



Matjhabeng Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipal Services
Registered office	Civic Centre Welkom 9460
Postal address	PO Box 708 Welkom 9460
Bankers	ABSA Bank Limited Welkom
Auditors	Auditor General

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

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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)

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Accounting Officer's Responsibilities and Approval

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 South African Statements 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 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.

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

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 ___ to ___, 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:

G. Ramathebane
Municipal Manager



Report of the Auditor General

To the Provincial Legislature of Matjhabeng Local Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Matjhabeng Local Municipality which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 5 to 84.

Auditor General

Matjhabeng Local Municipality

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Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

Net surplus of the municipality was 46,217,675 (2010: surplus 124,162,929).

2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

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

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officer of the municipality during the year was T.H.E Pietersen. The accounting officer at the date of this report is as follows:

Name

G. Ramathebane

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Council

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

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Chair person and chief executive

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Accounting Officer's Report

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The upper limits of the remuneration of the Chief Executive Officer, and the Chief Financial Officer, who are the only two executive directors of the municipality, are determined by SALGA and the accounting officer will determine the remuneration within the above mentioned limits.

Audit and risk committee

The Audit and Risk committee was not active for the year.

Internal audit

The municipality has an internal audit function.

7. Bankers

ABSA Bank Limited

8. Auditors

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

9. Non compliance with applicable legislation

Non compliance with applicable legislation are disclosed in notes to the financial statements.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	3	7,790,696	7,066,112
Other financial assets	4	16,213,122	15,146,664
Trade and other receivables	5	12,266,486	11,547,193
Consumer debtors	6	103,804,445	141,026,708
Cash and cash equivalents	7	35,279,286	22,575,614
		175,354,035	197,362,291
Non-Current Assets			
Property, plant and equipment	8	1,108,970,390	876,346,011
Other financial assets	4	291,453	252,610
Consumer debtors	9	457,563	-
		1,109,719,406	876,598,621
Total Assets		1,285,073,441	1,073,960,912
Liabilities			
Current Liabilities			
Other financial liabilities	12	19,841,247	23,483,733
Finance lease obligation	13	4,800,585	3,110,016
Trade and other payables	14	618,889,204	406,545,255
VAT payable	15	3,258,593	19,677,905
Consumer deposits	16	26,995,233	25,706,018
Unspent conditional grants and receipts	17	45,477,647	78,266,173
		719,262,509	556,789,100
Non-Current Liabilities			
Other financial liabilities	12	1,770,266	3,302,773
Finance lease obligation	13	7,045,315	11,468,030
Provisions	18	27,290,314	18,913,648
		36,105,895	33,684,451
Total Liabilities		755,368,404	590,473,551
Net Assets		529,705,037	483,487,361
Net Assets			
Accumulated surplus		529,705,037	483,487,361

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Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	22	200,361,727	181,926,366
Service charges	23	657,988,460	587,382,889
Rental of facilities and equipment		10,084,902	12,479,800
Interest received (trading)		56,716,174	39,665,414
Fines		2,286,768	2,903,537
Licences and permits		7,676	9,573
Government grants & subsidies	24	557,221,981	420,950,546
Agency fee income		6,944,801	7,310,860
Commissions received	25	543,139	505,606
Other income	25	23,383,982	17,185,334
Interest received - investment	26	5,534,413	3,160,465
Dividends received	26	8,671	55,137
Total Revenue		1,521,082,694	1,273,535,527
Expenditure			
Personnel	27	(391,344,303)	(325,649,546)
Remuneration of councillors	28	(19,143,657)	(18,242,286)
Depreciation and amortisation	29	(36,081,641)	(28,890,271)
Impairment loss/ Reversal of impairments	30	(372,188,325)	(208,760,412)
Finance costs	31	(45,020,347)	(24,594,634)
Repairs and maintenance		(30,731,627)	(27,012,512)
Bulk purchases	32	(436,037,979)	(362,454,672)
Contracted services	33	(2,726,742)	(2,558,411)
General Expenses	34	(154,304,042)	(151,209,854)
Total Expenditure		(1,487,578,663)	(1,149,372,598)
Fair value adjustments		12,713,644	-
Surplus for the year		46,217,675	124,162,929

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	145,437,459	145,437,459
Changes in net assets		
Correction of balances as at 1 July 2009	101,295,312	101,295,312
Restatement of opening retained income 01 July 2008	97,582,640	97,582,640
Restatement of 2009 profit	(16,245,902)	(16,245,902)
Restatement of assessment rates	(10,101,994)	(10,101,994)
Restatement in 2011 of opening retained income 01 July 2010	41,356,917	41,356,917
Net income (losses) recognised directly in net assets	213,886,973	213,886,973
Surplus for the year	124,162,929	124,162,929
Total recognised income and expenses for the year	338,049,902	338,049,902
Total changes	338,049,902	338,049,902
Balance at 01 July 2010 as restated	438,342,461	438,342,461
Changes in net assets		
Restatement of opening retained income 01 July 2010	41,356,917	41,356,917
Restatement of 2010 profit	3,787,984	3,787,984
Net income (losses) recognised directly in net assets	45,144,901	45,144,901
Surplus for the year	46,217,675	46,217,675
Total recognised income and expenses for the year	91,362,576	91,362,576
Total changes	91,362,576	91,362,576
Balance at 30 June 2011	529,705,037	529,705,037

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Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Cash receipts from customers		1,147,897,380	1,074,428,214
Interest income		5,534,413	3,160,465
Dividends received		8,671	55,137
		<u>1,153,440,464</u>	<u>1,077,643,816</u>
Payments			
Cash paid to suppliers and employees		(838,559,514)	(877,070,609)
Finance costs		(33,875,413)	(16,455,632)
		<u>(872,434,927)</u>	<u>(893,526,241)</u>
Net cash flows from operating activities	35	<u>281,005,537</u>	<u>184,117,575</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(334,762,685)	(218,741,616)
Net movement in financial assets		(1,105,301)	(1,393,997)
Transfer of work in progress to Infrastructure		65,527,885	72,581,114
		<u>(270,340,101)</u>	<u>(147,554,499)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		7,538,651	(34,015,748)
Finance lease payments		(5,500,414)	(5,017,303)
		<u>2,038,237</u>	<u>(39,033,051)</u>
Net increase/(decrease) in cash and cash equivalents		12,703,673	(2,469,975)
Cash and cash equivalents at the beginning of the year		22,575,614	25,045,589
Cash and cash equivalents at the end of the year	7	<u>35,279,287</u>	<u>22,575,614</u>

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Accounting Policies

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 as listed below:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 Accounting policies, changes in accounting estimates and errors
GRAP 5 Borrowing Cost
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Interests in joint ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial reporting in hyperinflationary economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Property
GRAP 17 Property, Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-current Assets Held for Sale and Discontinued Operations
GRAP 102 Intangible Assets
IFRS 3 Business combinations
IFRS 4 Insurance contracts
IFRS 6 Exploration for and evaluation of mineral resources
IFRS 7 Financial instruments: Disclosures
IAS 12 Income taxes
IAS 19 Employee Benefits
IAS 32 Financial Instruments: Presentation
IAS 39 Financial Instruments: Recognition and measurement
IAS 36 Impairment of assets
IPSAS 20 Related Parties
IPSAS 21 Impairment non-cash generating assets
GAMAP 9.29 - .35 & .39 - .54 Revenue
IGRAP 1 Applying the probability test on initial recognition of exchange revenue
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4 Determining whether an Arrangement contains a Lease
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
SIC 21 Income Taxes – Recovery of Re-valued Non-Depreciable Assets
SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 29 Disclosure – Service Concession Arrangements
Directive 1 Repeal of Existing Transitional Provisions in, and Consequential Amendments to, Standards of GRAP
Directive 2 Transitional Provisions for the Adoption of Standards of GRAP by Public Entities, Municipal Entities and Constitutional Institutions
Directive 3 Transitional Provisions for the Adoption of Standards of GRAP by High Capacity Municipalities
Directive 4 Transitional Provisions for the Adoption of Standards of GRAP by Medium and Low Capacity Municipalities
Directive 5 Determining the GRAP Reporting Framework
Directive 7 The application of deemed cost on the adoption of Standards of Grap
ASB guide 1 Guideline on Accounting for Public Private Partnerships

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.

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Accounting Policies

These accounting policies are consistent with the previous period.

1.1 Relevant Legislation

Legislation:

The following legislation refers to the relevant legislation governing the municipality's operations:

- The Constitution of the Republic of South Africa;
- The Municipal Structures Act 117 of 1998;
- The Municipal Systems Act 32 of 2000;
- The Municipal Finance Management Act 56 of 2003;
- The Municipal Property Rates Act 6 of 2004,
- The Basic Conditions of the Employment Act 75 of 1997;
- The Value Added Tax Act 89 of 1991;
- The Skills Development Act 9 of 1999;
- The Water Service Act 108 of 1997;
- The Housing Act of 1997;
- The Promotion of Access to Information Act 2 of 2000; and
- The Disaster Management Act 57 of 2000

1.2 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:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Provisions

Provisions were raised for the future rehabilitation costs of landfill sites and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the medical aid obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical aid liability.

Other key assumptions for medical aid obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

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.

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.

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

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

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

Item	Average useful life
Land	
• Depreciation not applicable	Indefinite life
Infrastructure	
• Electricity	20 - 30 Years
• Pedestrian Malls	20 - 30 Years
• Roads and Pedestrian Malls	15 - 30 Years
• Sewerage	15 - 30 Years
• Water	15 - 20 Years
Community	
• Airports	20 Years
• Recreational Facilities	20 - 30 Years
• Buildings	30 Years
• Security	3 - 5 Years
Other property, plant and equipment	
• Bins and Containers	5 - 10 Years
• Motor Vehicles	3 - 7 Years
• Furniture and Fittings	7 - 10 Years
• Specialist Vehicles	10 - 15 Years
• Office Equipment	3 - 7 Years
• IT Equipment	15 Years
• Other Equipment	2 - 5 Years
• Specialised equipment	10 - 15 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.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

1.4 Financial instruments

Classification

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

- Held-to-maturity investments
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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.

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

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Held-to-maturity investments 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.

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

Impairment of financial assets

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.4 Financial instruments (continued)

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.

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 are considered indicators that the trade receivable is impaired. The allowance/provision 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 a provision/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 provision/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

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.4 Financial instruments (continued)

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.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment'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 investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
 - has transferred substantially all the risks and rewards of the asset, or
 - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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1.4 Financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 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.

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

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.

Operating leases - lessee

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1.5 Leases (continued)

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

1.6 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.

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.

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 is assigned using the weighted average cost 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.

1.7 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.

Identification

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

Recognition and measurement (individual asset)

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.

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1.7 Impairment of cash-generating assets (continued)

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

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 municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

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, the municipality 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.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

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.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

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.

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Accounting Policies

1.7 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The 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, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-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.

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

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.

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Accounting Policies

1.8 Impairment of non-cash-generating assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's 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.

Recognition and measurement

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.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The 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, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 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.

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1.9 Employee benefits (continued)

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.

These plans include the municipality's pension, provident and annuity funds.

Defined benefit plans

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

Actuarial valuations are conducted at intervals not exceeding three years 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.

These plans include the municipality's medical aid funds (post-retirement health care benefits).

1.10 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.

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.

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1.10 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.11 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.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense the probability test on initial recognition of exchange revenue; it should not be applied by analogy to other types of transactions.

Sale of goods

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

- the municipality has transferred to the purchaser 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 or service potential 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.

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Accounting Policies

1.11 Revenue from exchange transactions (continued)

Rendering of services

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 reporting 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 or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting 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 is 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 the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends 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.

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

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

1.12 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.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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.

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

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1.12 Revenue from non-exchange transactions (continued)

- 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.

Other grants and donations

Other grants and donations 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.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.13 Turnover

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

1.14 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.16 Comparative figures

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

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1.17 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.

1.18 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.

1.19 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.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.20 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.21 Presentation of currency

These annual financial statements are presented in South African Rand.

1.22 Offsetting

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

1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.24 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.

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

Comparative information is not required.

1.26 Consumer Deposits

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2011 annual financial statements.

The impact of the interpretation is not material.

2.2 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 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.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the 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;

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- 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.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the 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.

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

The municipality is unable to reliably estimate the impact of the standard on the 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).

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality is unable to reliably estimate the impact of the standard on the 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;
- 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:

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- 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.

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 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

The impact of this standard is currently being assessed.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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. An 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.

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.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 2012.

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

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 3: Determining Whether an Arrangement Contains a Lease

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

The issues addressed in this Interpretation of the Standards of GRAP are:

- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

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

The municipality expects to adopt the interpretation 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.

IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

The issues addressed in this Interpretation of the Standards of GRAP are:

- When refunds or reductions in future contributions should be regarded as available in accordance with paragraph .68 of the Standard of GRAP on Employee Benefits.
- How a minimum funding requirement might affect the availability of reductions in future contributions

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

The effective date of the interpretation is for years beginning on or after 01 April 2013.

The municipality expects to adopt the interpretation for the first time in the 2014 annual financial statements.

The impact of this amendment is currently being assessed.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

This Interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by entities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:

- Is the agreement within the scope of the Standard of GRAP on Construction Contracts (as revised in 2010) or the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010)?
- When should revenue from the construction of assets in exchange transactions be recognised?

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

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

The impact of this amendment is currently being assessed.

IGRAP 13: Operating Leases – Incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

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

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

The impact of this amendment is currently being assessed.

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;
- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
 - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
 - how the entity should account for other obligations resulting from the arrangement; and
 - how the entity should account for a fee it might receive from an investor.

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

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the interpretation 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.

GRAP 1 (as revised 2010): Presentation of Financial Statements

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

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

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

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

Operating cash flows:

- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:

- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

Acquisitions and disposals of controlled entities and other operating units:

- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

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

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

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors

The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies

- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Selection of accounting policies

- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

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

The municipality expects to adopt the amendment 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.

GRAP 9 (as revised 2010): Revenue from Exchange Transactions

The revision resulted in various terminology and definition changes.

Dividends or similar distributions declared from pre-acquisition surpluses:
Paragraph .36 has been amended to encompass not only securities, but any contributed capital.

Various amendments, deletions and additions to examples included in the appendix.

All amendments to be applied retrospectively

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

The municipality expects to adopt the amendment 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.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

Cost formulas:

Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:

Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

Fair value measurement:

The appendix on how to determine fair value has been deleted.

All amendments to be applied retrospectively

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

The municipality expects to adopt the amendment 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.

GRAP 13 (as revised 2010): Leases

The revision resulted in various terminology and definition changes.

Scope:

Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Non-current Assets Held for Sale and Discontinued Operations:

Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:

The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:

The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:

The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

All amendments to be applied retrospectively

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

The municipality expects to adopt the amendment 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.

GRAP 14 (as revised 2010): Events After the Reporting Date

Existence of a liability for dividends or similar distributions:

Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

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

The municipality expects to adopt the amendment 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.

GRAP 16 (as revised 2010): Investment Property

The revision resulted in various terminology and definition changes.

Recognition of investment property:

- Additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 that outlines the recognition criteria for investment property.
- This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted.
- The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably.
- Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:

Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Amendments to be applied as follow:

- Paragraphs .10(e), .54, .59, .62 and .65 were amended, paragraphs .60 and .61 were added and paragraph .25 and .11 (d) of the original text (2004) was deleted by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph .05 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

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

The impact of this amendment is currently being assessed.

GRAP 17 (as revised 2010): Property, Plant and Equipment

The revision resulted in various terminology and definition changes.

Scope:

- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:

Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Depreciable amount and depreciation period:

An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Derecognition:

- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:

- The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

Amendments to be applied as follow:

- Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

The municipality expects to adopt the amendment 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.

GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets

The revision resulted in certain terminology changes.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Social benefits:

Paragraphs .08 and .16(a) clarify that social benefits due at year end are 'payables', as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:

Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:

In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board's decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs .37 to .43, .74 to .80, and Appendix F of the previous version of GRAP 19, have been deleted.

All amendments to be applied retrospectively.

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

The municipality expects to adopt the amendment 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.

GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations

The revision resulted in various terminology and definition changes.

Scope:

Paragraph .07 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:

- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.
- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled entity is a disposal group that meets the definition of a discontinued operation.

Examples included in Appendix:

An additional example has been included regarding sale expected to be completed within one year.

Amendments to be applied as follow:

Paragraphs .13 and .42 were added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply the amendments earlier, it shall disclose this fact.

- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

The municipality expects to adopt the amendment 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.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
3. Inventories		
Consumables - at cost	2,149	2,149
Water - at cost	7,788,547	7,063,963
	<u>7,790,696</u>	<u>7,066,112</u>

Refer to note 32 for the water purchases expensed during the year.

4. Other financial assets

Available-for-sale

Unlisted shares	291,453	252,610
Shares in Senwes and Senwesbel		

Held to maturity

ABSA Fixed Deposit (2059359440) The maturity date of the investment is 2011/09/28 and interest is earned at a rate of 6.23% per annum.	472,707	443,580
ABSA Fixed Deposit (2059440982) The maturity date of the investment is 2012/04/30 and interest is earned at a rate of 6.15% per annum.	15,740,415	14,703,084
	<u>16,213,122</u>	<u>15,146,664</u>
Total other financial assets	<u>16,504,575</u>	<u>15,399,274</u>

Non-current assets

Available-for-sale	291,453	252,610
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Current assets

Held to maturity	16,213,122	15,146,664
	<u>16,504,575</u>	<u>15,399,274</u>

Fair values are determined annually at statement of financial position date.

Fair value information

Fair values are determined annually at statement of financial position date.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 2

Shares in Senwes and Senwesbel	291,453	252,610
ABSA Fixed Deposits	16,213,122	15,146,664
	<u>16,504,575</u>	<u>15,399,274</u>

Investments pledged as collateral

Limited cession over ABSA investment account: 20-5944-0982	10,000,000	10,000,000
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Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

4. Other financial assets (continued)

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

For debt securities classified as available-for-sale, the maximum exposure to credit risk at the reporting date is the fair value.

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

5. Trade and other receivables

Deposits	9,850	9,850
Health Subsidies	85,715	85,715
Other Receivables	12,170,921	11,451,628
	<u>12,266,486</u>	<u>11,547,193</u>

Included in other receivables are irregular expenditure incurred during the year which will be recovered. Refer to note 46

Included in other receivables are unspent conditional grants with favourable balances. Refer to note 24.

6. Consumer debtors

Gross balances

Rates	196,291,084	142,515,097
Electricity	83,906,938	69,098,581
Water	340,531,092	240,204,740
Sewerage	138,797,622	97,987,979
Refuse	97,063,978	67,258,663
Housing rental	697,359	630,269
Other (specify)	285,247,221	206,543,648
	<u>1,142,535,294</u>	<u>824,238,977</u>

Less: Provision for debt impairment

Rates	(174,967,192)	(115,999,983)
Electricity	(41,620,885)	(34,934,595)
Water	(323,444,791)	(203,484,767)
Sewerage	(129,767,270)	(79,391,910)
Refuse	(92,404,069)	(56,795,230)
Housing rental	(680,485)	(613,553)
Other (specify)	(275,846,157)	(191,992,231)
	<u>(1,038,730,849)</u>	<u>(683,212,269)</u>

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
6. Consumer debtors (continued)		
Net balance		
Rates	21,323,892	26,515,114
Electricity	42,286,053	34,163,986
Water	17,086,301	36,719,973
Sewerage	9,030,352	18,596,069
Refuse	4,659,909	10,463,433
Housing rental	16,874	16,716
Other (specify)	9,401,064	14,551,417
	103,804,445	141,026,708
Rates		
Current (0 -30 days)	10,493,636	13,857,769
31 - 60 days	3,802,902	6,577,956
61 - 90 days	2,796,358	5,855,359
91 - 120 days	4,230,996	224,030
	21,323,892	26,515,114
Electricity		
Current (0 -30 days)	29,402,868	23,223,970
31 - 60 days	6,669,877	6,376,193
61 - 90 days	3,134,329	3,347,609
91 - 120 days	3,078,979	1,216,214
	42,286,053	34,163,986
Water		
Current (0 -30 days)	7,383,334	15,260,989
31 - 60 days	3,332,054	9,748,327
61 - 90 days	2,542,747	8,012,115
91 - 120 days	3,828,166	3,698,542
	17,086,301	36,719,973
Sewerage		
Current (0 -30 days)	4,452,241	8,438,825
31 - 60 days	2,033,224	4,676,591
61 - 90 days	1,071,879	3,825,101
91 - 120 days	1,473,008	1,655,552
	9,030,352	18,596,069
Refuse		
Current (0 -30 days)	2,349,883	4,655,848
31 - 60 days	861,552	2,816,073
61 - 90 days	544,223	2,637,558
91 - 120 days	904,251	353,954
	4,659,909	10,463,433
Housing rental		
Current (0 -30 days)	5,671	5,624
31 - 60 days	5,625	5,572
61 - 90 days	5,578	5,520
	16,874	16,716

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
6. Consumer debtors (continued)		
Other		
Current (0 -30 days)	3,044,635	5,864,297
31 - 60 days	2,055,513	4,401,501
61 - 90 days	1,948,252	3,710,284
91 - 120 days	2,352,664	575,335
	9,401,064	14,551,417

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
6. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	50,885,754	53,971,268
31 - 60 days	36,354,560	30,202,788
61 - 90 days	37,367,990	25,561,816
91 - 120 days	822,439,613	563,935,441
	<u>947,047,917</u>	<u>673,671,313</u>
Less: Provision for debt impairment	(892,046,492)	(579,555,237)
	<u>55,001,425</u>	<u>94,116,076</u>
Industrial/ commercial		
Current (0 -30 days)	32,273,285	22,342,850
31 - 60 days	10,807,082	8,317,920
61 - 90 days	8,152,395	5,715,289
91 - 120 days	133,275,578	101,247,957
	<u>184,508,340</u>	<u>137,624,016</u>
Less: Provision for debt impairment	(139,700,798)	(102,697,298)
	<u>44,807,542</u>	<u>34,926,718</u>
National and provincial government		
Current (0 -30 days)	2,429,351	2,109,637
31 - 60 days	1,367,166	1,742,904
61 - 90 days	324,946	913,388
91 - 120 days	6,857,573	8,177,721
	<u>10,979,036</u>	<u>12,943,650</u>
Less: Provision for debt impairment	(6,983,557)	(959,734)
	<u>3,995,479</u>	<u>11,983,916</u>
Total		
Current (0 -30 days)	85,588,390	78,423,755
31 - 60 days	48,528,808	40,263,611
61 - 90 days	45,845,331	32,190,493
91 - 120 days	981,994,420	679,774,913
Less: Arrear accounts reflected as non current consumers	(19,421,656)	(6,413,795)
	<u>1,142,535,293</u>	<u>824,238,977</u>
Less: Provision for debt impairment	(1,038,730,848)	(683,212,269)
	<u>103,804,445</u>	<u>141,026,708</u>
Less: Provision for debt impairment		
Current (0 -30 days)	(28,456,124)	(7,116,433)
31 - 60 days	(29,768,060)	(5,661,398)
61 - 90 days	(34,482,450)	(4,796,946)
91 - 120 days	(946,024,215)	(665,637,492)
	<u>(1,038,730,849)</u>	<u>(683,212,269)</u>
Reconciliation of debt impairment provision		
Balance at beginning of the year	(683,212,269)	(483,179,601)
Contributions to provision	(359,178,064)	(206,742,162)
Debt impairment written off against provision	3,659,484	6,709,494
	<u>(1,038,730,849)</u>	<u>(683,212,269)</u>

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

6. Consumer debtors (continued)

Credit quality of consumer debtors

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

None of the financial assets that are fully performing have been renegotiated in the last year.

Reconciliation of provision for impairment of consumer debtors

Opening balance	(683,212,269)	(483,179,601)
Provision for impairment	(359,178,064)	(206,742,162)
Amounts written off as uncollectible	3,659,484	6,709,494
	<u>(1,038,730,849)</u>	<u>(683,212,269)</u>

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 30). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	31,626	25,626
Bank balances	35,247,660	22,549,988
	<u>35,279,286</u>	<u>22,575,614</u>

The total amount of undrawn facilities available for future operating activities and commitments:

Overdraft facility	10,000,000	10,000,000
Housing Guarantees facility	200,000	200,000
ACB Debits facility	1,500,000	1,500,000
MTN SP Guarantees facility	20,000	20,000
Business card facility	-	19,000

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for ABSA overdraft facilities	900,000	900,000
Limited cession of R900,000 over ABSA call account: 50-6438-8780		

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand				2011			2010
7. Cash and cash equivalents (continued)							
The municipality had the following bank accounts							
Account number / description	Bank statement balances			Cash book balances			
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009	
ABSA (Welkom Branch) - Account Number 40 5370 5465 (Primary Bank Account)	14,748,544	640,720	19,783,712	15,950,357	3,492,553	16,389,249	
Outstanding cheques reallocated to trade and other payables	-	-	-	-	6,931,766	4,347,756	
Prior year error cut-off correction - July 2011 receipts reallocated to consumer debtors	-	-	-	-	(7,799,462)	-	
ABSA (Welkom Branch) - Account Number 40 5533 9852 (MVS Joint Account)	-	585	(6,595)	-	585	(6,595)	
ABSA (Welkom Branch) - Account Number 405 644 3399 (Market Account)	1,352,731	1,110,525	1,032,741	1,622,271	1,108,265	820,403	
FNB (Welkom Branch) - Account Number 542 3117 3409 (Collection Account)	389,545	273,461	230,299	389,545	273,311	230,000	
ABSA - Account Number 6054300806	904,048	883,572	855,358	904,048	883,572	855,358	
ABSA - Account Number 9094617107	426,879	426,879	103,325	427,348	427,932	103,325	
ABSA - Account Number 9106684115	6,046,088	13,769,477	77,302	6,113,223	13,832,085	77,302	
ABSA - Account Number 5064388780	900,000	900,000	900,000	900,000	900,000	900,000	
ABSA - Account Number 911141338	11,927	11,647	11,339	11,944	11,672	11,339	
ABSA - Account Number 9106684238	6,802,282	1,204,270	76,469	6,817,290	1,256,616	76,469	
ABSA - Account Number 9106538138	824,493	167	25,887	826,322	2,269	25,873	
ABSA - Account Number 9106684157	2,334	2,279	2,229	2,337	2,283	2,229	
ABSA - Account Number 9123515666	10,961	10,710	10,451	10,961	10,710	10,451	
ABSA - Account Number 6301667719	19,357	16,228	12,698	19,400	16,280	12,698	
ABSA - Account Number 6303885159	-	-	-	-	-	53	
ABSA - Account Number 6304159559	29	29	29	29	29	29	
ABSA - Account Number 9085913568	54,549	51,366	47,869	54,785	51,638	47,869	
ABSA - Account Number 9065014332	484,210	455,956	424,920	486,307	458,374	424,920	
ABSA - Account Number 9086656806	46,423	43,714	40,739	46,624	43,946	40,739	
FNB - Account Number 61404001177	4,936	4,887	4,839	4,936	4,887	4,839	
FNB - Account Number 62003503019	659,933	640,677	614,893	659,933	640,677	614,893	
Total	33,689,269	20,447,149	24,248,504	35,247,660	22,549,988	24,989,199	

Matjhabeng 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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7. Cash and cash equivalents (continued)

Bank accounts without a balance at year end is:
ABSA - Account Number 6304284885
ABSA - Account Number 6303885159

Matjhabeng 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						
	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	242,942,935	-	242,942,935	242,942,935	-	242,942,935
Infrastructure	895,909,136	(625,725,746)	270,183,390	826,380,948	(603,930,794)	222,450,154
Furniture and fixtures	11,099,611	(10,369,982)	729,629	10,730,141	(9,291,407)	1,438,734
Motor vehicles	89,892,150	(55,618,237)	34,273,913	70,687,983	(50,918,718)	19,769,265
Office equipment	21,319,507	(14,101,343)	7,218,164	20,592,951	(10,349,300)	10,243,651
IT equipment	6,337,873	(3,139,417)	3,198,456	5,261,023	(2,761,303)	2,499,720
Other Equipment	12,403,815	(6,710,559)	5,693,256	10,671,902	(4,568,213)	6,103,689
Bins and containers	117,098	(116,626)	472	117,098	(105,288)	11,810
Specialised Vehicles	65,865,117	(6,763,379)	59,101,738	13,360,637	(4,538,626)	8,822,011
Capital work in progress	485,628,437	-	485,628,437	362,064,042	-	362,064,042
Total	1,831,515,679	(722,545,289)	1,108,970,390	1,562,809,660	(686,463,649)	876,346,011

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Transfer to Infrastructure	Total
Land	242,942,935	-	-	-	-	242,942,935
Furniture and fixtures	1,438,734	369,470	-	(1,078,575)	-	729,629
Motor vehicles	19,769,265	19,204,167	-	(4,699,519)	-	34,273,913
Office equipment	10,243,651	726,556	-	(3,752,043)	-	7,218,164
IT equipment	2,499,720	1,076,850	-	(378,114)	-	3,198,456
Infrastructure	222,450,154	69,528,189	-	(21,794,953)	-	270,183,390
Other Equipment	6,103,689	1,731,913	-	(2,142,346)	-	5,693,256
Bins and containers	11,810	-	-	(11,338)	-	472
Capital work in progress	362,064,042	189,621,060	(528,780)	-	(65,527,885)	485,628,437
Specialised vehicles	8,822,011	52,504,480	-	(2,224,753)	-	59,101,738
	876,346,011	334,762,685	(528,780)	(36,081,641)	(65,527,885)	1,108,970,390

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Transfer to Infrastructure	Total
Land	242,942,935	-	-	-	242,942,935
Furniture and fixtures	2,088,597	400,615	(1,050,478)	-	1,438,734
Motor vehicles	11,338,944	11,342,812	(2,912,491)	-	19,769,265
Office equipment	13,677,071	208,728	(3,642,148)	-	10,243,651
IT equipment	2,428,886	409,483	(338,649)	-	2,499,720
Infrastructure	167,886,246	73,060,063	(18,496,155)	-	222,450,154
Other Equipment	3,101,265	4,779,923	(1,777,499)	-	6,103,689
Bins and containers	23,329	-	(11,519)	-	11,810
Capital work in progress	306,105,168	128,539,992	-	(72,581,118)	362,064,042
Specialised Vehicles	9,483,342	-	(661,331)	-	8,822,011
	759,075,783	218,741,616	(28,890,270)	(72,581,118)	876,346,011

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.

Investment property that the Municipality controls are included under Property, plant and equipment and are not separately disclosed. It is expected that the valuations of investment property will be completed by 30 June 2012.

Matjhabeng 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)		
Assets subject to finance lease (Net carrying amount)		
Office equipment	6,734,097	9,886,443
9. Consumer debtors		
Consumer debtors with arrangements that is not payable within the next financial year.		
Non-current consumer debtors		
Arrangements - Gross Balances	19,879,219	6,413,795
Less: Provision for doubtful debt	(19,421,656)	(6,413,795)
	457,563	-

10. 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	Available-for-sale	Total
Other financial assets	-	16,213,122	291,453	16,504,575
Trade and other receivables	12,266,486	-	-	12,266,486
Cash and cash equivalents	-	-	35,279,286	35,279,286
Consumer debtors (Current)	103,804,447	-	-	103,804,447
Consumer debtors (Non-current)	457,563	-	-	457,563
	116,528,496	16,213,122	35,570,739	168,312,357

2010

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets	-	15,146,664	252,610	15,399,274
Trade and other receivables	11,547,193	-	-	11,547,193
Cash and cash equivalents	-	-	22,575,614	22,575,614
Consumer debtors (Current)	141,026,708	-	-	141,026,708
	152,573,901	15,146,664	22,828,224	190,548,789

11. VAT receivable

VAT is payable to SARS on the receipts basis. Only when payment is received from debtors is output VAT paid to the South African Revenue Services.

Only when payment is made to creditors, input VAT is claimed from the South African Revenue Services.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Other financial liabilities		
Held at amortised cost		
PIC Loan	-	817,945
Refer to Appendix A for detail		
DBSA Consolidated Loan	18,240,715	19,922,458
Refer to Appendix A for detail		
ABSA Loan	-	(1,203,022)
Refer to Appendix A for detail		
INCA Loans	79,805	(187,123)
Refer to Appendix A for detail		
FBC (INCA) Loan	-	786,357
Refer to Appendix A for detail		
DBSA 02131/102	-	994,171
Refer to Appendix A for detail		
DBSA 08110/102	3,290,993	5,655,720
Refer to Appendix A for detail		
	21,611,513	26,786,506
Non-current liabilities		
At amortised cost	1,770,266	3,302,773
Current liabilities		
At amortised cost	19,841,247	23,483,733
	21,611,513	26,786,506
The Municipality defaulted on the redemption terms of the following loans:		
PIC Loan	-	817,945
DBSA Consolidated Loan	18,240,715	19,922,460
ABSA Loan	-	(1,203,022)
INCA Loan	79,805	(187,123)
FBC (INCA) Loan	-	786,357
	18,320,520	20,136,617
The Municipality renegotiated the terms of the following loans:		
DBSA Consolidated Loan	18,240,715	-
PIC Loan	-	817,945
INCA Loan	-	(187,123)
FBC (INCA) Loan	-	786,357
	18,240,715	1,417,179

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
13. Finance lease obligation		
Minimum lease payments due		
- within one year	6,767,772	5,768,559
- in second to fifth year inclusive	7,998,919	14,352,923
	<u>14,766,691</u>	<u>20,121,482</u>
less: future finance charges	(2,920,791)	(5,543,435)
Present value of minimum lease payments	<u>11,845,900</u>	<u>14,578,047</u>
Present value of minimum lease payments due		
- within one year	4,800,585	3,110,016
- in second to fifth year inclusive	7,045,315	11,468,030
	<u>11,845,900</u>	<u>14,578,046</u>
Non-current liabilities	7,045,315	11,468,030
Current liabilities	4,800,585	3,110,016
	<u>11,845,900</u>	<u>14,578,046</u>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 17% (2010: 19%).

Interest rates are linked to prime at the contract date. Most of the leases escalate at 10% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

14. Trade and other payables

Trade payables	534,064,911	313,269,880
Payments received in advance	23,671,770	27,417,602
Accrued leave pay	42,704,948	37,406,362
Accrued bonus	7,090,385	7,268,852
Straightlining of operating leases	(81,459)	(61,493)
Deposits received	45,055	35,827
Other payables	11,393,594	21,208,225
	<u>618,889,204</u>	<u>406,545,255</u>

15. VAT payable

Tax refunds payables	<u>3,258,593</u>	<u>19,677,905</u>
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VAT is payable to SARS on the receipts basis. Only when payment is received from debtors is output VAT paid to the South African Revenue Services.

Only when payment is made to creditors, input VAT is claimed from the South African Revenue Services.

16. Consumer deposits

Water and electricity	<u>26,995,233</u>	<u>25,706,018</u>
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Guarantees

Guarantees held in lieu of Electricity and Water Deposits	<u>4,820,182</u>	<u>4,200,256</u>
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Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
17. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	38,064,622	70,116,561
Parks Lotto	71,587	71,587
Provincial Clinic Repairs Grant	-	361,843
Municipal Systems Improvement Grant	1,423,960	1,691,256
LED Grant	88,400	555,940
Department of Mineral and Energy Affairs	-	460,507
Municipal Infrastructure Grant - PMU	3,289,567	3,289,567
Department of Water and Environmental Affairs	-	131,495
Operation Hlasela - Bopa Lesedi Development	1,417,417	1,587,417
South African Youth Council	163,134	-
Neighbourhood Develop Grant	458,960	-
Integrated National Electrification Programme	500,000	-
	45,477,647	78,266,173
Movement during the year		
Balance at the beginning of the year	78,266,173	46,426,864
Receipts during the year	164,237,338	161,423,267
Income recognition during the year	(197,025,864)	(129,583,958)
	45,477,647	78,266,173

See note 24 for reconciliation of grants from National/Provincial Government.

Matjhabeng 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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18. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	18,913,648	8,376,666	27,290,314

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Environmental rehabilitation	14,132,644	4,781,004	18,913,648

Matjhabeng 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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18. Provisions (continued)

The provision is based on the rehabilitation of 5 landfill sites (Allanridge; Odendaalsrus; Welkom; Hennenman; Meloding).

These landfill sites represents a total of 181.80 hectare of land as measured by the Manager of Spatial Planning.

Rehabilitation is assumed to occur within 57 years as per the latest estimation calculation that was performed of the useful lives of the sites.

The cost estimates of the rehabilitation was determined by an Independent third party, Khabokedi Waste Management CC.

The main component of the rehabilitation costs consists of the rehabilitation of the soil.

The rehabilitation cost of the soil is calculated as R320/m³ (The layout of the soil should be = ±0.25 square meter). These costs may vary depending on area where red soil is purchased and the type of red soil (i.e. loose soil).

Other costs involved in the rehabilitation are as follows:

Plant used in the rehabilitation (Cost price): R6,230,000.

The present value of the provision for rehabilitation depends on a number of factors that are determined on an annual basis using a number of assumptions. The assumptions used in determining the net present value include the discount rate. Any changes in these assumptions will impact the carrying amount of the provision for rehabilitation.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle future rehabilitation costs. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the expenses will be paid, and that have terms to maturity approximating the terms of the related rehabilitation liability.

The following assumptions were used in the present value calculation of the rehabilitation provision:

Inflation factor:

2009 Financial Year - Average of 10.21%

2010 Financial Year - Average of 5.5%

2011 Financial Year - Average of 3.86%

2012 until 2069 Financial Years - 10%

Discount factor:

2009 Financial Year:

Bond R153 maturing in 2010 (A bond maturing in 2010): 7.19%

Prime lending rate: 11%

Risk factor: 3.81%

Bond R157 maturing (latest year): 10.52%

Risk adjusted risk-free rate after applying risk factor above: 14.33%

2010 Financial Year:

Bond R154 maturing in 2011 (A bond maturing in 2011): 6.78%

Prime lending rate: 10%

Risk factor: 3.23%

Bond R157 maturing (latest year): 10.80%

Risk adjusted risk-free rate after applying risk factor above: 14.02%

2011 Financial Year:

Bond R155 maturing in 2012 (A bond maturing in 2012): 5.55%

Prime lending rate: 9%

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

18. Provisions (continued)

Risk factor: 3.45%

Bond R157 maturing (latest year): 10.10%

Risk adjusted risk-free rate after applying risk factor above: 13.55%

19. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Fair value	Total
Other financial liabilities: Current	21,611,513	-	21,611,513
Other financial liabilities: Non-current	-	-	-
Finance leases: Current	4,800,585	-	4,800,585
Finance leases: Non-current	7,045,315	-	7,045,315
Trade and other payables	-	631,602,849	631,602,849
	33,457,413	631,602,849	665,060,262

2010

	Financial liabilities at amortised cost	Fair value	Total
Other financial liabilities: Current	26,786,505	-	26,786,505
Finance leases: Current	3,110,016	-	3,110,016
Finance leases: Non-current	11,468,030	-	11,468,030
Trade and other payables	-	406,545,255	406,545,255
	41,364,551	406,545,255	447,909,806

20. Employee benefit obligations

Defined benefit plan

The defined benefit plan consists of a post retirement medical aid plan.

Post retirement medical aid plan

Various councillors and employees belong to various post-retirement healthcare benefits schemes. The liability of the schemes was not valued as at 30 June 2011 or in prior years. The municipality is in the process of appointing a service provider to perform the required valuations.

Defined contribution plan

All councillors and employees belong to defined retirement plans administered by various Pension, Provident and Annuity Funds. As these are multi-employer funds, sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). These amounts are accounted for as defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits.

The amount recognised as an expense for defined contribution plans is

	54,205,375	48,696,027
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Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
21. Revenue		
Property rates	200,361,727	181,926,366
Service charges	657,988,460	587,382,889
Rental of facilities & equipment	10,084,902	12,479,800
Interest received – trading	56,716,174	39,665,414
Fines	2,286,768	2,903,537
Licences and permits	7,676	9,573
Government grants & subsidies	557,221,981	420,950,546
Agency fees income	6,944,801	7,310,860
	1,491,612,489	1,252,628,985
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	657,988,460	587,382,889
Rental of facilities & equipment	10,084,902	12,479,800
Interest received – trading	56,716,174	39,665,414
Licences and permits	7,676	9,573
	724,797,212	639,537,676
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	200,361,727	181,926,366
Fines	2,286,768	2,903,537
Transfer revenue		
Government grants and subsidies	557,221,981	420,950,546
Agency fees income	6,944,801	7,310,860
	766,815,277	613,091,309
22. Property rates		
Rates received		
Residential	111,813,081	90,552,568
Commercial	71,876,976	77,357,430
State	16,012,092	13,488,572
Small holdings and farms	659,578	527,796
	200,361,727	181,926,366
Valuations		
Residential	422,297,737	344,210,379
Commercial	173,002,763	171,139,524
State	42,896,069	44,020,624
Small holdings and farms	4,009,000	4,009,000
Exempted	195,555,207	281,960,550
	837,760,776	845,340,077

Above valuations are based on the general valuation that came into effect during 1995. The new valuation roll was completed during the financial year and the new Property Rates Policy will be implemented on 1 July 2011.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
23. Service charges		
Sale of electricity	335,534,187	289,865,603
Sale of water	179,833,237	159,696,154
Sewerage and sanitation charges	88,274,232	85,481,550
Refuse removal	54,346,804	52,339,582
	657,988,460	587,382,889

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Government grants and subsidies		
Department of Water and Environmental Affairs	9,045,510	6,244,998
Equitable Share	358,899,663	284,476,086
Financial Management Grant	1,000,000	772,521
Department of Minerals and Energy Affairs	460,507	-
Neighbourhood Development - National Treasury	41,040	-
South African Youth Council	150,000	-
Provincial Clinics Repair & Maintenance	361,843	-
LED Grant	467,540	-
Lejweleputswa District Municipality	3,874,484	1,446,946
Lotto - Parks	-	498,119
SETA Grant	1,848,944	-
Municipal Systems Improvement Grant	1,017,296	778,744
Municipal Infrastructure Grant	166,801,170	76,803,443
Operating grant - MIG	2,354,769	3,125,775
Operation Hlasela - Bopa Lesedi Development	542,238	3,949,387
Operation Hlasela - Roads	10,308,467	37,992,067
Operation Hlasela - Roads (Clean-up of Kutlwanong Township)	48,510	362,460
Operation Hlasela - Upgrade Offices	-	500,000
Operation Hlasela - Housing	-	4,000,000
	557,221,981	420,950,546

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The grant is disbursed by National Treasury. The grant has not been withheld.

Financial Management Grant

Balance unspent at beginning of year	-	22,522
Current-year receipts	1,000,000	750,000
Conditions met - transferred to revenue	(1,000,000)	(772,522)
	-	-

The Financial Management Grant is to assist the Municipality to implement the financial reforms that are contained in the Municipal Finance Management Act. The grant has not been withheld.

Municipal Infrastructure Grant

Balance unspent at beginning of year	70,116,561	39,891,779
Current-year receipts	137,104,000	110,154,000
Conditions met - transferred to revenue	(166,801,170)	(76,803,443)
Conditions met (operating expenditure) - transferred to revenue	(2,354,769)	(3,125,775)
	38,064,622	70,116,561

Conditions still to be met - remain liabilities (see note 17)

The Municipal Infrastructure Grant is to finance the extension of services and to alleviate poverty. The purpose of the grant is also to stimulate local economic development and job creation over the medium term. R22 108 000 of grants were withdrawn during 2009 due to non-compliance with stated procedures, but were made available in 2010 and is included with the current year receipts for the 2010 financial year.

The grant has not been withheld in the current financial year.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Government grants and subsidies (continued)		
Municipal Infrastructure Grant - PMU		
Balance unspent at beginning of year	3,289,567	3,289,567
Conditions still to be met - remain liabilities (see note 17)		
The Municipal Infrastructure Grant - PMU is to finance the project management costs associated with the Municipal Infrastructure Grant described above. The grant is used to defray certain administrative costs. The grant has not been withheld.		
Department of Mineral and Energy Affairs		
Balance unspent at beginning of year	460,507	507
Current-year receipts	-	460,000
Conditions met - transferred to revenue	(460,507)	-
	<u>-</u>	<u>460,507</u>
Conditions still to be met - remain liabilities (see note 17)		
The Municipality was granted a total of R550,000 for electrification of Thabong (ext. 15) and Bronville (ext. 9) - Phase 3 since the project started.		
Provincial Maintenance of Clinics		
Balance unspent at beginning of year	361,843	361,843
Conditions met - transferred to revenue	(361,843)	-
	<u>-</u>	<u>361,843</u>
Conditions still to be met - remain liabilities (see note 17)		
Money granted by Province for maintenance of clinics.		
LED Grant		
Balance unspent at beginning of year	555,940	555,940
Conditions met - transferred to revenue	(467,540)	-
	<u>88,400</u>	<u>555,940</u>
Conditions still to be met - remain liabilities (see note 17)		
This grant from the Provincial Government has been used to encourage local economic development through property development. This grant has been used in town establishment. The grant has not been withheld.		
Lotto - Parks		
Balance unspent at beginning of year	71,587	569,706
Conditions met - transferred to revenue	-	(498,119)
	<u>71,587</u>	<u>71,587</u>
Conditions still to be met - remain liabilities (see note 17)		
The Municipality was allocated an amount from Lotto to construct recreational facilities within the municipal areas. The grant has not been withheld.		

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Government grants and subsidies (continued)		
Municipal Systems Improvement Grant		
Balance unspent at beginning of year	1,691,256	1,735,000
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(1,017,296)	(778,744)
	<u>1,423,960</u>	<u>1,691,256</u>

Conditions still to be met - remain liabilities (see note 17)

The Municipality Systems Improvement Grant is to support the municipality and governance systems, planning and implementation, reviewing integrated development plans and implementing the Municipal Systems Act. The grant has not been withheld.

Operation Hlasela - Roads

Current-year receipts	15,800,534	32,500,000
Current-year receipts (Clean-up of Kutlwanong Township)	-	410,970
Conditions met - transferred to revenue	(10,308,467)	(37,992,067)
Conditions met - transferred to revenue (Clean-up of Kutlwanong Township)	(48,510)	(362,460)
Transfer of balance (from)/to Sundry Debtors	(5,443,557)	5,443,557
	<u>-</u>	<u>-</u>

Money was granted by Province (Premier Office) for upgrading of roads in Matjhabeng. The grant has not been withheld.

Operation Hlasela - Upgrade Offices

Current-year receipts	-	500,000
Conditions met - transferred to revenue	-	(500,000)
	<u>-</u>	<u>-</u>

Money was granted by Province (Premier Office) for upgrading of municipal offices in Thabong during the 2010 financial year. The grant has not been withheld.

Operation Hlasela - Housing

Current-year receipts	-	4,000,000
Conditions met - transferred to revenue	-	(4,000,000)
	<u>-</u>	<u>-</u>

Money was granted by Province (Premier Office) to build 50 houses for the previously disadvantage people during the 2010 financial year. The grant has not been withheld.

Department of Water and Environmental Affairs

Balance unspent at beginning of year	131,495	-
Current-year receipts	7,897,432	6,376,493
Conditions met - transferred to revenue	(9,045,510)	(6,244,998)
Paid back	(131,495)	-
Transfer of balance (from)/to Sundry Debtors	1,148,078	-
	<u>-</u>	<u>131,495</u>

Conditions still to be met - remain liabilities (see note 17)

This was money granted by the Department in order to assist Matjhabeng with Klippan Sewerage. The grant has not been withheld.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Government grants and subsidies (continued)		
Operation Hlasela - Bopa Lesedi Development		
Balance unspent at beginning of year	1,587,417	-
Current-year receipts	372,238	5,016,804
Current-year receipts - other projects	-	520,000
Conditions met - transferred to revenue	(542,238)	(3,949,387)
	<u>1,417,417</u>	<u>1,587,417</u>

Conditions still to be met - remain liabilities (see note 17)

The Office of the Premier has appointed Bopa Lesedi Development (Pty) Ltd as the Project Manager for the Matjhabeng ("the Operation Hlasela Project"), which provides for the immediate implementation of a number of viable projects in the Matjhabeng Local Municipality.

200 workers were appointed (a directive from Premier Office) in order to help with necessary work in Phomolong. The payment for these workers are from the budget of Provincial Government.

South African Youth Council

Current-year receipts	313,134	-
Conditions met - transferred to revenue	(150,000)	-
	<u>163,134</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

Money was granted to the Municipality to engage 1500 young people in community development activities that position young people as agents for service delivery in their respective communities. The grant has not been withheld.

Neighbourhood Development - National Treasury

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(41,040)	-
	<u>458,960</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 17).

Transferring Department: National Treasury. The purpose of the grant is to support neighbourhood development projects that provide community infrastructure and create the platform for other public and private sector development, towards improving the quality of life of residents in targeted underserved neighbourhoods (townships generally). The grant has not been withheld.

Integrated National Electrification Programme

Current-year receipts	<u>500,000</u>	<u>-</u>
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Conditions still to be met - remain liabilities (see note 17).

This was money granted by the Department of Energy to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to approve quality of supply. The grant has not been withheld.

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
25. Other income		
Commissions received	543,139	505,606
Other income	23,383,982	17,185,334
	23,927,121	17,690,940
Other income		
Disconnection fees	3,639,202	2,256,747
Dumping fees	488,771	2,607,360
Fair value adjustment	-	39,879
Hostel fees	2,673,320	2,497,925
Services rendered	2,082,930	1,575,891
Sundry Income	16,348,702	8,207,532
	25,232,925	17,185,334
26. Investment revenue		
Dividend revenue		
Local Dividends	8,671	55,137
Interest revenue		
Financial Assets	5,534,413	3,160,465
	5,543,084	3,215,602

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R5,543,084 (PY: R3,215,602).

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Employee related costs		
Basic	220,925,501	186,912,008
Bonus	16,193,576	14,609,467
Medical aid - company contributions	29,717,233	25,962,819
UIF	2,320,450	1,942,626
Leave pay provision charge	11,270,096	11,750,438
Post-employment benefits - Pension - Defined contribution plan	34,438,754	30,774,061
Overtime payments	41,254,810	26,904,198
Long-service awards	1,522,714	543,799
Transport allowance (bus coupons)	14,034,685	12,800,257
Housing benefits and allowances	2,074,550	2,388,649
Other allowances	9,140,177	3,687,524
Insurance group	4,494,465	3,918,321
	387,387,011	322,194,167
Remuneration of Municipal Manager		
Annual Remuneration	675,285	686,603
Car Allowance	135,000	180,000
Leave Pay	261,996	-
Contributions to UIF, Medical and Pension Funds	29,689	34,939
	1,101,970	901,542
Remuneration of Chief Finance Officer		
Annual Remuneration	56,000	253,530
Car Allowance	26,666	186,667
Contributions to UIF, Medical and Pension Funds	254	900
	82,920	441,097
<p>The position of Chief Finance Officer was vacant from 19 May 2009 to December 2009 when it was filled.</p> <p>The position of Chief Finance Officer is vacant from June 2010.</p>		
Remuneration of Director: Strategic Support Services		
Annual Remuneration	718,498	408,333
Travel allowance	8,410	-
Subsistence allowance	292	-
Contributions to UIF, Medical and Pension Funds	1,547	900
	728,747	409,233
<p>The position of Chief Operating Officer was vacant from 1 April 2009 to 1 December 2009. The Director: Strategic Support Services was appointed on 1 December 2009 who replaced the position of the Chief Operating Officer.</p>		
Remuneration of Director: Community Services		
Annual Remuneration	242,074	514,144
Car Allowance	14,000	84,000
Contributions to UIF, Medical and Pension Funds	14,610	68,898
	270,684	667,042
Remuneration of Director: Corporate Services		
Annual Remuneration	519,107	355,826

Matjhabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Employee related costs (continued)		
Car Allowance	63,000	-
Contributions to UIF, Medical and Pension Funds	119,439	53,407
	701,546	409,233
The position Chief Operating Officer is vacant from 1 June 2009 and is still vacant.		
Remuneration of Directors: Infrastructure		
Annual Remuneration	1,070,171	625,690
Contributions to UIF, Medical and Pension Funds	1,546	1,542
	1,071,717	627,232
Total employee related costs	391,344,595	325,649,546
28. Remuneration of councillors		
Executive Mayor	644,652	604,736
Mayoral Committee Members	4,654,302	3,940,825
Council Members	11,375,340	11,724,610
Speaker	518,384	507,795
Councillors' pension contribution	1,782,269	1,645,604
Other	(332,231)	(630,561)
Medical aid contribution	500,941	449,277
	19,143,657	18,242,286
In-kind benefits		
The Executive 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 Executive Mayor has use of a Council owned vehicle for official duties.		
The Executive Mayor has two full-time bodyguards . The Speaker has a full-time messenger.		
29. Depreciation and amortisation		
Property, plant and equipment	36,081,641	28,890,271
30. Impairment of assets		
Impairments		
Trade and other receivables	372,188,325	208,760,412
31. Finance costs		
Non-current borrowings	3,199,797	7,526,931
Trade and other payables	30,172,982	8,355,107
Finance leases	2,768,268	3,357,999
Bank	502,634	573,593
Discounting - Provision for rehabilitation	8,376,666	4,781,004
	45,020,347	24,594,634

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R45 020 347 (2009: R24 594 634).

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Bulk purchases		
Electricity	231,023,578	181,142,921
Water	205,014,401	181,311,751
	436,037,979	362,454,672
33. Contracted services		
Meter Reading Services	2,726,742	2,558,411
34. General expenses		
Advertising	1,574,113	801,469
Assets expensed	111,950	601,239
Auditors remuneration	4,485,714	5,061,264
Bank charges	1,856,340	1,929,048
Chemicals	73,581	163,899
Cleaning	299,255	379,987
Community development and training	240,105	97,470
Conferences and seminars	77,279	27,455
Consulting and professional fees	41,235,213	51,597,553
Donations	238,942	26,850
Entertainment	586,086	491,386
Insurance	8,893,194	2,854,374
Magazines, books and periodicals	(15,937)	2,513
Marketing	65,476	538,095
Medical expenses	885	6,451
Municipal services	2,824,195	3,552,577
Operating cost of equipment	19,418,249	18,022,414
Operating cost of vehicles	23,075,784	20,662,613
Other expenses	4,125,338	1,738,265
Pest control	662,199	4,140
Printing and stationery	2,931,077	1,576,208
Royalties and license fees	2,963,000	3,175,154
Security (Guarding of municipal property)	16,948,715	17,459,911
Skills Development Levy	3,150,096	2,511,945
Subscriptions and membership fees	3,178,571	2,174,333
Telephone and fax	9,331,893	10,458,826
Training	1,559,997	2,324,403
Travel - local	1,853,071	908,611
Uniforms	2,559,661	2,061,401
	154,304,042	151,209,854

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
35. Cash generated from operations		
Surplus	46,217,675	124,162,929
Adjustments for:		
Depreciation and amortisation	36,081,641	28,890,271
Fair value adjustments	(12,713,644)	-
Finance costs - Finance leases	2,768,268	3,357,999
Impairment deficit	372,188,325	208,760,412
Movements in provisions	8,376,666	4,781,004
Restatement of assessment rates	-	(10,101,994)
Work in Progress write off	528,780	-
Changes in working capital:		
Inventories	(724,584)	(30,179)
Trade and other receivables	(372,907,618)	(225,270,922)
Consumer debtors	37,222,263	(9,675,630)
Consumer debtors - non current	(457,563)	6,774,822
Trade and other payables	212,343,951	69,447,385
VAT	(16,419,312)	(49,258,542)
Unspent conditional grants and receipts	(32,788,526)	31,839,309
Consumer deposits	1,289,215	440,711
	281,005,537	184,117,575
36. Auditors' remuneration		
Fees	4,485,714	5,061,264
37. Rental of facilities and equipment		
Premises		
Premises	2,765,342	4,954,773
Facilities and equipment		
Rental of facilities	7,319,560	7,525,027
	10,084,902	12,479,800
38. Operating surplus		
Operating surplus for the year is stated after accounting for the following:		
Operating lease charges		
Premises		
• Contractual amounts	556,994	556,994
Old consumer debtors with credit balances written off - included with Sundry Income	(6,975,975)	-
Impairment on Consumer Debtors	372,188,325	208,760,412
Depreciation on property, plant and equipment	36,081,641	28,890,271
Employee costs	410,487,960	343,891,832
Litigation settlement	2,660,000	-

Matjhabeng 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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39. Commitments

Capital and other expenditure

• Infrastructure	111,454,796	239,786,596
• Infrastructure - not yet contracted for	347,540,548	236,511,309
• Other capital commitments	1,242,650	-
• Vehicles and Fleet Equipment - not yet contracted for	32,998,459	4,205,457
• Professional fees	47,512,062	44,039,669
	540,748,515	524,543,031

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	736,315	676,975
- in second to fifth year inclusive	754,952	1,491,267
	1,491,267	2,168,242

Operating lease payments represent rentals payable by the municipality for certain of its office properties, equipment and fire trucks. No sublease payment expected to be received under non-cancellable sublease.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	131,168	141,407
- in second to fifth year inclusive	249,728	397,808
	380,896	539,215

Operating lease payments represent rentals payable to the municipality Warriors Club and Grill for premises situated at the Fire Department.

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
40. Contingencies		
Contingencies		
Housing Guarantees	271,062	-
The following cases against the Municipality have been recorded as a contingent liability as there is uncertainty as to the outcome of the cases. The Municipality is defending the cases. The potential legal costs have not been included in the claims against the Municipality.		
Contingencies		
Odyssey Holdings versus Matjhabeng Local Municipality.	1,383,511	1,383,511
Odyssey Holdings alleged that it was appointed in terms of Tender 22/2002 for the construction of Stormwater drainage in Kutlwanong. Odyssey Holdings alleged that the tender did not reflect the true consensus and common intention between the parties (municipality and the contractor).		
V&V Consulting Engineers versus Matjhabeng Local Municipality.	856,695	856,695
Summons issued against the municipality, wherein the municipality was sued for failure to pay V&V Consulting Engineers for services rendered.		
LGW Contractors versus Matjhabeng Local Municipality.	1,847,958	1,847,958
Summons issued against the municipality for payment for alleged standing time.		
Sala Pension Fund versus Matjhabeng Local Municipality.	-	145,259
Combined summons against Matjhabeng Municipality received alleging that the municipality was indebted to the fund. The amount claimed has been liquidated and the municipality is no longer indebted to the Plaintiff.		
Sala Pension Fund versus Matjhabeng Local Municipality.	5,024,820	2,493,046
Sala Pension Fund alleged that the Fund was under-funded. The municipality received combined summons alleging that the municipality is indebted to the fund.		
Cllr Cornelius Smit versus Matjhabeng Local Municipality.	-	39,012
Summons were issued against the municipality for legal fees relating to Cllr Cornelius Smit, Botha and Beneke in respect of the Speakers investigation regarding complaints against the councillors.		
Tall Tree versus Matjhabeng Local Municipality.	534,318	534,318
During 2002/03 the Municipality arranged for a Lekgotla at Qwa-Qwa. Tall Tree was appointed as a facilitator. It is alleged that the Company failed to submit its quotation as requested and also failed to produce and/or deliver in accordance with its appointment. Tall Tree subsequently issued summons for payment. The municipality does not accept offer of Tall Tree being R400 000 and that each party to pay its own legal costs.		
Mr Mogotsi versus Matjhabeng Local Municipality.	250,000	250,000
Mr Mogotsi applied for the advertised position of the Executive Manager in which he was not appointed. The unsuccessful applicant referred the matter to CCMA citing unfair discrimination.		

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
40. Contingencies (continued)		
HF Daniels & TG Bezuidenhout versus Matjhabeng Local Municipality.	-	71,119
<p>The applicants brought an application to the High Court in which they sought a declaration order to the effect that they were not placed in the same position as previously held by them or "close match" positions in terms of the placement policy. The applicants were retrenched from May 2009.</p>		
Mr CG Jacobs versus Matjhabeng Local Municipality.	1,881,172	1,881,172
<p>Mr. C.G. Jacobs indicated in 2003 of his intention to resign from the Municipality at the retirement age of 60 (sixty). Mr Jacobs was allegedly advised to reserve his rights in the matter as there was a strong indication that the rules of the Free State Pension Fund would change increasing the retirement age up to 65 (sixty five) years. Although Mr. Jacobs wrote to Council informing it that he reserves his right not to retire pending the outcome of the decision of the Free State Pension Fund, he (Mr. Jacobs) filled out the application forms for his pension funds to be released which subsequently occurred. Council informed him on the 1st of October 2003 to vacate his office. Subsequently he referred his matter to the Bargaining Council. The Municipality lost its arguments at arbitration.</p>		
The State versus Matjhabeng Municipality and Others.	-	-
<p>Summons in criminal case regarding the contravention of section 151(1)(d) of the National Water Act, No. 36 of 1998 (failure to comply with a directive issued in terms of section 53) (Financial implication still unknown).</p>		
Mr M. Segalo versus Matjhabeng Local Municipality	353,330	-
<p>-Mr Segalo had 5 year contract as Manager: Internal Audit. -Contract expired at the end of March 2007. -Segalo's contract was extended for one month to enable finalization for advertisement of the post. -Mr Segalo was not re-appointed and declared a dispute with the SALGB on grounds of alleged unfair dismissal. -Ruling was made in favour of Mr. Segalo. Arbitration award: R353,330.00</p>		
SAMWU versus Matjhabeng Local Municipality.	-	6,000,000
<p>SAMWU, on behalf of 284 affected employees, filed an application in the Labour Court seeking an order that the Municipality provide transport to and from work for the affected employees after it was withdrawn on 06 July 2003. (Financial implication still unknown).</p>		
KLM Housing Management versus Matjhabeng Local Municipality.	2,357,466	2,357,466
<p>On 18/11/2009 the municipality was issued with notice of motion by KLM Housing management.</p>		
SAMWU obo T JOBO versus Matjhabeng Local Municipality.	109,824	109,824
<p>Employee Mr T Jobo took the municipality to the South African Bargaining council for a relief for remuneration of motor vehicle scheme.</p>		
Oppenheimer Golf Course versus Matjhabeng Local Municipality.	20,402,360	802,360
<p>The municipality was served with Combined Summons for damage suffered as a result of an overflowing of Witpan Sewer Plant which resulted to the alleged damage of the golf course.</p>		

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
40. Contingencies (continued)		
Koth Properties versus Matjhabeng Local Municipality. Appointed to prepare general valuations. The agreement was terminated by the municipality. Koth Properties issued a combined summons against the municipality for breach of contract.	14,400,000	14,400,000
Wright-guard Security Services versus Matjhabeng Local Municipality . The municipality was issued with Combined Summons by the security service provider, claiming a payment for services alleged to have been rendered. Settlement payment to the amount of R2,660,000 was made in 2011.	-	3,200,000
Rover's Club versus Matjhabeng Local Municipality. Issued municipality with Notice of Motion from the High Court, directing the municipality to commence by no later than 01 January 2011 with the re-establishment and construction of rugby club facilities at new premises for their beneficial and undisturbed use and occupation. Directing the municipality to enter into a lease agreement with the same terms as per their initial contract.	-	3,500,000
Fujitsi Services (Pty) Ltd versus Matjhabeng Local Municipality. The municipality was issued with a Combined Summons from Fujitsu Services (Pty) Ltd. Alleged that the municipality failed to make payments.	7,051,941	7,051,941
Big Bravo Construction CC versus Matjhabeng Local Municipality. The municipality was issued with a summons claiming payment.	65,000	-
South African Local Authorities Pension Fund versus Matjhabeng Local Municipality. The municipality was issued with a combined summons, claiming payment for interest on contributions alleged to have been made after the expiry period prescribed by the rule of the fund.	102,268	-
Lohan Civil versus Matjhabeng Local Municipality. The municipality was issued with a combined summons, claiming payments as he was alleged appointed as contractor but after completion of work there was a breach in contract resulting in sustained damages.	1,280,331	-
MMS Collections versus Matjhabeng Local Municipality. The municipality was issued a Letter of Demand, claiming payment for an amount alleged to be agreed between the parties involved.	2,870,649	-
Ramabulana Investment Services versus Matjhabeng Local Municipality. The municipality was issued with a combined summons, claiming payment for services rendered.	1,821,367	-
Majola Attorneys versus Matjhabeng Local Municipality. The municipality was issued with a summon, claiming payment for alleged professional services and disbursements rendered.	17,603	-

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
40. Contingencies (continued)		
Mr JP Wentzel versus Matjhabeng Local Municipality.	1,740,349	-
Mr JP Wenzel alleged that on or around 23 September 2008 a fire broke out within the Municipality's farm and spread to his farm. As a result thereof he suffered damages.		
Oardweed Investments CC versus Matjhabeng Local Municipality.	-	-
On 10 December 2010 the municipality was issued with Notice of Motion from the abovementioned Applicant for an order. (Financial implication still unknown).		
Jana Harding versus Matjhabeng Local Municipality.	-	-
Jana Harding brought an application for Mandament Van Spolie in which he sought an order. (Financial implication still unknown).		
Gerhard du Preez versus Matjhabeng Local Municipality.	-	-
On 17 May 2011 the High Court issued a Court Order wherein the Municipality was ordered to restore the applicant's property which was flooded by the water of the Witpan. (Financial implication still unknown).		
Sandobel 164 (Pty) Ltd versus Matjhabeng Local Municipality.	-	-
On 29 October 2010 the municipality was served with Combined Summons for failing to rectify Sandobel 164 (Pty) Ltd's service account. (Financial implication still unknown).		
Agostina Mpana versus Matjhabeng Local Municipality.	-	-
Following Ordinary Summons issued on the matter on 08 April 2011 municipality was issued with Warrants of Executions claiming payment of overtime. (Financial implication still unknown).		
De Bruin Trust versus Matjhabeng Local Municipality.	400,000	-
During June 2011 the municipality was issued with Combined Summons from Sessrs Honey Attorneys by De Bruin Trust.		
Jabulani Nelson Tshabalala & Nomakakola Maria Boched/Kutlwano Taxi Rank versus Matjhabeng Local Municipality.	-	-
On 15 June 2011 an application was instituted by the municipality ordering the Respondents to vacate out of the land they occupied unlawfully and without the consent from the municipality known as Erf 4028 & 429 Kutlwano. (Financial implication still unknown).		
The Municipal Demarcation Board & The Electoral Commission versus Matjhabeng Local Municipality.	-	-
In 2009 Demarcation Board issued Circulars dealing with Councillors issues as well process to be followed when demarcating the wards. (Financial implication still unknown).		
Labour Relations disputes	-	-
Public Liabilities	122,918	-
Mrs Strickett, former CFO is considering suing the municipality for the rest of her five year contracted salary.	8,000,000	-
	72,873,880	46,923,681

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
41. Prior period errors		
Several errors were corrected during the year.		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Total restatements	45,144,900	81,336,740
Statement of financial position		
Property, plant and equipment	-	88,157,405
Trade and other payables	(4,375,932)	1,587,458
Trade and other receivables & Consumer Debtors	(7,799,462)	(211,045)
Cash and cash Equivalents	7,799,462	-
Borrowings (current)	3,302,773	-
Borrowings (Non-current)	(3,302,773)	-
Other financial liabilities	-	655,816
Taxes and transfers payable	(4,171,791)	47,177,586
Unspent conditional grants and receipts	-	1,207,800
Provision for rehabilitation	53,692,623	(57,238,280)
Statement of financial performance		
Total restatements on prior year surplus/(deficit)	3,787,983	16,245,900
Total restatements on opening accumulated surplus	41,356,917	(97,582,640)
	45,144,900	(81,336,740)
Statement of Financial Performance		
Depreciation and amortisation	-	7,506,750
General expenses	3,787,983	(3,427,591)
Repairs and maintenance	-	121,762
Finance costs	-	466,993
Government Grant and Subsidies	-	(769,242)
Other income	-	12,347,229
Opening accumulated surplus	41,356,917	(97,582,640)
Corrections to Trade and other payables		
Correction of Capital Creditors and Capital Work in Progress that was overprovided as at 30 June 2009	-	1,587,458
Accrual for a Trade Creditor that was not provided as at 30 June 2010	(4,375,932)	-
	(4,375,932)	1,587,458
Corrections to trade and other receivables		
Various corrections to individual debtor accounts.	-	(211,045)
Correction of cut-off error. System was kept open for 7 days in 2010 and therefore understating consumer debtors with receipts allocated.	(7,799,462)	-
	(7,799,462)	(211,045)
Property, Plant and Equipment and Capital work in progress		
Correction of Capital Creditors and Capital Work in Progress that was overprovided as at 30 June 2009	-	(1,392,508)
Various corrections to Property, plant and equipment as a result of a complete fixed asset verification performed and new fixed asset register compiled. Impact on cost price (2008 and prior).	-	62,157,430
Reversal of accumulated depreciation as a result of fixed asset corrections (2008 and prior)	-	666,829,922
Reversal of depreciation for 2009 as a result of fixed asset corrections.	-	11,975,592
Decrease in work in progress as a result of capitalization (2008 and prior)	-	(5,215,888)
Decrease in work in progress as a result of capitalization (2009)	-	(28,535,185)

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Figures in Rand	2011	2010
41. Prior period errors (continued)		
Increase in Infrastructure assets capitalization (balances before 2008)	-	5,215,888
Increase in Infrastructure assets capitalization (2009)	-	28,535,185
Depreciation correction on Infrastructure Assets as work in progress were capitalized and recalculation of depreciation were performed (2008 and prior).	-	(570,556,780)
Depreciation correction on Infrastructure Assets as work in progress were capitalized recalculation of depreciation were performed (2009).	-	(14,877,858)
Depreciation correction on Moveable Assets as a result of new fixed asset register compiled (2008 and prior).	-	(61,373,910)
Depreciation correction on Moveable Assets as a result of new fixed asset register compiled (2009).	-	(4,604,483)
	<u>-</u>	<u>88,157,405</u>
Unspent conditional grants and receipts misstated		
Conditions were met on the grant, but revenue was not recognised in the past (2008 and prior)	-	438,558
Conditions were met on the grant, but revenue was not recognised in 2009	-	769,242
	<u>-</u>	<u>1,207,800</u>
Other financial liabilities		
Corrections made to ABSA loan prior to 2009 as the "Arrears/Advance" account was not properly recorded in the past	-	606,042
Corrections made to ABSA loan prior in 2009 as the "Arrears/Advance" account was not properly recorded in the past	-	49,774
	<u>-</u>	<u>655,816</u>
Taxes and transfers payable (VAT corrections)		
Correction of VAT liability due to additional assesments issued by the South African Revenue Service	(4,171,791)	-
Correction of Capital Creditors and Capital Work in Progress that was overprovided as at 30 June 2009 - VAT portion provided	-	(194,950)
Corrections of Value Added Tax based on an analysis made between the VAT reflected in the accounting records and the VAT according to the VAT Printouts obtained from South African Revenue Services	-	49,301,569
Recording of SARS penalties and interest not recorded in the past (2008 and prior)	-	(1,214,222)
Recording of SARS penalties and interest not recorded in 2009	-	(516,767)
Correction of VAT as a result of reversal of Internal Charges	-	43,997
Correction of incorrect VAT transactions on Creditor invoices and credit notes - 2008 and prior	-	(156,369)
Correction of incorrect VAT transactions on Creditor invoices and credit notes - 2009	-	(85,672)
	<u>(4,171,791)</u>	<u>47,177,586</u>
Provision for rehabilitation		
Restatement of provision for rehabilitation as management reviewed and updated the base cost for rehabilitation on which the provision is based. Management also included all 5 sites in 2010 compared to only 1 site included in 2009.	45,528,708	(48,238,555)
Unwinding of discount increased for 2009 as a result of the updated provision for rehabilitation cost	8,163,915	(8,999,725)
	<u>53,692,623</u>	<u>(57,238,280)</u>
Restatement of expenses		
Restatement of professional fees as a result of understatement of creditor	(4,375,932)	-

Matjhabeng Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010
41. Prior period errors (continued)		
Restatement of repairs and maintenance as a result of incorrect treatment of VAT on the transactions.	-	121,762
Restatement of general expenses as a result of incorrect treatment of VAT on the transactions.	-	(36,090)
Unwinding of discount on Provision for rehabilitation understated in 2009 & 2010 due to understatement of base cost for rehabilitation.	8,163,915	8,999,725
	3,787,983	9,085,397
Finance costs		
Interest paid to creditors understated in 2009 due to penalties and interest on VAT paid to SARS not accurately recorded	-	516,767
Interest on Annuity loans not properly recorded in the past due to ABSA loan "Arrears/Advance" account not properly recorded	-	(49,774)
	-	466,993
Government Grants and subsidies		
Conditions were met on the financial management grant, but revenue was not recognised in 2009	-	(769,242)
Reversal of internal Charges		
Internal charges do not represent an outflow or consumption of assets or increase in liability, resulting in an overstatement of operating expenditure.	-	(12,391,226)
Internal charges do not represent an outflow or consumption of assets or increase in liability, resulting in an overstatement of service charges.	-	11,857,695
Internal charges do not represent an outflow or consumption of assets or increase in liability, resulting in an overstatement of property rates.	-	359,776
Internal charges do not represent an outflow or consumption of assets or increase in liability, resulting in an overstatement interest received arrear accounts.	-	28,710
Internal charges do not represent an outflow or consumption of assets or increase in liability, resulting in an overstatement of other income.	-	101,048
	-	(43,997)
Depreciation		
Correction of depreciation as a result of new fixed asset register and work in progress capitalized as infrastructure	-	7,506,749
Cash and Cash Equivalents		
Correction of cut-off error. System was kept open for 7 days in 2010 and therefore overstating bank balances with receipts allocated.	7,799,462	-
Capital Commitments (Disclosure)		
Correction of capital commitments understated in the disclosure note.	439,711,082	-

42. Comparative figures

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

The effects of the reclassification are as follows:

Statement of financial position

Trade and other payables - Trade payables	-	16,055,846
Trade and other payables - Payments received in advance	-	(16,055,846)

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42. Comparative figures (continued)

Statement of Financial Performance

Finance Cost - Bank	-	573,593
Finance Cost - Discounting of provision for rehabilitation	-	4,781,004
General expenses	-	(5,354,597)

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43. 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 disclosed in notes 13, 12, 7, and equity as disclosed in the statement of financial position.

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:

Total borrowings			
Finance lease obligation	13	11,845,900	14,578,046
Other financial liabilities	12	21,611,513	26,786,506
		33,457,413	41,364,552
Less: Cash and cash equivalents	7	35,279,286	22,575,614
Net debt		(1,821,873)	18,788,938
Total equity		529,705,037	487,659,152
Total capital		527,883,164	506,448,090

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.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	19,841,247	1,770,266	-	-
Finance lease obligation	4,800,585	-	7,045,315	-
Trade and other payables	618,889,204	-	-	-

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43. Risk management (continued)

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	23,483,733	3,302,773	-	-
Finance lease obligation	3,110,016	-	11,468,030	-
Trade and other payables	406,545,255	-	-	-

Interest rate risk

The municipality's interest rate risk arises from Long term Borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments. During 2011 and 2010, the municipality's borrowings at variable rate were denominated in the Rand .

Credit risk

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

Cash and cash equivalents

Matjhabeng limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

Investments

It is the Municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the Municipality does not expect any counterparty to fail to meet its obligation.

Consumer Debtors

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The Municipality's consumer receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the Municipality such as electricity, water, sanitation, refuse and rates levied. Consumer receivables constitutes approximately 62% of the Municipality's total exposure to maximum credit risk. The Municipality's exposure and credit ratings of its customers are continuously monitored. The Municipality establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. No trade or other receivables have been pledged as security. Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2011	2010
Trade and other receivables	12,266,486	11,547,193
Consumer debtors	103,804,445	141,026,708
Cash and cash equivalents	35,279,286	22,575,614
Other financial assets	16,213,122	15,146,664
Consumer debtors (long term)	457,563	-

44. Going concern

We draw attention to the fact that the Unspent conditional grants (Note 16) exceeded the total cash and cash equivalents (Note 7) and other financial assets (Note 4) by R32 744 433 in 2010. This could indicate a possible going concern problem as the municipality does not have sufficient funds available to cover the unspent conditional grants disclosed.

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.

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44. Going concern (continued)

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

45. Unauthorised expenditure

Opening balance	839,584,517	623,428,929
Unauthorised expenditure current year - operating expenses	499,451,455	216,155,588
Unauthorised expenditure current year - capital expenses	120,194,450	-
	<u>1,459,230,422</u>	<u>839,584,517</u>

The unauthorised expenditure in 2011 and 2010 relates to expenditure incurred that was not budgeted for those specific financial years per department vote.

46. Fruitless and wasteful expenditure

Opening balance	40,375,097	26,203,631
Fruitless and wasteful expenditure current year	41,013,003	14,171,466
	<u>81,388,100</u>	<u>40,375,097</u>

These expenditure includes interest paid for late payment to suppliers and payments toward unfulfilled contracted services.

47. Irregular expenditure

Opening balance	129,159,869	114,228,330
Add: Irregular Expenditure - current year	108,250,352	14,931,539
	<u>237,410,221</u>	<u>129,159,869</u>

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47. Irregular expenditure (continued)		
Details of irregular expenditure – current year		
Non Compliance with supply chain management - included on register		14,577,865
Non Compliance with supply chain management - other		90,441,495
Non Compliance with remuneration of Public Office Bearers Act		3,230,992
		108,250,352
Details of irregular expenditure - prior year		
Non Compliance with remuneration of Public Office Bearers Act		2,888,042
Non Compliance with supply chain management		11,503,497
		14,391,539
48. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	2,153,183	2,075,345
The Municipality has not paid its contributions due to cash flow constraints.		
Material losses		
Losses on water-and electricity distribution	72,313,622	71,400,000
Audit fees		
Opening balance	410,120	158,176
Current year subscription / fee	5,113,714	4,223,894
Amount paid - current year	(4,794,050)	(3,813,774)
Amount paid - previous years	(410,120)	(158,176)
	319,664	410,120
PAYE and UIF		
Opening balance	3,222,706	2,907,598
Current year payroll deductions	47,665,813	36,341,831
Amount paid - current year	(43,470,043)	(33,119,125)
Amount paid - previous years	(3,222,706)	(2,907,598)
	4,195,770	3,222,706
Pension and Medical Aid Deductions		
Opening balance	7,331,125	9,327,100
Current year subscription / fee	96,004,393	84,783,756
Amount paid - current year	(87,800,256)	(77,452,631)
Amount paid - previous years	(7,331,125)	(9,327,100)
	8,204,137	7,331,125

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)		
VAT		
VAT payable	3,258,593	19,677,905

VAT output payables and VAT input receivables are shown in note 15.

All VAT returns have been submitted by the due date throughout the year, except for the following:
 - July 2010 return (submitted on 27/08/2010) and February 2011 return (submitted on 30/03/2011).

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
S Ngangelizwe	833	-	833
NN Mahloko	212	-	212
MA Mathebula	443	-	443
MS Moahloli	255	6,974	7,229
NS Ntsala	253	-	253
E Peterson	216	-	216
SD Nteo	507	500	1,007
B Sithole	139	2,169	2,308
BJA Coetzee	712	-	712
ME Tsubane	1,875	4,082	5,957
MA Meko	619	2,974	3,593
TG Mokotedi	4	260	264
MM Senoge	401	-	401
NM Speelman	1,218	-	1,218
M Twanana	618	-	618
ME Nyembe	257	-	257
L Rubulana	374	-	374
ML Tihone	1,151	12,437	13,588
ZA Thuthani	1,572	9,531	11,103
D Kotzee	92	1,408	1,500
JHA Edeling	827	3,859	4,686
TS Majoe	281	-	281
NR Mnazana	390	-	390
AN Sentle	295	-	295
TA Nakwa	59	520	579
ME Phetise	1,171	11,657	12,828
TD Khalioha	402	3,397	3,799
FE Taliwe	843	4,747	5,590
LC Mokausi	538	18,581	19,119
MSE Mosala	143	5,575	5,718
KL Ntlele	1,090	12,357	13,447
GL Qwesha	301	12,313	12,614
KR Tlake	211	1,173	1,384
TL Mabote	711	7,537	8,248
AX Mbambo	-	200	200
PA Molelekoa	25	-	25
	19,038	122,251	141,289

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2010	Outstanding less than 90 days	Outstanding more than 90 days	Total
AN Sentle	625	984	1,609
AP Kotzee	5,195	112,747	117,942
B Sithole	355	3,827	4,182
D Kotzee	1,766	-	1,766
E Peterson	808	3,344	4,152
FE Taliwe	509	4,067	4,576
GL Qweshu	-	41,969	41,969
J Fourie	777	-	777
JHA Edeling	5,335	3,292	8,627
LM Sejane	734	12,507	13,241
MA Mathebula	1,259	14,216	15,475
MA Meko	1,186	-	1,186
MAM Mofoka	968	8,896	9,864
MC Radebe	1,316	23,262	24,578
ME Semela	407	-	407
ME Tsubane	1,016	13,923	14,939
ME Phetise	617	8,018	8,635
MJ Matlabe	1,017	4,692	5,709
MJ Molefi	2,027	29,272	31,299
MJ Sephiri	598	4,654	5,252
MK Tihone	791	3,415	4,206
ML Ntsiu	649	8,706	9,355
ML Radebe	3,033	34,189	37,222
MS Moahloli	1,889	26,721	28,610
MS Mokhuma	486	4,005	4,491
SD Nteo	-	250	250
SW Mokwena	18	1,169	1,187
TA Nakwe	33	330	363
TG Mokotedi	252	1,297	1,549
TH Pietersen	59	1,658	1,717
TS Majoe	467	9,118	9,585
TW Dlova	264	35	299
VH Neumann	10,965	39,180	50,145
ZA Thuthani	510	4,378	4,888
ZP Noveld	611	-	611
	46,542	424,121	470,663

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49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In compliance with MFMA, Treasury regulations and Supply Chain Management Policy, the table below depicts the summary of the authorised exemptions by Municipal Manager, for the year ended 30 June 2011:

Deviations

July 2010	1,031,800
August 2010	1,958,548
September 2010	1,372,185
October 2010	2,290,726
November 2010	2,126,093
December 2010	767,887
January 2011	439,255
February 2011	1,341,839
March 2011	790,261
April 2011	652,398
May 2011	807,775
June 2011	999,098
	<hr/>
	14,577,865

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50. Actual vs Budget (Revenue & Expenditure)

	Current year 2011 Act. Bal. Rand	Current year 2011 Adjusted budget Rand	Variance Rand	Variance %
Revenue				
Property Rates	200,361,727	186,625,388	13,736,339	7.3
Service charges	657,988,460	768,752,199	(110,763,739)	(14.4)
Rental of facilities and equipment	10,084,902	7,342,780	3,526,850	53.8
Interest received (trading)	56,716,174	77,796,290	(21,080,116)	(27.1)
Fines	2,286,768	4,615,638	(2,328,870)	(50.5)
Licences and permits	7,676	-	7,676	100.0
Government grants & subsidies	555,373,037	360,650,000	194,723,037	54.0
Agency fees	6,944,801	-	6,944,801	100.0
Commissions received	543,139	-	543,139	75.9
Other income	25,232,925	13,560,527	10,887,670	100.0
Interest received-Investment	5,534,413	-	5,534,413	100.0
Dividends received	8,671	-	8,671	100.0
	1,521,082,693	1,419,342,822	101,739,871	599.0
Expenses				
Personnel	(391,344,595)	(389,163,326)	4,318,731	(1.1)
Remuneration of councillors	(19,143,365)	(25,589,000)	6,445,635	(25.2)
Depreciation	(33,836,576)	(7,500,000)	(26,336,576)	351.2
Impairments	(372,188,325)	(397,009,808)	24,821,483	(6.3)
Finance costs	(45,020,347)	-	(45,020,347)	100.0
Repairs and maintenance-General	(30,731,627)	(97,642,321)	66,910,694	(68.5)
Bulk purchases	(436,037,979)	(371,421,555)	(35,016,424)	8.7
Contracted Services	(2,726,742)	-	(2,726,742)	100.0
General Expenses	(154,304,042)	(131,016,864)	(59,387,178)	62.6
	(1,485,333,598)	(1,419,342,874)	(65,990,724)	521.4
Transfer to other reserves				
Transfers to reserves	-	-	-	-
Net surplus/(deficit) for the year	35,749,095	(52)	35,749,147	728.2

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Appendix A

June 2011

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	Short term liability	Long term liability
		Rand	Rand	Rand	Rand	Rand	Rand
LONG-TERM LOANS							
ABSA @ 18%	3005999867	30/06/2010	(1,203,022)	1,203,022	-	-	-
DBSA @ 10%	02131/102	30/06/2010	994,171	-	994,171	-	-
DBSA @ 10%	08110/102	30/06/2013	5,655,720	-	2,364,727	3,290,993	-
DBSA @ 12.5%	102978	30/06/2012	19,922,458	-	1,681,743	18,240,715	-
INCA @ 16.5%	MATJ-00-0003	30/06/2010	(188,927)	-	(188,927)	-	-
INCA @ 17.1%	VRG109M-S	30/06/2010	(78,355)	-	(78,355)	-	-
INCA @ 17.44%	VRG112H-S	30/06/2012	147,323	-	67,518	79,805	-
INCA @ 16.45%	VRG108Z-S	30/06/2009	(67,164)	-	(67,164)	-	-
INCA(FBC) @ 16.5%	MATJ-00-0003	30/06/2010	786,357	-	786,357	-	-
INCA(PIC) @ 16.5%	MATJ-00-0003	30/06/2010	817,945	-	817,945	-	-
			26,786,506	1,203,022	6,378,015	21,611,513	21,611,513
Total external loans			26,786,506	1,203,022	6,378,015	21,611,513	-