |
| Plant and machinery | - | - | 346 686 | - | 346 686 |
| Furniture and fixtures | - | - | 730 140 | - | 730 140 |
| Motor vehicles | - | - | 1 082 344 | - | 1 082 344 |
| Office equipment | - | - | 1 033 964 | - | 1 033 964 |
| Infrastructure | 536 243 | 1 250 300 | 869 380 | (232 831) | 2 423 092 |
| Community | 2 198 317 | 1 655 298 | (3 755 938) | (97 677) | - |
| Other property, plant and equipment | 1 262 483 | 263 291 | (1 119 695) | (406 079) | - |
| | **11 635 514** | **4 830 012** | **(1 000)** | **(1 041 863)** | **15 422 663** |

### Revaluations

Land is stated at the values reflected in the valuation roll.

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|

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.

## 3. Intangible assets

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation | Carrying value | Cost / Valuation | Accumulated amortisation | Carrying value |
| Computer software, other | 61 421 | (59 272) | 2 149 | - | - | - |

**Reconciliation of intangible assets - 2009**

| | Opening Balance | Transfers | Total |
|---|---|---|---|
| Computer software, other | - | 2 149 | 2 149 |

## 4. Financial assets by category

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

## 5. Trade and other receivables

| | 2009 | 2008 |
|---|---|---|
| Other receivables | 715 620 | 417 285 |

## 6. Other receivables from non-exchange transactions, including taxes and transfers

| | 2009 | 2008 |
|---|---|---|
| VAT | 1 763 961 | 1 955 712 |

## 7. Consumer debtors

| | 2009 | 2008 |
|---|---|---|
| **Gross balances** | | |
| Rates | 476 842 | 448 285 |
| **Net balance** | | |
| Rates | 476 842 | 448 285 |
| **Rates** | | |
| Current (0 -30 days) | 476 842 | 448 285 |

## 8. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2009 | 2008 |
|---|---|---|
| Cash on hand | 3 400 | 2 400 |
| Bank balances | 781 739 | - |
| Short-term deposits | 2 628 193 | 8 487 303 |
| Bank overdraft | - | (2 214 002) |
| | **3 413 332** | **6 275 701** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|
| Current assets | 3 413 332 | 8 489 703 |
| Current liabilities | - | (2 214 002) |
| | **3 413 332** | **6 275 701** |

## 9. Revaluation reserve

Revaluation reserves are not distributable.

| | | |
|---|---|---|
| Opening balance | 140 701 | 140 701 |

## 10. Capital replacement reserve

| | | |
|---|---|---|
| Opening balance | 6 267 376 | 6 267 376 |
| Transfer to Government reserve | (6 267 376) | - |
| | **-** | **6 267 376** |

## 11. Capitalisation reserve

| | | |
|---|---|---|
| Opening balance | 3 708 472 | 3 708 472 |
| Transfer of capitalisation reserve to accumulated surplus | (3 708 472) | - |
| | **-** | **3 708 472** |

## 12. Government grant reserve

| | | |
|---|---|---|
| Opening balance | 1 035 435 | 1 035 435 |
| Transfer to Accumulated surplus | (1 035 435) | - |
| | **-** | **1 035 435** |

## 13. Donations and public contributions

| | | |
|---|---|---|
| Opening balance | 7 173 | 7 173 |
| Transfer to accumulated surplus | (7 173) | - |
| | **-** | **7 173** |

## 14. Provisions

**Reconciliation of provisions - 2009**

| | Opening Balance | Adjustments | Transferred to other creditors | Total |
|---|---|---|---|---|
| Audit fees | 200 000 | - | (200 000) | - |
| Leave pay | 416 147 | - | (416 147) | - |
| Bonus | 437 446 | - | (437 446) | - |
| | **1 053 593** | **-** | **(1 053 593)** | **-** |

**Reconciliation of provisions - 2008**

| | Opening Balance | Total |
|---|---|---|
| Audit fees | 200 000 | 200 000 |
| Leave pay | 416 147 | 416 147 |
| Bonus | 437 446 | 437 446 |
| | **1 053 593** | **1 053 593** |

The total provision represents management's best estimate of the municipality's liability.

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|

## 15. Trade and other payables

| | | |
|---|---|---|
| Trade payables | 264 340 | 335 627 |
| Other payables | 1 438 840 | 98 513 |
| Unspent grants | 5 055 655 | 9 012 450 |
| District Municipality | 7 221 | 163 204 |
| | **6 766 056** | **9 609 794** |

## 16. Property Rates

**Rates received**

| | | |
|---|---|---|
| Residential | 1 168 473 | 1 192 095 |

## 17. Government grants and subsidies

| | | |
|---|---|---|
| Government grants and subsidies | 12 478 872 | 13 679 633 |

## 18. Employee related costs

| | | |
|---|---|---|
| Basic | 10 489 219 | 7 345 274 |
| Bonus | 22 474 | 62 400 |
| Contributions to UIF, pensions and medical aids | 1 365 348 | 960 352 |
| Overtime payments | - | 57 969 |
| Other employee costs | 52 864 | 60 278 |
| | **11 929 905** | **8 486 273** |

**Remuneration of municipal manager**

| | | |
|---|---|---|
| Annual Remuneration | 288 000 | 288 000 |
| Car Allowance | 36 000 | 36 000 |
| Performance Bonuses | - | 38 400 |
| Contributions to UIF, Medical and Pension Funds | 76 410 | 98 162 |
| Other | 288 417 | 187 517 |
| | **688 827** | **648 079** |

**Remuneration of chief finance officer**

| | | |
|---|---|---|
| Annual Remuneration | 200 000 | 142 100 |
| Car Allowance | 40 000 | 42 000 |
| Performance Bonuses | 9 584 | 24 000 |
| Contributions to UIF, Medical and Pension Funds | 53 206 | 816 |
| Other | 59 512 | 114 179 |
| | **362 302** | **323 095** |

**Corporate and human resources (corporate services)**

| | | |
|---|---|---|
| Annual Remuneration | 243 600 | 243 600 |
| Car Allowance | 96 000 | 126 000 |
| Contributions to UIF, Medical and Pension Funds | 28 276 | 37 371 |
| Other | 165 912 | 124 143 |
| | **533 788** | **531 114** |

**Technical Services**

# Notes to the Annual Financial Statements

| Figures in Rand | 2009 | 2008 |
|---|---|---|
| Annual Remuneration | 243 600 | 243 600 |
| Car Allowance | 96 000 | 72 000 |
| Contributions to UIF, Medical and Pension Funds | 4 647 | 1 440 |
| Other | 189 660 | 174 519 |
| | **533 907** | **491 559** |
| **Community Services** | | |
| Annual Remuneration | 243 600 | 239 865 |
| Car Allowance | 72 000 | 70 896 |
| Contributions to UIF, Medical and Pension Funds | 28 132 | 1 440 |
| Other | 189 909 | 151 037 |
| | **533 641** | **463 238** |

## 19. Remuneration of councilors

| | | |
|---|---|---|
| Mayor | - | 431 626 |
| Deputy Mayor | - | 365 195 |
| Councilors | 2 891 166 | 2 092 684 |
| | **2 891 166** | **2 889 505** |

## 20. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 2 917 296 | 1 041 864 |
| Intangible assets | 12 284 | - |
| | **2 929 580** | **1 041 864** |

## 21. Interest earned

| | | |
|---|---|---|
| Transferred to reserves and unspent grants | - | 1 441 741 |

## 22. Cash (used in) generated from operations

| | | |
|---|---|---|
| Loss before taxation | (8 417 721) | (6 023 171) |
| **Adjustments for:** | | |
| Depreciation and amortisation | 2 929 580 | 1 041 864 |
| Interest received | (445 755) | (1 456 127) |
| Prior year adjustments | 9 935 381 | - |
| Investment income allocated to reserves | - | 525 987 |
| Expenditure charged to provisions and reserves | - | 143 382 |
| **Changes in working capital:** | | |
| Trade and other receivables | (2 843 738) | (105 427) |
| Consumer debtors | (59 023) | (141 350) |
| Trade and other payables | (1 351 394) | 465 818 |
| VAT | (191 751) | (812 796) |
| | **3 096 239** | **6 361 820** |

Appendix A: Schedule of external loans

# APPENDIX A

**GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2009**

| | Loan Number | Redeemable | Balance at June 30, 2008<br>Rand | Received during the period<br>Rand | Redeemed written off during the period<br>Rand | Balance at June 30, 2009<br>Rand | Carrying Value of Property, Plant & Equip<br>Rand | Other Costs in accordance with the MFMA<br>Rand |
|---|---|---|---|---|---|---|---|---|
| **LONG-TERM LOANS** | | | | | | | | |
| NONE | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | **-** | **-** | **-** | **-** | **-** | **-** |
| **STRUCTURED LOANS** | | | | | | | | |
| NONE | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |
| | | | - | - | - | - | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** |
| **FUNDING FACILITY** | | | | | | |
| NONE | - | - | - | - | - | - |
| | **-** | **-** | **-** | **-** | **-** | **-** |

# APPENDIX A

**GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2009**

| | Loan Number | Redeemable | Balance at June 30, 2008 | Received during the period | Redeemed written off during the period | Balance at June 30, 2009 | Carrying Value of Property, Plant & Equip | Other Costs in accordance with the MFMA |
|---|---|---|---|---|---|---|---|---|
| | Rand | Rand | Rand | Rand | Rand | Rand | Rand | Rand |
| | | | **-** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL EXTERNAL LOANS** | | | | | | | | |
| LONG-TERM LOANS | | | - | - | - | - | - | - |
| STRUCTURED LOANS | | | - | - | - | - | - | - |
| FUNDING FACILITY | | | - | - | - | - | - | - |
| | | | **-** | **-** | **-** | **-** | **-** | **-** |