



**Mutale Municipality  
Annual Financial Statements  
for the year ended 30 June 2012**

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## General Information

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**Legal Form of Entity**

Municipality

**EXECUTIVE COMMITTEE**

Councillor N.J Mukwevho (Mayor)  
Councillor L.H Netshipise ( Speaker)  
Councillor A. E Nekhunguni (Chief Whip)  
Councillor N.A Leiba (Member)  
Councillor A.S Rambuda (Member)  
Councillor A.G Netshisaulu (Member)  
Councillor T.S Madube  
Councillor L.D Mpondoro  
Councillor A.B Matshusa  
Councillor K.P Tshivhenga  
Councillor A.R Mavhungu  
Councillor N.G Mawela  
Councillor N.P Munzhelele  
Councillor M.J Mariba  
Councillor K.A Lukhalimana  
Councillor H.N Nephali  
Councillor N.E Mudzielwana  
Councillor P.D Nekhunguni  
Councillor V.R Maisha  
Councillor T.J Raluswinga  
Councillor A.S Thabatshira  
Councillor J.K Khunwana  
Councillor R.L Gababeni  
Councillor L.M Netshisaulu  
Councillor M.P Mbedzi  
Councillor G.G Nekhubvi

**Grading of Local Authority**

Grade 2

**Acting Chief Finance Officer (CFO)**

Mr T.A Tshinavhe

**Accounting Officer**

Mr T.G Netshanzhe

**Registered office**

Old Manenu Building  
Battalion Building  
Mutale Town

**Business address**

Old Manenu Building  
Battalion Building  
Mutale Town  
0956

**Postal address**

Private Bag X1254  
Mutale  
0956

**Bankers**

FNB

**Auditors**

Auditor General (South Africa)

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Index

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

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## Abbreviations

OID	Occupational Injuries and Diseases
LGSETA	Local Government Sector Educational Training Authority
EPWP	Extended Public Works Programme
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
NLG	National Lottery Grant
IAS	International Accounting Standards
INEP	Intergrated National Electrification Programme
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
FMG	Financial Management Grant
MSIG	Municipal Systems Improvement Grant
LED	Local Economic Development

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

# **Mutale Municipality**

Annual Financial Statements for the year ended June 30, 2012

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

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer is 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 statement set out on pages 4 to 34, which have been prepared on the going concern basis, were approved by the municipality on 31 August 2012 and were signed on its behalf by:

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**Mr T.G Netshanzhe**  
**Municipal Manager**

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
<b>ASSETS</b>			
<b>Current Assets</b>			
Inventories	5	107,341	346,085
Other receivables from exchange transactions	6	2,112,531	737,902
VAT receivable	7	8,416,573	6,250,860
Consumer debtors	8	2,145,432	559,029
Cash and cash equivalents	9	97,192	440,688
		<b>12,879,069</b>	<b>8,334,564</b>
<b>Non-Current Assets</b>			
Investment property	2&3	1,896,230	-
Property, plant and equipment	3	80,426,785	62,989,643
Intangible assets	4	332,215	242,916
		<b>82,655,230</b>	<b>63,232,559</b>
<b>Total Assets</b>		<b>95,534,299</b>	<b>71,567,123</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Finance lease obligation	10	-	253,335
Payables from exchange transactions	13	20,769,333	15,919,995
Consumer deposits	14	212,587	211,783
Unspent conditional grants and receipts	11	12,834,635	22,201,262
Provisions	12	1,588,403	1,235,201
Current portion of liability		274,015	243,030
		<b>35,678,973</b>	<b>40,064,606</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	10	69,354	177,455
Long term liability		1,157,712	1,431,727
		<b>1,227,066</b>	<b>1,609,182</b>
<b>Total Liabilities</b>		<b>36,906,039</b>	<b>41,673,788</b>
<b>Net Assets</b>		<b>58,628,260</b>	<b>29,893,335</b>
<b>Net Assets</b>			
Accumulated surplus		58,628,260	29,893,335

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
<b>Revenue</b>			
Property rates	16	3,315,697	3,110,860
Service charges	17	224,660	193,131
Rental of facilities and equipment		63,705	70,183
Fines		195,980	194,355
Licences and permits		2,290,354	2,225,830
Government grants & subsidies	18	60,648,102	41,425,735
Other Income	19	2,323,672	346,286
Interest received	24	385,059	350,276
Interest Received - Trade and Other Receivables	24	1,153,184	223,473
<b>Total Revenue</b>		<b>70,600,413</b>	<b>48,140,129</b>
<b>Expenditure</b>			
Personnel	21	(25,157,386)	(22,248,564)
Remuneration of councillors	22	(6,417,235)	(5,231,388)
Depreciation and amortisation	25	(1,371,229)	(1,648,944)
Finance costs	26	(2,117,007)	(488,249)
Debt impairment	23	(126,245)	(2,238,934)
Repairs and maintenance		(2,168,159)	(2,811,998)
General Expenses	20	(6,119,989)	(6,267,362)
<b>Total Expenditure</b>		<b>(43,477,250)</b>	<b>(40,935,439)</b>
<b>Surplus for the year</b>		<b>27,123,163</b>	<b>7,204,690</b>

## Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	22,635,617	22,635,617
Adjustments		
Prior year adjustments	53,028	53,028
<b>Balance at July 01, 2010 as restated</b>	<b>22,688,645</b>	<b>22,688,645</b>
Changes in net assets		
Surplus for the year	7,204,690	7,204,690
Total changes	7,204,690	7,204,690
Opening balance as previously reported	29,844,406	29,844,406
Adjustments		
Prior year adjustments	53,028	53,028
<b>Balance at July 01, 2011 as restated</b>	<b>29,897,434</b>	<b>29,897,434</b>
Changes in net assets		
Surplus for the year	27,123,163	27,123,163
Prior Year Adjustment	1,607,663	1,607,663
Total changes	28,730,826	28,730,826
<b>Balance at June 30, 2012</b>	<b>58,628,260</b>	<b>58,628,260</b>

Note(s)

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Fines, rental income, licencing and permits		2,550,039	-
Grants		70,814,681	41,125,734
Interest income		385,059	573,749
Receipts from debtors		791,833	3,303,991
Other receipts		2,323,672	3,136,654
Working Capital Changes		-	9,000,481
		76,865,284	57,140,609
<b>Payments</b>			
Employee costs		(31,574,621)	(27,479,952)
Suppliers		(24,084,958)	(9,079,359)
Finance costs		(2,117,007)	(488,249)
Other cash item		-	(9,358,324)
		(57,776,586)	(46,405,884)
<b>Net cash flows from operating activities</b>	28	<b>19,088,698</b>	<b>10,734,725</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(20,707,443)	(1,126,710)
Purchase of other intangible assets	4	(89,299)	-
<b>Net cash flows from investing activities</b>		<b>(20,435,391)</b>	<b>(4,496,380)</b>
<b>Cash flows from financing activities</b>			
Movement in other long term liability		(243,030)	(254,590)
Finance lease payments		(361,436)	(191,842)
Prior Year Adjustment		1,607,663	-
<b>Net cash flows from financing activities</b>		<b>1,003,197</b>	<b>(446,432)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(343,496)</b>	<b>322,442</b>
Cash and cash equivalents at the beginning of the year		440,688	118,246
<b>Cash and cash equivalents at the end of the year</b>	9	<b>97,192</b>	<b>440,688</b>

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

The following GRAP standards have been issued but are not yet effective

At the date of authorisation of these Annual Financial Statements, the following standards and interpretations were in issue but not yet effective and have not been early adopted by the municipality:.

GRAP 18 - Segment Reporting

GRAP 21 - Impairment of non-cash-generating Assets

GRAP 23 - Revenue from non-exchange transactions

GRAP 24 - Presentation of Budget Information in Financial Statements

GRAP 25 - Employee benefits

GRAP 26 - Impairment of Cash-generating assets

GRAP 103 - Heritage assets

GRAP 104 - Financial Instruments

GRAP 105 - Transfer of functions between entities under common control

GRAP 106 - Transfer of functions between entities not under common control

GRAP 107 - Mergers

GRAP 20 - Related party disclosures

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

These accounting policies are consistent with the previous period.

#### 1.1 Investment property

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

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

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

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

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

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1.1 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

### 1.2 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 year.

Items of property, plant and equipment are initially recognised as an assets on acquisition dates and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by 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.

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

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

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

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

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

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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

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
Leasehold property	-
•	
Plant and equipment	20
Furniture and fittings	17
Motor vehicles	4 - 7
Office equipment	5
Other Vehicles	17
Computer Equipment	5
Infrastructure	
• Electricity	20
• Roads and Paving	20
Community	
• Buildings	30
• Recreational Facilities	30
Emergency equipment	5
Bins and containers	8

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.

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.

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

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

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

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

### 1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1.3 Intangible assets (continued)

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

Item	Useful life
Computer Software	3 - 5 years

### 1.4 Financial instruments

#### Initial recognition and measurement

Financial instruments are measured initially at fair value

#### Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1.4 Financial instruments (continued)

#### Impairment of financial assets

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

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

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

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.

#### Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

#### Payables from exchange transactions

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

#### Cash and cash equivalents

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

#### Bank overdraft and borrowings

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

### 1.5 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.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1.5 Leases (continued)

#### 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.

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

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

#### Operating leases - lessee

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

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

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

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

In general, the basis of allocating cost to inventory items is the first-in, first-out method OR the weighted average method.

# Mutale Municipality

Annual Financial Statements for the year ended June 30, 2012

## Accounting Policies

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### 1.7 Employee benefits

#### Short-term employee benefits

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

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

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

#### Defined contribution plans

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

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

### 1.8 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.

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.

### 1.9 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.

# Mutale Municipality

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### 1.9 Revenue from exchange transactions (continued)

#### Measurement

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

#### 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 services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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.

#### Interest revenue

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

### 1.10 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.

# Mutale Municipality

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## Accounting Policies

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

#### Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

#### 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.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

#### 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.

### 1.11 Investment income

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

# Mutale Municipality

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### 1.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

### 1.13 Comparative figures

Budget information in accordance with GRAP 1 and 24, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

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

### 1.14 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.

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

### 1.15 Fruitless and wasteful expenditure

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

### 1.16 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), 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. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 Offsetting

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

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

### 1.18 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.

# **Mutale Municipality**

Annual Financial Statements for the year ended June 30, 2012

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### **1.19 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.

### **1.20 Related parties**

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

# Mutale Municipality

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## 2. Investment property

	2012		2011	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Investment property	1,896,230	-	1,896,230	-

### Reconciliation of investment property - 2012

	Opening balance	Transfers	Total
Investment property	-	1,896,230	1,896,230

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

# Mutale Municipality

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### 3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	8,902,197	(2,028,759)	6,873,438	10,798,427	(1,817,699)	8,980,728
Plant and machinery	1,614,044	(435,478)	1,178,566	1,089,044	(358,594)	730,450
Furniture and fixtures	955,114	(495,158)	459,956	911,864	(440,002)	471,862
Motor vehicles	4,408,413	(2,030,359)	2,378,054	4,408,413	(1,873,723)	2,534,690
Office equipment	2,687,920	(782,811)	1,905,109	2,687,920	(685,168)	2,002,752
IT equipment	1,213,093	(1,196,801)	16,292	1,279,928	(1,193,370)	86,558
Infrastructure	46,236,011	(874,128)	45,361,883	46,236,011	(424,139)	45,811,872
Bins and containers	29,562	(22,172)	7,390	29,562	(18,476)	11,086
Work In Progress	20,066,116	-	20,066,116	-	-	-
Park facilities	1,769,540	(341,097)	1,428,443	1,769,540	(341,097)	1,428,443
Other property, plant and equipment	1,804,196	(1,052,658)	751,538	1,804,196	(872,994)	931,202
<b>Total</b>	<b>89,686,206</b>	<b>(9,259,421)</b>	<b>80,426,785</b>	<b>71,014,905</b>	<b>(8,025,262)</b>	<b>62,989,643</b>

### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Depreciation	Total
Buildings	8,980,728	-	(1,896,230)	(211,060)	6,873,438
Plant and machinery	730,450	524,999	-	(76,883)	1,178,566
Furniture and fixtures	471,862	43,249	-	(55,155)	459,956
Motor vehicles	2,534,690	-	-	(156,636)	2,378,054
Office equipment	2,002,752	-	-	(97,643)	1,905,109
IT equipment	86,558	73,079	-	(143,345)	16,292
Infrastructure	45,811,872	-	-	(449,989)	45,361,883
Bins and containers	11,086	-	-	(3,696)	7,390
Work In Progress	-	20,066,116	-	-	20,066,116
Park facilities	1,428,443	-	-	-	1,428,443
Other property, plant and equipment	931,202	-	-	(179,664)	751,538
	<b>62,989,643</b>	<b>20,707,443</b>	<b>(1,896,230)</b>	<b>(1,374,071)</b>	<b>80,426,785</b>

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

	Opening balance	Additions	Under Construction	Opening Balance, Accumulated Depreciation	Depreciation	Total
Buildings	10,776,236	429,398	-	(1,471,857)	(345,842)	9,387,934
Plant and machinery	1,027,157	61,497	-	(304,533)	(53,919)	730,201
Furniture and fixtures	911,863	5,059	-	(386,437)	(53,882)	476,604
Motor vehicles	4,208,651	199,762	-	(1,624,789)	(249,531)	2,534,276
Office equipment	1,659,520	-	-	(635,585)	(97,619)	926,316
IT equipment	1,358,805	295,249	-	(959,225)	(185,337)	509,492
Infrastructure	38,212,014	135,745	7,888,272	(103,481)	(320,659)	45,811,891
Bins and containers	29,562	-	-	(14,780)	(3,695)	11,086
Leased Assets	898,321	-	-	(434,188)	(179,664)	284,469
Park facilities	3,160,529	-	-	(441,898)	(158,342)	2,560,290
	<b>62,242,658</b>	<b>1,126,710</b>	<b>7,888,272</b>	<b>(6,376,773)</b>	<b>(1,648,490)</b>	<b>63,232,559</b>

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

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.

### 4. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	469,288	(137,073)	332,215	242,916	-	242,916

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Total
Computer Software	242,916	89,299	332,215

#### Reconciliation of intangible assets - 2011

	Opening balance	Accumulated Amortisation and, Impairment Losses	Total
Computer Software	379,988	(137,072)	242,916

### 5. Inventories

Consumable stores	107,341	346,085
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### 6. Other receivables from exchange transactions

Other receivables from exchange revenue	2,112,531	737,902
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### 7. VAT receivable

VAT	8,416,573	6,250,860
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VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

### 8. Consumer debtors

<b>Gross balances</b>		
Rates	2,145,432	559,029
<b>Net balance</b>		
Rates	2,145,432	559,029

# Mutale Municipality

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## 8. Consumer debtors (continued)

### Rates

Current (0 -30 days)	257,452	383,605
31 - 60 days	210,254	175,424
61 - 90 days	193,088	-
91 - 120 days	467,275	-
121 - 150 days	519,195	-
> 150 days	498,168	-
	<b>2,145,432</b>	<b>559,029</b>

### Refuse

Current (0 -30 days)	30,623	76,060
31 - 60 days	23,005	60,371
61 - 90 days	3,326	60,288
91 - 120 days	23,753	58,492
121 - 150 days	(80,707)	(255,211)
	-	-

## 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,280	7,394
Bank balances	85,927	431,691
Short-term deposits	3,985	1,603
	<b>97,192</b>	<b>440,688</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2012	June 30, 2011	June 30, 2010
FNB BANK - Current Account 54660083097	196,133	607,476	-	85,927	431,691	-
FNB BANK - Invest Account 62047182556	3,985	1,054	-	3,985	1,054	-
<b>Total</b>	<b>200,118</b>	<b>608,530</b>	<b>-</b>	<b>89,912</b>	<b>432,745</b>	<b>-</b>

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## 10. Finance lease obligation

Minimum lease payments due	2012	2011
- within one year	186,742	303,152
- in second to fifth year inclusive	-	186,741
	186,742	489,893
less: future finance charges	(9,286)	(59,103)
<b>Present value of minimum lease payments</b>	<b>177,456</b>	<b>430,790</b>
 <b>Present value of minimum lease payments due</b>		
- within one year	186,742	303,152
- in second to fifth year inclusive	-	186,741
	<b>186,742</b>	<b>489,893</b>
 Non-current liabilities	69,354	177,455
Current liabilities	-	253,335
	<b>69,354</b>	<b>430,790</b>

The Municipality leases photocopiers which are under finance lease.

The average lease term was 3 years and the average effective borrowing rate was 9% (2011: 10%).

Interest rates are linked to prime at the contract date. All 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 .

## 11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts	2012	2011
MIG	4,908,888	9,403,579
Operations & Maintenance (Vhembe District)	6,698,025	11,569,961
National Lottery Grant	1,227,722	1,227,722
	<b>12,834,635</b>	<b>22,201,262</b>

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

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

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

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## 12. Provisions

### Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Provision for landfill site	1,235,201	123,520	1,358,721
Provision for long service awards	-	229,682	229,682
	<b>1,235,201</b>	<b>353,202</b>	<b>1,588,403</b>

### Reconciliation of provisions - 2011

	Opening Balance	Total
Provision for landfill site	1,235,201	1,235,201

## 13. Payables from exchange transactions

Trade payables	6,439,419	4,592,858
Payments received in advance	94,814	57,815
Other payables	1,854,502	2,912,319
Accrued leave pay	2,135,437	1,927,097
Accrued bonus	463,410	412,961
Accrued interest	395	395
Accrued expenses	6,731,100	3,097,353
Deposits received	10,788	10,650
Retention	3,039,454	2,908,547
Salaries	14	-
	<b>20,769,333</b>	<b>15,919,995</b>

## 14. Consumer deposits

Consumer Deposit	212,587	211,783
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## 15. Revenue

Property rates	3,315,697	3,110,860
Service charges	224,660	193,131
Rental of facilities & equipment	63,705	70,183
Fines	195,980	194,355
Licences and permits	2,290,354	2,225,830
Government grants & subsidies	60,648,102	41,425,735
	<b>66,738,498</b>	<b>47,220,094</b>

### The amount included in revenue arising from exchanges of goods or services

are as follows:

Service charges	224,660	193,131
Rental of facilities & equipment	63,705	70,183
Licences and permits	2,290,354	2,225,830
	<b>2,578,719</b>	<b>2,489,144</b>

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## 15. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

### Taxation revenue

Property rates	3,315,697	3,110,860
Fines	195,980	194,355
<b>Transfer revenue</b>		
Levies	60,648,102	41,425,735
	<b>64,159,779</b>	<b>44,730,950</b>

## 16. Property rates

### Rates received

Less: Income forgone	3,627,174	3,454,662
	(311,477)	(343,802)
	<b>3,315,697</b>	<b>3,110,860</b>

## 17. Service charges

Refuse removal	224,660	193,131
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# Mutale Municipality

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## 18. Government grants and subsidies

Equitable share	37,232,000	29,975,380
Local Economic Development (LED)	444,352	436,537
MSIG	790,000	1,080,000
MFMG	1,254,007	1,000,343
Operations & Maintenance (Vhembe District)	4,725,973	6,414,875
Intergrated National Electrification Programme	2,291,958	-
MIG	13,909,812	2,218,600
Other Grants	-	300,000
	<b>60,648,102</b>	<b>41,425,735</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 100% of property rates charged and 50% on refuse removal charges, which is funded from Equitable Share Grant. Also the indigents receive 6 kilo-litres of water services which is also funded from the Vhembe District Municipality Grant.

### Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	9,403,579	6,087,179
Current-year receipts	13,995,000	5,535,000
Conditions met - transferred to revenue	(13,909,812)	(2,218,600)
	<b>9,488,767</b>	<b>9,403,579</b>

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

### Municipal Finance Management Grant (MFMG)

Balance unspent at beginning of year	-	317
Current-year receipts	1,250,000	100,000
Conditions met - transferred to revenue	(1,254,007)	(100,317)
	<b>(4,007)</b>	-

Conditions still to be met - remain liabilities (see note 11).

### Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	-	330,000
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(1,080,000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

### Operations & Maintenance Grant (Vhembe District)

Balance unspent at beginning of year	11,569,961	5,495,983
Current-year receipts	4,288,190	12,518,432
Conditions met - transferred to revenue	(9,160,126)	(6,444,454)
	<b>6,698,025</b>	<b>11,569,961</b>

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## 18. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

### National Lottery Grant

Balance unspent at beginning of year	1,227,722	1,227,722
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>1,227,722</b>	<b>1,227,722</b>

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

## 19. Other income

Other income	1,750,068	346,286
EPWP	290,000	-
LGSETA	283,604	-
	<b>2,323,672</b>	<b>346,286</b>

## 20. General expenses

Advertising	285,390	69,507
Auditors remuneration	319,821	1,607,253
Bank charges	222,935	96,595
Cleaning	9,868	38,192
Consulting and professional fees	432,807	1,361,297
Entertainment	7,552	24,362
Conferences and seminars	36,700	-
Lease rentals on operating lease	55,302	95,195
Postage and courier	7,193	5,777
Printing and stationery	172,582	155,295
Protective clothing	170,560	112,860
Staff welfare	71,308	38,804
Telephone and fax	438,502	299,036
Training	316,725	82,885
Other expenses	3,572,744	2,280,304
	<b>6,119,989</b>	<b>6,267,362</b>

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### 21. Employee related costs

Basic	15,557,977	15,174,927
Bonus	1,205,698	1,045,971
Medical aid - company contributions	227,919	131,686
Unemployment Insurance Fund	133,864	130,817
Workers Compensation Assistance	792,500	-
Skills Development Levy	213,936	172,932
Travel, motor car, accommodation, subsistence and other allowances	245,583	143,358
Overtime payments	451,623	333,261
Long-service awards	226,634	-
Acting allowances	66,120	38,400
Transport Allowance	2,237,044	1,698,619
Car allowance	842	-
Housing benefits and allowances	34,478	44,680
Leave Gratuity	-	56,447
Pension Fund Contribution	3,459,890	3,006,061
Industrial Council Levy	5,934	6,001
Occupational Injuries and Disease	71,856	60,754
Cellphone Allowance	145,388	119,600
Night Shift Allowance	80,100	85,050
	<b>25,157,386</b>	<b>22,248,564</b>

### Remuneration of Municipal Manager

Annual Remuneration	425,897	372,195
Travel and Related Allowances	232,936	170,150
Backpay	57,912	-
Contributions to UIF, Medical and Pension Funds	112,298	111,295
Cellphone Allowance	21,600	-
	<b>850,643</b>	<b>653,640</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	440,264	328,688
Travel and Related Allowances	184,826	159,260
Cellphone Allowance	11,700	-
Contributions to UIF, Medical and Pension Funds	96,557	98,460
Leave Gratuity	44,909	-
Acting Allowances	15,571	-
	<b>793,827</b>	<b>586,408</b>

### Remuneration of Technical Services Manager

Annual Remuneration	450,276	328,688
Cellphone Allowance	12,000	-
Travel and Related Allowances	199,626	157,246
Contributions to UIF, Medical and Pension Funds	105,031	98,460
	<b>766,933</b>	<b>584,394</b>

### Remuneration of Corporate Services Manager

Annual Remuneration	450,276	328,688
Cellphone Allowance	12,000	-
Travel and Related Allowances	199,626	157,246
Contributions to UIF, Medical and Pension Funds	105,031	98,460
	<b>766,933</b>	<b>584,394</b>

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## 22. Remuneration Of Councillors

Executive Mayor	579,903	4,008,682
Speaker	490,365	-
Chief Whip	457,723	-
Executive Committee Members	977,670	-
Other Councillors	3,911,574	1,222,706
	<b>6,417,235</b>	<b>5,231,388</b>

## 23. Debt impairment

Debt impairment	126,245	2,238,934
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## 24. Interest Revenue

<b>Interest Revenue</b>		
Outstanding Receivables	1,153,184	223,473

## Interest revenue

Bank	385,059	350,276
	<b>1,538,243</b>	<b>573,749</b>

## 25. Depreciation and amortisation

Property, plant and equipment	1,371,229	1,648,944
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## 26. Finance costs

Non-current borrowings	190,082	286,061
Trade and other payables	1,926,925	202,188
	<b>2,117,007</b>	<b>488,249</b>

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit .

## 27. Auditors' remuneration

Fees	319,821	1,607,253
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## 28. Cash generated from operations

Surplus	27,123,163	7,204,690
<b>Adjustments for:</b>		
Depreciation and amortisation	1,371,229	1,648,944
Dividends received	(361,351)	-
Debt impairment	126,245	2,238,934
Movements in provisions	353,202	-
Other non-cash items	6,941	-
<b>Changes in working capital:</b>		
Inventories	238,744	431,733
Other receivables from non-exchange transactions	(1,374,629)	(46,005)
Consumer debtors	(1,712,648)	(41,912)
Payables from exchange transactions	4,849,338	9,088,397
VAT	(2,165,713)	(1,850,773)
Unspent conditional grants and receipts	(9,366,627)	-
Consumer deposits	804	(7,939,283)
	<b>19,088,698</b>	<b>10,734,725</b>

## 29. Commitments

### Authorised capital expenditure

#### Commitments Approved and Contracted for

• Property, plant and equipment	11,813,527	12,988,416
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# **Mutale Municipality**

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## **30. Contingencies**

No contingent liabilities have been identified at year end.

### **Contingent liabilities**

No contingent liabilities were noted during the period.

## **31. Related parties**

### **Relationships**

Close family members of key management

Associate of close family member of key management

No related party transactions took place other than compensation paid to councillors and key management.

## **32. Prior period errors**

The useful lives and residual values of movable assets were not reviewed resulting in mistatement of PPE, accumulated surplus and depreciation. The method used for revising the useful lives also needed to be done by a qualified assessor to ensure acceptable criteria.

Investment property was not recognised separately under PPE for Mutale Arts and Craft centre which was a property that was held to earn rentals.

## **33. Risk management**

### **Financial risk management**

#### **Liquidity risk**

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

#### **Interest rate risk**

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

#### **Credit risk**

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

Trade receivables comprise a widespread customer base. The municipality cannot, however, limit the rate at which it can offer services to its stakeholders as it has constitutional mandate to offer these services.

## **34. Going concern**

We draw attention to the fact that at June 30, 2012, the municipality had accumulated deficits of 58,628,260 and that the municipality's total liabilities exceed its assets by 58,628,260.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The municipality depends on government grants for its operations.

## **35. Events after the reporting date**

The Accounting Officer is not aware of any significant material matter or circumstance that occurred after the year-end and warrant adjustment or disclosure in the financial statements.

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## 36. Key sources of estimation uncertainty and judgements

The following areas involve significant degree of estimation uncertainty :

Useful lives and residual values of property, plant and equipment

Recoverable amounts of property, plant and equipment.

Provision for doubtful debts.

Impairment of assets.

Provision for landfill site.

Provision for long service.

## 37. Unauthorised expenditure

Opening Balance	10,631,301	472,563
Unauthorised current year expenditure	-	10,631,301
Approved by Council or condoned	(10,631,301)	(472,563)
	-	<b>10,631,301</b>

## 38. Fruitless and wasteful expenditure

Opening Balance	270,831	140,385
Fruitless and wasteful expenditure	1,926,925	270,831
Approved by Council or condoned	(270,831)	(140,385)
	<b>1,926,925</b>	<b>270,831</b>

Current year fruitless and wasteful expenditure consists of late payment interest and penalties by Telkom, Eskom, Auditor General and SARS.

## 39. Irregular expenditure

## 40. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	27,123,163	7,204,690
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## 41. Additional disclosure in terms of Municipal Finance Management Act

### Audit fees

Opening balance	514,893	969,427
Current year subscription / fee	1,006,794	1,607,253
Amount paid - current year	(998,292)	(2,061,787)
	<b>523,395</b>	<b>514,893</b>

### PAYE and UIF

Opening balance	945,717	1,324,947
Current year subscription / fee	146,416	2,928,004
Amount paid - current year	(926,365)	(3,307,234)
	<b>165,768</b>	<b>945,717</b>

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

### Pension and Medical Aid Deductions

Opening balance	675,750	4,193,390
Current year subscription / fee	1,061,685	3,669,671
Amount paid - current year	(1,737,435)	(7,187,311)
	-	<b>675,750</b>

### VAT

VAT receivable	8,416,573	6,250,860
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VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year.

### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

June 30, 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor P.D Nekhunguni	530	486	1,016
Councillor R.V Maisha	205	1,082	1,287
Councillor T.J Raluswinga	473	245	718
Councillor A.G Netshisaulu	40	212	252
Councillor A.E Nekhunguni	169	-	169
Councillor T.S Madume	40	192	232
Councillor R. Masiandoita	283	3,484	3,767
Councillor A.R Mavhungu	34	23	57
Councillor K.A Lukhalimana	622	551	1,173
	<b>2,396</b>	<b>6,275</b>	<b>8,671</b>

June 30, 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor P.D Nekhunguni	-	242	242
Councillor T.J Raluswinga	113	209	322
Councillor A.G Netshisaulu	37	-	37
Councillor L.M Netshisaulu	46	-	46
Councillor A.E Nekhunguni	52	-	52
Councillor S. Madume	177	-	177
Councillor K. Lukhalimana	228	-	228
Councillor R.V Maisha	55	-	55
	<b>708</b>	<b>451</b>	<b>1,159</b>

## 42. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

## 43. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

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## **44. 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 Council and includes a note to the annual financial statements.