



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

The Auditor General: Free State

# Moqhaka Local Municipality

(Municipal demarcation code FS201)

Annual Financial Statements for the year ended 30 June 2012

## General Information

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<b>Legal form of entity</b>	An organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	Providing municipal services and maintaining the best interests of the local community, mainly in the Moqhaka area.
<b>Mayoral committee</b>	
Executive Mayor	Mohapi, MJ
Speaker	Nakedi, ACWD
Chief Whip	Mareka, J
Members of Mayoral Committee	Colbert, DPC Koloi, MA Matshedisho, DA Machobane, ML Mokotla, ME Moletsane, ER Mokodutlo, NP Makau, TL Thipane, MP
<b>Grading of local authority</b>	The Moqhaka Municipality is a grade 4 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
<b>Accounting Officer</b>	Mqwathi, MS
<b>Chief Finance Officer (CFO)</b>	Mokoena, MP
<b>Registered office</b>	Municipal Offices Hill Street Kroonstad 9499
<b>Business address</b>	Municipal Offices Hill Street Kroonstad 9499
<b>Postal address</b>	PO Box 302 Kroonstad 9500
<b>Auditors</b>	The Auditor General: Free State

# Moqhaka Local Municipality

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## General Information

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### Members of Council

Dalton, CM  
Dire, AMS  
Green, MM  
Hattingh, JM  
Kgang, LD  
Kubheka, DM  
Letsabo, MJ  
Letsitsa, ME  
Lithupa, MJ  
Magadlela, ZS  
Mahasa, LP (resigned 31/3/12)  
Makoele, WL  
Malokotsa, SV  
Masuret, A  
Mbono, MD  
Mkhotheni, NW  
Mkhwanazi, TM  
Moeketsi, DA  
Mofokeng, MJ  
Mokoena, S  
Monoto, MA  
Notsi, EM  
Ntsala, TM  
Nzunga, DN  
Pittaway, M  
Rajuiili, EV  
Rooskrans, B  
Seleke, LM  
Selikoe, NM  
Sethabela, MJ  
Shahim, DM  
Silevu, JS  
Taje, FM  
Thajane, MI  
Tladi, SB  
Twapa, VPM  
Vermeulen, M  
Viljoen, AH  
Willie, GV

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
EPWP	Extended Public Works Programme
DBSA	Development Bank of South Africa
IDP	Integrated Development Plan
DWA	Department of Water Affairs
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)
SCM	Supply Chain Management
MMC	Member of Mayoral Committee
COGTA	Cooperative Governance and Traditional Affairs

# Moqhaka Local Municipality

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## 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 were 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.

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

The annual financial statements set out on pages 6 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

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**Mqwathi, MS**  
**Municipal Manager**

# Moqhaka Local Municipality

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## Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
<b>Assets</b>			
Current Assets			
Cash and cash equivalents	3	15,746,966	4,531,462
Receivables from exchange transactions	4	59,352,005	47,667,407
Inventories	5	4,814,090	4,455,531
Investments	6	57,057	54,240
Receivables from operating leases	7	-	71,674
Other receivables from non-exchange transactions	8	645,017	1,464,101
VAT receivable	9	15,524,369	12,506,446
		<b>96,139,504</b>	<b>70,750,861</b>
Non-Current Assets			
Intangible assets	10	1,096,249	1,424,574
Investment property	11	20,776,207	18,686,169
Property, plant and equipment	13	1,165,581,370	1,143,676,149
Investments	6	259,288	361,401
		<b>1,187,713,114</b>	<b>1,164,148,293</b>
<b>Total Assets</b>		<b>1,283,852,618</b>	<b>1,234,899,154</b>
<b>Liabilities</b>			
Current Liabilities			
Consumer deposits	16	8,315,020	7,706,534
Finance lease obligation	17	3,409,740	6,443,528
Other financial liabilities	18	25,756,839	23,911,230
Provisions	22	1,390,086	-
Payables from exchange transactions	19	162,664,915	148,277,016
Unspent conditional grants and receipts	20	7,322,263	5,421,496
VAT payable	21	8,922,992	4,623,369
		<b>217,781,855</b>	<b>196,383,173</b>
Non-Current Liabilities			
Finance lease obligation	17	400,691	3,755,671
Other financial liabilities	18	2,698,405	2,332,302
Provisions	22	8,744,317	5,274,335
Retirement benefit obligation	14	70,931,000	61,956,000
		<b>82,774,413</b>	<b>73,318,308</b>
<b>Total Liabilities</b>		<b>300,556,268</b>	<b>269,701,481</b>
<b>Net Assets</b>		<b>983,296,350</b>	<b>965,197,673</b>
<b>Net Assets</b>			
Accumulated surplus		983,296,350	965,197,673

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## Statement of Financial Performance

Figures in Rand	Note(s)	2012	Restated 2011
<b>Revenue</b>			
Property rates	25	38,800,214	35,252,452
Service charges	26	240,522,278	202,796,867
Rental income	30	4,522,527	3,379,868
Fines		893,535	975,612
Government grants & subsidies	24	196,012,806	166,856,881
Fees earned	28	647,113	578,845
Discount received	28	12,248	15,091
Other income	29	5,328,815	7,013,791
Interest received	27	5,706,213	5,307,840
Dividends received	27	14,258	5,947
<b>Total Revenue</b>		<b>492,460,007</b>	<b>422,183,194</b>
<b>Expenditure</b>			
Personnel	32	(156,390,149)	(134,230,907)
Remuneration of councillors	33	(14,128,359)	(12,591,562)
Depreciation and amortisation	36	(12,132,521)	(49,749,692)
Finance costs	37	(17,478,821)	(15,267,170)
Debt impairment	34	(19,101,893)	(36,121,404)
Repairs and maintenance		(41,990,963)	(22,487,026)
Bulk purchases	41	(142,221,632)	(111,830,655)
Contracted services	39	(8,465,316)	(6,188,586)
Grants and subsidies paid	40	(7,814,351)	-
Loss on disposal of assets		(138,241)	(476,688)
General Expenses	31	(63,044,195)	(47,082,170)
<b>Total Expenditure</b>		<b>(482,906,441)</b>	<b>(436,025,860)</b>
Fair value adjustments	35	(2,836)	26,639
Actuarial Gains/(losses) on Retirement Benefit Obligation		(3,312,000)	(7,737,000)
<b>Surplus/(Deficit) for the year</b>		<b>6,238,730</b>	<b>(21,553,027)</b>



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## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,035,786,081	1,035,786,081
Adjustments		
Correction of prior period error	784,051	784,051
<b>Balance at 01 July 2010 as restated</b>	<b>1,036,570,132</b>	<b>1,036,570,132</b>
Changes in net assets		
Fixed Asset Adjustment for 2011 (Note 45)	(402,964)	(402,964)
Intangible assets (Note 45)	(96,468)	(96,468)
Termination benefits - Post Retirement Health Care (Note 45)	(49,320,000)	(49,320,000)
Net income (losses) recognised directly in net assets	(49,819,432)	(49,819,432)
Surplus/(Deficit) for the period as restated	(21,553,027)	(21,553,027)
Total recognised income and expenses for the period	(71,372,459)	(71,372,459)
Total changes	(71,372,459)	(71,372,459)
Opening balance as previously reported	1,027,746,060	1,027,746,060
Adjustments		
Correction of prior period error	(62,548,370)	(62,548,370)
<b>Balance at 01 July 2011 as restated</b>	<b>965,197,690</b>	<b>965,197,690</b>
Changes in net assets		
Adjustments against Accumulated Surplus	11,859,930	11,859,930
Net income (losses) recognised directly in net assets	11,859,930	11,859,930
Surplus/(Deficit) for the period	6,238,730	6,238,730
Total recognised income and expenses for the year	18,098,660	18,098,660
Total changes	18,098,660	18,098,660
<b>Balance at 30 June 2012</b>	<b>983,296,350</b>	<b>983,296,350</b>

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## Cash Flow Statement

Figures in Rand	Note(s)	2012	Restated 2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from ratepayers and other		251,379,982	207,817,065
Grants		199,062,808	170,812,013
Interest income		5,706,213	5,307,840
Dividends received		14,258	5,947
		<u>456,163,261</u>	<u>383,942,865</u>
<b>Payments</b>			
Employee costs		(160,759,276)	(141,776,601)
Suppliers		(232,265,656)	(150,675,386)
Finance costs		(16,163,692)	(13,408,666)
		<u>(409,188,624)</u>	<u>(305,860,653)</u>
<b>Net cash flows from operating activities</b>	42	<b><u>46,974,637</u></b>	<b><u>78,082,212</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	13	(30,256,860)	(69,479,501)
Proceeds from sale of property, plant and equipment	13	(7,412)	69
Purchase of other intangible assets	10	(101,972)	(1,037,955)
Increase / (decrease) of financial assets		99,296	(22,521)
		<u>(30,266,948)</u>	<u>(70,539,908)</u>
<b>Cash flows from financing activities</b>			
(Decrease) / increase of other financial liabilities		2,211,712	(132,006)
(Decrease) / increase of finance lease		(7,703,897)	(7,638,068)
		<u>(5,492,185)</u>	<u>(7,770,074)</u>
<b>Net increase in cash and cash equivalents</b>		<b>11,215,504</b>	<b>(227,770)</b>
Cash and cash equivalents at the beginning of the year		4,531,462	4,759,232
<b>Cash and cash equivalents at the end of the year</b>	3	<b><u>15,746,966</u></b>	<b><u>4,531,462</u></b>

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## Accounting Policies

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### 1. Statement of compliance

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.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

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

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Estimates and underlying assumptions are reviewed on an on-going basis. Revision to accounting estimates are recognised in the period in which the estimate are revised and in any future period affected. 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 municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

##### Fair value estimation

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

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

##### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

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## Accounting Policies

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### 1.1 Transfer of functions between entities under common control (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

#### Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual value on an annual basis, considering the conditional and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### 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 pension 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 pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

#### Effective interest rate and deferred payment terms

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

#### GRAP 24: Presentation of budget information

The municipality is required to present a comparison of the budget amounts for which it is held publicly accountable and actual. The comparison of budget and actual amounts present separately for each level of legislative oversight:

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

### 1.2 Investment property

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

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

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

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## Accounting Policies

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### 1.2 Investment property (continued)

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. Costs include material, labour directly attributable and borrowing costs. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows, for the current and the comparative period:

Item	Useful life
Investment property - land	indefinite
Investment property - buildings	5 - 30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

### 1.3 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.

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.

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## Accounting Policies

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

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

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

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

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

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

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

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

The useful lives of items of property, plant and equipment have been assessed as follows, for the current and comparative periods:

<b>Item</b>	<b>Average useful life</b>
Land	Indefinite
Buildings	5 - 30 years
Plant and machinery	2 - 15 years
Furniture and fixtures	2 - 10 years
Motor vehicles	2 - 20 years
Office equipment	3 - 7 years
IT equipment	3 - 7 years
Infrastructure	
• Park infrastructure assets	3 - 30 years
Community assets	
• Land	Indefinite
• Buildings	4 - 30 years
Electricity	10 - 30 years
Park infrastructure	10 - 30 years
Solid waste	2 - 15 years
Wastewater network	2 - 15 years
Portable water network	15 - 20 years
Storm water	15 - 20 years
Heritage	Indefinite
Roads, bridges and roadside structures	10 - 30 years

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

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.

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Annual Financial Statements for the year ended 30 June 2012

## Accounting Policies

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

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

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

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

### 1.4 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

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### 1.4 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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



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### 1.5 Intangible assets (continued)

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

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

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

Intangible assets, with definite useful lives, 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, for the current and comparative periods:

Item	Useful life
Computer software - financial system	20 years
Computer software - operating system	3 - 5 years

Intangible assets are derecognised:

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.6 Financial instruments

#### Classification

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

- Financial assets at fair value through surplus or deficit - held for trading
- Held-to-maturity investment
- 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 only re-assessed when contractual terms of the financial instrument have been changed.

#### 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.

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### 1.6 Financial instruments (continued)

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

#### Subsequent measurement

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

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

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 net assets until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established. Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in net assets, but only if the gain or loss of the asset is recognised in net assets..

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

Financial assets and financial liabilities are offset and the net amount reported on the financial position where there is a current legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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### 1.6 Financial instruments (continued)

#### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### Impairment of financial assets at amortised cost

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.

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.

#### Consumer deposits

Consumer deposits consists of deposits due by consumers upon opening of service accounts.

Consumer deposits are measured at initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset 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.

Consumer deposits are classified as loans and receivables.

#### 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. 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 uncollectable, 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.

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### 1.6 Financial instruments (continued)

#### 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. Cash and cash equivalents are classified as loans and receivables.

#### 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.

#### 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

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### 1.6 Financial instruments (continued)

- 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. .

### 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.

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.

### 1.7 Leases

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

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

#### 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.

Any contingent rents are expensed in the period in which they are incurred.

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

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### 1.7 Leases (continued)

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.

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

### 1.8 Inventories

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

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

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

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

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

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

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

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

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

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

### 1.9 Impairment of cash-generating assets

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

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

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

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

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

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### 1.9 Impairment of cash-generating assets (continued)

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

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

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

Useful life is either:

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

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

### 1.10 Employee benefits

#### Short-term employee benefits

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

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

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are recognised in surplus or deficit when the services are rendered.

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

#### Defined benefit plans

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

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

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

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

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

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

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

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

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### 1.10 Employee benefits (continued)

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.

#### Other post retirement obligations

The entity provides post-retirement health care benefits and gratuities upon retirement to retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. Independent qualified actuaries carry out valuations of these obligations. The benefits are charged to income as incurred throughout the year.

#### Multi employer plans

A multi employer plan is classified as either a defined benefit plan or a defined contribution plan. If the plan is a defined benefit plan, an actuarial valuation should be obtained. Normal defined benefit plan accounting would be applied to the proportionate share of the obligation and assets relating to the municipality. If actuaries are unable to provide the municipality with an actuarial valuation, the municipality accounts for the plan as if it were a defined contribution plan.

### 1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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.



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### 1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

### 1.12 Revenue from exchange transactions

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

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

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

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable.

#### 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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### 1.12 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 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.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest and dividends

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

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

### 1.13 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes. Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

#### Assessment Rates

Revenue from rates, including collection charges and penalty interest, shall be recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
  - 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, which are referred to as "interims", 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.

#### Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### Fines

Revenue from the issuing of fines shall be recognised when:

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

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

- There are two types of fines: spot fines and summonses. Municipalities will usually issue both types of fines. 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 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 should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

### Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

### 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 capitalised to qualifying assets except when inappropriate.

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.

Budget information, in accordance with GRAP 1 and based on IPSAS 24, has been provided in Annexure E(1) to these 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 in note 45.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 45.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practical, and the prior year comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 12.

### 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, unless it meets the definition and recognition criteria of an asset. 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.

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### 1.18 Fruitless and wasteful expenditure (continued)

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. 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.

### 1.20 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.

### 1.21 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.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

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 entity,

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### 1.21 Conditional grants and receipts (continued)

- 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.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of 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 should only be 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 should only be 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. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, whichever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

### Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- 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.

### 1.22 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

### 1.23 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.

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### 1.24 Capital Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

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### 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:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
<ul style="list-style-type: none"><li>IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 3: Determining Whether an Arrangement Contains a Lease</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 6: Loyalty Programmes</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 9: Distributions of Non-cash Assets to Owners</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 10: Assets Received from Customers</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
<ul style="list-style-type: none"><li>IGRAP 13: Operating Leases – Incentives</li></ul>	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.



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## 2. New standards and interpretations (continued)

• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 11 (as revised 2010): Construction Contracts	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 12 (as revised 2010): Inventories	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 13 (as revised 2010): Leases	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011	It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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## 2. New standards and interpretations (continued)

<ul style="list-style-type: none"> <li>• GRAP 16 (as revised 2010): Investment Property</li> </ul>	01 April 2011	<p>It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.</p>
<ul style="list-style-type: none"> <li>• GRAP 17 (as revised 2010): Property, Plant and Equipment</li> </ul>	01 April 2011	
<ul style="list-style-type: none"> <li>• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets</li> </ul>	01 April 2011	
<ul style="list-style-type: none"> <li>• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations</li> </ul>	01 April 2011	

## 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 2012 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
<ul style="list-style-type: none"> <li>• GRAP 18: Segment Reporting</li> </ul>		<p>It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.</p>
<ul style="list-style-type: none"> <li>• GRAP 23: Revenue from Non-exchange Transactions</li> </ul>	01 April 2012	
<ul style="list-style-type: none"> <li>• GRAP 24: Presentation of Budget Information in the Financial Statements</li> </ul>	01 April 2012	
<ul style="list-style-type: none"> <li>• GRAP 21: Impairment of non-cash-generating assets</li> </ul>	01 April 2012	
<ul style="list-style-type: none"> <li>• GRAP 26: Impairment of cash-generating assets</li> </ul>	01 April 2012	
<ul style="list-style-type: none"> <li>• GRAP 25: Employee benefits</li> </ul>	01 April 2013	

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## 2. New standards and interpretations (continued)

- |   |               |  |
|---|---------------|--|
| • GRAP 104: Financial Instruments   | 01 April 2012 | The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.<br>It is unlikely that the standard will have a material impact on the municipality's annual financial statements.<br>It is unlikely that the standard will have a material impact on the municipality's annual financial statements.<br>It is unlikely that the standard will have a material impact on the municipality's annual financial statements.<br>It is unlikely that the standard 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 | 01 April 2013 |  |
| • GRAP 106: Transfers of functions between entities not under common control                        |               |  |
| • GRAP 107: Mergers   |               |  |
| • GRAP 20: Related parties  |               |  |

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### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	11,920	10,920
Bank balances	6,596,767	3,650,713
Short-term deposits	9,138,279	869,829
	<b>15,746,966</b>	<b>4,531,462</b>

At year end the overdraft on the FNB account amounted to R 92 (2011: R -).

The fair value of the cash and cash equivalents approximate their carrying values.

#### Cash and cash equivalents pledged as collateral

Local guarantees issued to Department of Mining and Energy This cession is linked to ABSA fixed deposit account number: 205 824 7882	57,057	55,000
Local guarantees issued to Department of Mining and Energy - top up! This cession is linked to ABSA notice deposit account number: 6301219190	39,022	38,200
FNB Guarantee This is guarantee is held by the municipality at FNB Bank, which is in favour of ESKOM	11,250	11,250
	<b>107,329</b>	<b>104,450</b>

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### 3. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Bank, description and account number	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
ABSA bank - cheque account account number: 40 532 748 26	6,596,859	2,984,960	6,596,859	3,650,547
FNB bank - cheque account account number: 62 028 349 349	(92)	166	(92)	166
ABSA Bank - Fixed deposit Account number: 2048435948	46,239	43,462	46,239	43,462
ABSA Bank - Fixed deposit Account number: 2058247882	57,057	50,649	57,057	50,649
ABSA Bank - Notice deposit Account number: 63001219190	39,023	38,506	39,023	38,506
ABSA Bank - Savings account Account number: 9131901443	8,969,226	523,169	8,969,226	523,169
ABSA Bank - Savings account Account number: 9144149383	3,601	3,599	3,601	3,599
ABSA Bank - Savings account Account number: 9182653631	2,483	302,185	2,483	302,185
ABSA Bank - Savings account Account number: 9232476515	90,216	88,773	90,216	88,773
<b>Total</b>	<b>15,804,612</b>	<b>4,035,469</b>	<b>15,804,612</b>	<b>4,701,056</b>

### 4. Receivables from exchange transactions

#### Gross balances

Assessment rates	29,687,183	23,693,357
Electricity	28,136,245	27,843,773
Water	96,851,654	74,881,726
Interest on Debtors	49,206,581	46,024,122
Sewerage	28,328,457	24,469,371
Refuse	24,488,064	22,838,478
Sundry Services	22,262,554	21,630,664
Deposits	1,766,239	1,571,784
Accrued electricity and water	4,127,209	11,114,419
	<b>284,854,186</b>	<b>254,067,694</b>

#### Less: Impairment

Assessment rates	(20,597,044)	(13,724,642)
Electricity	(8,158,242)	(17,383,998)
Water	(76,968,819)	(65,602,993)
Interest on debtors	(42,022,271)	(44,243,477)
Sewerage	(22,209,860)	(21,941,132)
Refuse	(20,037,149)	(20,984,798)
Sundry Services	(33,910,328)	(21,076,245)
Deposits	(1,598,468)	(1,443,002)
Accrued electricity and water	-	-
	<b>(225,502,181)</b>	<b>(206,400,287)</b>

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### 4. Receivables from exchange transactions (continued)

#### Net carrying amount

Assessment Rates	9,090,139	9,968,715
Electricity	19,978,003	10,459,775
Water	19,882,835	9,278,733
Interest on Debtors	7,184,310	1,780,645
Refuse	4,450,915	1,853,680
Sewerage	6,118,597	2,528,239
Sundry Services	(11,647,774)	554,419
Deposits	167,771	128,782
Accrued electricity and water	4,127,209	11,114,419
	<b>59,352,005</b>	<b>47,667,407</b>

#### Assessment Rates

Current (0 -30 days)	730,964	2,071,487
31 - 60 days	273,782	667,400
61 - 90 days	222,752	536,469
90 + days	7,862,641	6,693,359
	<b>9,090,139</b>	<b>9,968,715</b>

#### Electricity

Current (0 -30 days)	5,609,545	7,618,220
31 - 60 days	422,914	584,588
61 - 90 days	233,112	289,536
90 + days	13,712,432	1,967,431
	<b>19,978,003</b>	<b>10,459,775</b>

#### Water

Current (0 -30 days)	1,080,305	3,133,970
31 - 60 days	628,725	1,381,251
61 - 90 days	554,688	1,004,693
90 + days	17,619,117	3,758,819
	<b>19,882,835</b>	<b>9,278,733</b>

#### Interest on Debtors

Current (0 -30 days)	70,538	358,998
31 - 60 days	68,281	338,609
61 - 90 days	66,488	333,597
90 + days	6,979,003	749,441
	<b>7,184,310</b>	<b>1,780,645</b>

#### Sewerage

Current (0 -30 days)	270,955	730,627
31 - 60 days	178,410	379,557
61 - 90 days	164,312	335,802
90 + days	5,504,920	1,082,253
	<b>6,118,597</b>	<b>2,528,239</b>

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### 4. Receivables from exchange transactions (continued)

#### Refuse

Current (0 -30 days)	142,428	544,745
31 - 60 days	91,433	271,322
61 - 90 days	84,152	240,166
90 + days	4,132,902	797,447
	<b>4,450,915</b>	<b>1,853,680</b>

#### Sundry Services

Current (0 -30 days)	(113,805)	373,768
31 - 60 days	(141,631)	57,144
61 - 90 days	(37,901)	15,600
90 + days	(11,354,437)	107,907
	<b>(11,647,774)</b>	<b>554,419</b>

#### Deposits

Current (0 -30 days)	6,197	28,487
31 - 60 days	1,509	4,981
61 - 90 days	2,867	7,813
90 + days	157,198	87,501
	<b>167,771</b>	<b>128,782</b>

#### Accrued electricity and water

Current (0 -30 days)	4,127,209	11,114,419
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#### Summary of debtors by customer classification

##### Residential

Current (0 -30 days)	8,709,670	7,023,930
31 - 60 days	5,818,609	4,083,936
61 - 90 days	5,017,222	3,315,134
90 + days	235,863,611	199,195,136
	255,409,112	213,618,136
Less: Impairment	(210,436,637)	(194,393,406)
	<b>44,972,475</b>	<b>19,224,730</b>

##### Industrial / commercial

Current (0 -30 days)	6,717,506	6,575,474
31 - 60 days	652,072	880,472
61 - 90 days	399,716	642,494
90 + days	13,299,918	16,285,272
	21,069,212	24,383,712
Less: Impairment	(15,065,544)	(11,108,679)
	<b>6,003,668</b>	<b>13,275,033</b>

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### 4. Receivables from exchange transactions (continued)

#### National and provincial government

Current (0 -30 days)	2,708,193	3,080,006
31 - 60 days	164,990	261,059
61 - 90 days	122,546	158,980
90 + days	1,034,520	1,451,378
	<u>4,030,249</u>	<u>4,951,423</u>
Less: Impairment	-	(898,201)
	<u><b>4,030,249</b></u>	<u><b>4,053,222</b></u>

#### Total

Current (0 -30 days)	18,135,369	16,679,410
31 - 60 days	6,635,670	5,225,467
61 - 90 days	5,539,484	4,116,608
90 + days	250,416,457	216,931,786
Accrued electricity and water	4,127,206	11,114,422
	<u>284,854,186</u>	<u>254,067,693</u>
Less: Impairment	(225,502,181)	(206,400,286)
	<u><b>59,352,005</b></u>	<u><b>47,667,407</b></u>

#### Reconciliation of impairment

Balance at beginning of the year	(206,400,287)	(166,574,918)
Contributions to provision	(11,195,374)	(36,121,404)
VAT amount included in provision	(7,906,520)	(3,703,965)
	<u><b>(225,502,181)</b></u>	<u><b>(206,400,287)</b></u>

### Receivables with arrangements

Included in the above receivables from exchange transactions, is a number of consumers with whom arrangements have been made to pay the debt over a longer period. The information from the municipality system was not readily available to calculate the precise figures for the total amount outstanding and also to calculate the timing of the repayments from the consumers. The estimated receivables with arrangements, after impairment, is R 0,5 million (2011: R 2.4 million).

### 5. Inventories

Consumables - at cost	4,553,451	4,210,729
Water inventory	260,639	244,802
	<u><b>4,814,090</b></u>	<u><b>4,455,531</b></u>

None of the inventories held by the municipality were measured at fair value less cost to sell.

Inventory recognised as an expense amounted to R 9,513,725 in the current year (2011: R 3,983,879).

Inventory held by the municipality were written down by R 28,357 in the current year (2011: written up by R 313,555).



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### 6. Investments

#### At fair value through surplus or deficit - held for trading

Unlisted shares	197,048	199,884
The unlisted shares consist of equity shares in Senwesbel Limited (no. of shares 18 130) and Senswes Limited (no. of shares 11 822).		

#### Held to maturity

Fixed deposits	119,297	215,757
Various fixed deposits are held at ABSA, interest rates vary between 5.18% - 6.93% and are maturing during year ending 2013 and 2014.		

<b>Total other financial assets</b>	<b>316,345</b>	<b>415,641</b>
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#### Non-current assets

Available-for-sale	197,048	199,884
Held to maturity	62,240	161,517
	<b>259,288</b>	<b>361,401</b>

#### Current assets

Held to maturity	57,057	54,240
	<b>316,345</b>	<b>415,641</b>

#### Fair value information

Fair values are determined annually at reporting date. The fair values of fixed deposits and short term deposits approximate their carrying values. The fair value of listed shares are determined by reference to their quoted prices.

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 2012 and 2011.

### 7. Receivables from operating leases

Current assets - deferred operating lease asset	-	71,674
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The Municipality leases out grazing camps, other properties and buildings under operating leases. The future minimum lease payments are as follows:

Not later than 1 year	-	91,200
Between 1 and 5 years	-	201,476
Later than 5 years	-	-
	-	<b>292,676</b>

#### Details of operating leases:

Grazing camps near Steynsrus, Viljoenskroon and Kroonstad and other properties and buildings owned by the Municipality are leased to various individuals over a period of 3 - 5 years, with an average increase rate of 10% per annum.

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

Marabastad housing project	-	1,381,880
Political Parties	497,996	-
Sundry receivables	147,021	82,221
	<b>645,017</b>	<b>1,464,101</b>

#### Political Parties

This relates to expenditure incurred by different political parties, but paid for by the municipality. However, the Public Protector instructed the Council to recover the money from the various political parties.

#### Other receivables (consists of);

- ESKOM Deposits
- Fuel Deposit (Dakota Motors)

The fair value other receivables approximate their carrying values.

### 9. VAT receivable

VAT	15,524,369	12,506,446
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The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

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### 10. Intangible assets

	2012	Restated 2011
Computer software	3,918,040	1,424,574
	(2,821,791)	(2,391,493)
	1,096,249	1,096,249
	3,816,067	1,424,574

#### Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Net Carrying Value
Computer software	1,424,574	101,972	(430,297)	1,096,249

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Additional Amortisation not previously recognised	Amortisation	Net Carrying Value
Computer software	1,930,345	1,037,955	(1,134,423)	(409,303)	1,424,574

#### Other information

There were no intangible assets that were assessed as having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no contractual commitments for the acquisition of intangible assets.

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### 11. Investment property

	2012	Restated 2011				
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value
Buildings	14,237,561	(10,085,296)	4,152,265	12,282,832	(6,596,472)	5,686,360
Land	16,623,942	-	16,623,942	12,999,809	-	12,999,809
<b>Total</b>	<b>30,861,503</b>	<b>(10,085,296)</b>	<b>20,776,207</b>	<b>25,282,641</b>	<b>(6,596,472)</b>	<b>18,686,168</b>

### Reconciliation of investment property - 2012

	Opening balance	Cost Price Correction	Depreciation	Net Carrying Value
Buildings	5,686,359	1,954,729	(3,488,823)	4,152,265
Land	12,999,809	3,624,133	-	16,623,942
	<b>18,686,168</b>	<b>5,578,862</b>	<b>(3,488,823)</b>	<b>20,776,207</b>

### Reconciliation of investment property - 2011

	Opening balance	Depreciation	Net Carrying Value
Buildings	5,804,818	(118,459)	5,686,359
Land	12,999,809	-	12,999,809
	<b>18,804,627</b>	<b>(118,459)</b>	<b>18,686,168</b>

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

Investment Property consists of various residential and municipal properties leased to individuals and businesses. These properties are leased under an operating lease and are located in Kroonstad, Steynsrus and Vrijjoenskroon. The age of these properties range between 10 and 30 years.

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### 11. Investment property (continued)

The municipality appointed a service provider during the financial year under review to prepare the Annual Financial Statement for the 2012 financial year. During this process the investment property register was fully reconstructed, in order to validate the completeness and a accuracy of the register.

Management resolved to re-assess the investment property cost values in line with the new general valuation roll that was prepared during the 2011/12 financial year. As a result the previous cost prices were adjusted in line with the values from the new valuation report, as a result additional depreciation was recognised due to the newly increased asset values.

### 12. Change in estimate

#### Investment Property

During the 2010/11 financial period, the useful life of the investment properties were revised accordingly. As a result an annual review is performed by management of the reasonableness of this estimate.

The effect of this change on the depreciation expense is as follows:

2011	2010/11	2011/12	2012/13	2013/14	2014/15	Later
Increase in depreciation expense	-	3,370,364	3,370,364	3,370,364	3,370,364	3,370,364

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### 13. Property, plant and equipment

	2012		Restated 2011			
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	21,198,781	(9,246,461)	11,952,320	21,198,781	(9,246,461)	11,952,320
Capital work in progress	79,121,139	-	79,121,139	60,002,244	-	60,002,244
Community assets - Buildings	80,442,048	(51,524,267)	28,917,781	80,442,049	(51,524,268)	28,917,781
Furniture and fixtures	3,425,521	(1,146,682)	2,278,839	3,151,621	(900,668)	2,250,953
Heritage	17,544	-	17,544	17,544	-	17,544
IT equipment	6,502,746	(3,593,140)	2,909,606	4,952,873	(2,868,000)	2,084,873
Infrastructure	2,213,086,449	(1,218,733,444)	994,353,005	2,205,189,818	(1,218,733,444)	986,456,374
Land	7,847,205	-	7,847,205	7,847,205	-	7,847,205
Motor vehicles	44,934,140	(15,430,763)	29,503,377	45,064,969	(10,448,096)	34,616,873
Office equipment	15,096,628	(8,956,694)	6,139,934	14,623,414	(7,286,580)	7,336,834
Plant and machinery	5,210,691	(2,670,071)	2,540,620	4,266,344	(2,073,196)	2,193,148
<b>Total</b>	<b>2,476,882,892</b>	<b>(1,311,301,522)</b>	<b>1,165,581,370</b>	<b>2,446,756,862</b>	<b>(1,303,080,713)</b>	<b>1,143,676,149</b>

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

	Opening balance	Additions	Disposals	Depreciation	Net Carrying Value
Buildings	11,952,320	-	-	-	11,952,320
Capital work in progress	60,002,244	19,118,895	-	-	79,121,139
Community assets - Buildings	28,917,781	-	-	-	28,917,781
Furniture and fixtures	2,250,953	273,900	-	(246,014)	2,278,839
Heritage	17,544	-	-	-	17,544
IT equipment	2,084,873	1,549,873	-	(725,140)	2,909,606
Infrastructure	986,456,374	7,896,631	-	-	994,353,005
Land	7,847,205	-	-	-	7,847,205
Motor vehicles	34,616,873	-	(130,829)	(4,982,667)	29,503,377
Office equipment	7,336,834	473,214	-	(1,670,114)	6,139,934
Plant and machinery	2,193,148	944,347	-	(596,875)	2,540,620
<b>Total</b>	<b>1,143,676,149</b>	<b>30,256,860</b>	<b>(130,829)</b>	<b>(8,220,810)</b>	<b>1,165,581,370</b>

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

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

	Opening balance	Additions	Disposals	Transfers	Corrections from prior year	Depreciation	Net Carrying Value
Buildings	12,201,780	-	-	-	-	(249,460)	11,952,320
Capital work in progress	42,117,331	44,655,888	-	(26,770,975)	-	-	60,002,244
Community assets - Buildings	30,739,132	-	-	-	-	(1,821,351)	28,917,781
Furniture and fixtures	1,961,987	461,565	(27,992)	-	(14,930)	(129,677)	2,250,953
Heritage	17,544	-	-	-	-	-	17,544
IT equipment	2,423,621	228,761	(35,698)	-	(56,503)	(475,308)	2,084,873
Infrastructure	988,750,082	12,327,592	-	26,770,975	-	(41,392,275)	986,456,374
Land	7,847,205	-	-	-	-	-	7,847,205
Motor vehicles	27,455,776	10,984,810	(351,779)	-	(227,644)	(3,244,290)	34,616,873
Office equipment	8,962,380	21,377	-	-	(24,166)	(1,622,757)	7,336,834
Plant and machinery	1,821,461	799,508	(61,288)	-	(79,721)	(286,812)	2,193,148
	<b>1,124,298,299</b>	<b>69,479,501</b>	<b>(476,757)</b>	<b>-</b>	<b>(402,964)</b>	<b>(49,221,930)</b>	<b>1,143,676,149</b>

#### Pledged as security

There are currently no restrictions on property, plant and equipment as a result of them being pledged as securities for liabilities.

#### Other information

The entity currently has the following capital commitments with regards to capital expenditure on infrastructure assets:  
Approved and contracted for

	2012	2011
	52,728,230	56,709,386

The following amounts have been included in Other Income which relates to damaged, lost or given up property, plant and equipment.

Proceeds received from Insurers	845,423	440,864
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<b>13. Property, plant and equipment (continued)</b>		
<b>The following amounts relates to leased assets held by the entity included in property, plant and equipment</b>		
Net carrying value of leased assets	-	-
Motor vehicles	6,864,695	8,444,556
Office equipment	4,721,615	6,177,062
	<b>11,586,310</b>	<b>14,621,618</b>
<b>Lease liability (refer to note 16)</b>		
Motor vehicle	(1,758,710)	(5,549,899)
Office equipment	(2,051,720)	(4,649,300)
	<b>(3,810,430)</b>	<b>(10,199,199)</b>
<b>Property, Plant and Equipment fully depreciated and still in use (Gross Carrying Amounts)</b>		
Office Equipment	3,302	3,302
Plant and Machinery	9,770	9,740
IT Equipment	147,731	147,731
Furniture and Fixtures	5,835	5,835
	<b>166,638</b>	<b>166,608</b>

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

Capital work in progress refers to infrastructure projects which are still in the process of being completed.

### 14. Employee benefit obligations

#### Defined benefit plan

The defined benefit plan, to which employees belong, consists of the Free State Municipal Pension Fund and the Councillors Pension Fund, governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position.

#### Post retirement medical aid plan

The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members	469	433
Continuation members (e.g: Retirees, widows, orphans)	82	85
<b>Total Members</b>	<b>551</b>	<b>518</b>



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### 14. Employee benefit obligations (continued)

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme;
- Bonitas Medical Scheme;
- Hosmed Medical Scheme;
- Samwumed Medical Scheme; and
- KeyHealth Medical Scheme

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation - wholly unfunded	(61,956,000)	(49,320,000)
Service Cost	(2,586,000)	(2,048,000)
Interest Cost	(5,663,000)	(4,899,000)
Actual benefits paid	2,596,000	2,265,000
Actuarial gains or (losses)	(3,322,000)	(7,954,000)
	<b>(70,931,000)</b>	<b>(61,956,000)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.00 %	9.10 %
Healthcare cost inflation	7.50 %	7.70 %
Net discount rate	1.40 %	1.30 %

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is determined by reference to market yields on high quality corporate bonds as at the balance sheet date. In countries where there is no deep market in corporate bonds, government bonds are used. It is currently market practice to use government bond yields, as the South African corporate bond market is not considered to be sufficiently developed. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on a zero-coupon government bond with a term of approximately 19 years.

### 15. Retirement Benefit Information

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below.

Defined contribution plans

The following are defined contribution plans:

- Free State Municipal Provident Fund;
- Maokeng Provident Fund; and
- SAMWU National Provident Fund.

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### 15. Retirement Benefit Information (continued)

Defined benefit plans

The following are defined benefit plans:

- Government Employees Pension Fund;
- SALA Pension Fund; and
- Free State Municipal Pension Fund.

These are not treated as a defined benefit plan as defined by IAS 19, but as a defined contribution plan. These funds are multi employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in IAS 19, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund is R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million).

The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R 1 531 million.

### 16. Consumer deposits

Kroonstad

8,315,020

7,706,534

Consumer deposits are raised when a service account is opened and is refunded to the consumer after the account is closed.

### 17. Finance lease obligation

#### Total finance lease obligation

#### Minimum lease payments due

- within one year

3,600,139

7,217,878

- in second to fifth year inclusive

421,388

4,166,095

4,021,527

11,383,973

(211,097)

(1,184,774)

less: future finance charges

**3,810,430**

**10,199,199**

#### Present value of minimum lease payments

Non-current liabilities

400,691

3,755,671

Current liabilities

3,409,740

6,443,528

**3,810,431**

**10,199,199**

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 13.

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### 17. Finance lease obligation (continued)

#### Finance lease obligation - motor vehicles

##### Minimum lease payments due

- within one year	1,429,563	3,769,203
- in second to fifth year inclusive	413,399	2,199,216

	1,842,962	5,968,419
	(84,252)	(418,520)

less: future finance charges

##### Present value of minimum lease payments

	<b>1,758,710</b>	<b>5,549,899</b>
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Interest rates for leased motor vehicles are linked to prime at the contract date. No arrangements have been made to enter into contingent rent.

#### Finance lease obligation - equipment

##### Minimum lease payments due

- within one year	2,170,576	3,448,675
- in second to fifth year inclusive	7,990	1,966,879

	2,178,566	5,415,554
	(126,846)	(766,254)

less: future finance charges

##### Present value of minimum lease payments

	<b>2,051,720</b>	<b>4,649,300</b>
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Interest rates for leased equipment are fixed at the contract date. Lease payments escalate between 10% - 15% per annum and no arrangements have been entered into for contingent rent.

### 18. Other financial liabilities

#### Held at amortised cost

Annuity loans - Development Bank of South Africa	28,455,244	25,002,836
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Various loans were awarded bearing interest between 10.70% - 17.26% per annum, redeemable during the years ending 2012 - 2026.

Annuity loans - Infrastructure Finance Corporation Ltd	-	584,950
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Loan bears interest at 17.25% per annum redeemable during year ending 2012.

Annuity loans - Infrastructure Finance Corporation Ltd	-	655,746
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Various loans were awarded bearing interest between 16.50% - 17.26% per annum, redeemable during the years ending 2011 and 2012.

	<b>28,455,244</b>	<b>26,243,532</b>
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#### Non-current liabilities

At amortised cost	2,698,405	2,332,302
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#### Current liabilities

At amortised cost	25,756,839	23,911,230
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	<b>28,455,244</b>	<b>26,243,532</b>
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#### Defaults and breaches

The municipality defaulted on the repayments of its long term loans held with the Development Bank of South Africa and Infrastructure Corporation Limited during the year. The municipality is in the process of renegotiating the payment terms with various financial institutions due to cash flow challenges faced.

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### 18. Other financial liabilities (continued)

Details of the defaults are reflected below:

Financial institution and loan number	Principal	Interest	Redemption terms	Carrying amount at 30 June 2012
Development Bank of South Africa Loan no. 100769	15,561,408	8,817,090		24,378,497
Development Bank of South Africa Loan no. 12841	196,663	124,447		321,110
Development Bank of South Africa Loan no. 12842	42,324	28,783		71,107
Development Bank of South Africa Loan no. 101183	2,496,283	1,188,247		3,684,531
	<b>18,296,678</b>	<b>10,158,567</b>	-	<b>28,455,245</b>

### 19. Payables from exchange transactions

Annual Bonus Accrual	3,170,638	3,087,277
Deposits received	834	6,308
Leave Pay Accrual	15,462,405	8,504,539
Other payables	123,139,587	122,894,452
Outstanding Cheques-Creditors	12,769,588	-
Payments received in advance	3,395,099	7,235,157
Retention creditors	4,726,760	6,549,283
	<b>162,664,915</b>	<b>148,277,016</b>

Suppliers have not been paid within the prescribed 30 day period due to cashflow constraints.

### 20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Grants	7,322,263	5,421,496
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#### Movement during the year

Balance at the beginning of the year	5,421,496	2,724,364
Additions during the year	1,900,767	2,697,132
	<b>7,322,263</b>	<b>5,421,496</b>

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

Unfulfilled conditions and other contingencies attaching to government assistance is recognised as a liability until such time that the conditions are met. Once the conditions are met it is recognised as revenue.

See note 24 for reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

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### 21. VAT payable

Tax payables	8,922,992	4,623,369
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The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

### 22. Provisions

#### Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Funeral Assistance	168,000	20,170	(37,170)	151,000
Long Service Bonus Provision	1,091,685	5,858,747	-	6,950,432
Provision for the rehabilitation cost of landfill sites	1,823,157	2,001,467	(1,791,000)	2,033,624
Provision for the rehabilitation cost of quarries	2,191,493	(1,192,146)	-	999,347
	<b>5,274,335</b>	<b>6,688,238</b>	<b>(1,828,170)</b>	<b>10,134,403</b>

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Funeral Assistance	183,893	(15,893)	168,000
Long Service Bonus Provision	-	1,091,685	1,091,685
Provision for the rehabilitation cost of landfill sites	1,672,244	150,913	1,823,157
Provision for the rehabilitation cost of quarries	1,115,734	1,075,759	2,191,493
	<b>2,971,871</b>	<b>2,302,464</b>	<b>5,274,335</b>
Non-current liabilities		8,744,317	5,274,335
Current liabilities		1,390,086	-
		<b>10,134,403</b>	<b>5,274,335</b>

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus. Provision has been made for this cost based on actual cost calculations received.

No significant judgments were made because actual quotations were obtained at the specified dates to determine these costs.

#### Funeral Death Benefit

The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to municipal employees, and payout's are only made to employees who die in the service of the Municipality.

#### Kroonstad landfill site

The landfill site at Kroonstad needs to be rehabilitated after 16 years (2028). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

#### Viljoenskroon landfill site

The landfill site at Viljoenskroon needs to be rehabilitated after 1 year (2012). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

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### 22. Provisions (continued)

#### Steynsrus landfill site

The landfill site at Steynsrus needs to be rehabilitated after 14 years (2026). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Details on rehabilitation provision for quarries:

#### Kroonstad gravel quarries

The gravel quarries at Kroonstad need to be rehabilitated after 7 years (2019). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

#### Steynsrus gravel quarries

The gravel quarries at Steynsrus needs to be rehabilitated after 8 years (2020). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

### 23. Revenue

Property rates	38,800,214	35,252,452
Service charges	240,522,278	202,796,867
Rental income	4,522,527	3,379,868
Fines	893,535	975,612
Government grants & subsidies	196,012,806	166,856,881
	<b>480,751,360</b>	<b>409,261,680</b>

#### The amounts included in revenue arising from exchange of goods or services are as follows:

Service charges	240,522,278	202,796,867
Rental income	4,522,527	3,379,868
	<b>245,044,805</b>	<b>206,176,735</b>

#### The amounts included in revenue arising from non-exchange transactions are as follows:

<b>Taxation revenue</b>		
Property rates	38,800,214	35,252,452
Fines	893,535	975,612
<b>Transfer revenue</b>		
Levies	196,012,806	166,856,881
	<b>235,706,555</b>	<b>203,084,945</b>

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<b>24. Government grants and subsidies</b>		
Councillors remuneration grant	3,008,000	2,779,000
DBSA Grant	2,700,000	-
Equitable share	142,173,000	133,010,070
Expanded public works program grant	1,233,794	1,216,000
FMG Grant	2,142,014	-
Fezile Dabi District Municipality Grant	285,000	-
Integrated national electrification grant	975,767	4,000,000
LG SETA grant	1,939,650	91,720
MSIG	790,000	-
Municipal infrastructure grant	38,661,000	19,440,000
Rehabilitation of sewerage network - DWA	2,104,581	6,320,091
	<b>196,012,806</b>	<b>166,856,881</b>

### Councillor remuneration grant

Balance unspent at beginning of year	-	-
Current-year receipts	3,008,000	2,779,000
Conditions met - transferred to revenue	(3,008,000)	(2,779,000)
<b>Unspent conditional grant</b>	<b>-</b>	<b>-</b>

In terms of the Constitution, this grant is used to subsidise the remuneration of councillors.

### Equitable Share

Balance unspent at beginning of year	-	-
Current-year receipts	142,173,000	133,010,070
Conditions met - transferred to revenue	(142,173,000)	(133,010,070)
	<b>-</b>	<b>-</b>

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

### Expanded Public Works Program grant

Balance unspent at beginning of year	-	-
Current-year receipts	1,295,000	1,216,000
Conditions met - transferred to revenue	(1,233,794)	(1,216,000)
	<b>61,206</b>	<b>-</b>

This grant is used in respect of job creation projects and programmes.

### Financial management grant

Balance unspent at beginning of year	692,000	750,000
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	(2,142,000)	-
Balance repayable	-	(1,258,000)
<b>Unspent conditional grant</b>	<b>-</b>	<b>692,000</b>

Conditions still to be met - remain liabilities (see note 20)

This grant is to be used to train and appoint intern staff members in the finance department of the municipality.

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### 24. Government grants and subsidies (continued)

#### Housing development grant

Balance unspent at beginning of year	1,147,622	1,147,622
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Conditions still to be met - remain liabilities (see note 20)

This grant is to be used to assist with the development of urban renewal.

#### Institutional grant (MSIG Grant)

Balance unspent at beginning of year	1,317,612	567,612
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	-
Funds withheld due to non spending	(1,317,612)	-

<b>Unspent conditional grant</b>	<b>-</b>	<b>1,317,612</b>
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Conditions still to be met - remain liabilities (see note 20)

The purpose of the grant is to support municipal restructuring initiatives of large municipalities. Funds are made available on the basis of approved restructuring plans that addresses challenges in a sustainable manner.

#### Integrated national electrification grant

Balance unspent at beginning of year	-	-
Current-year receipts	5,400,000	4,000,000
Conditions met - transferred to revenue	(975,767)	(4,000,000)

<b>Unspent conditional grant</b>	<b>4,424,233</b>	<b>-</b>
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The purpose of the grant is to facilitate the municipality electrical infrastructure needs.

#### LG SETA grant

Balance unspent at beginning of year	699,351	259,130
Current-year receipts	2,799,208	531,941
Conditions met - transferred to revenue	(1,939,650)	(91,720)

<b>Unspent conditional grant</b>	<b>1,558,909</b>	<b>699,351</b>
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Conditions still to be met - remain liabilities (see note 20)

The grant is used for training municipality staff to enhance their skills in their respective positions.

#### Municipal infrastructure grant

Balance unspent at beginning of year	-	-
Current-year receipts	38,661,000	19,440,000
Conditions met - transferred to revenue	(38,661,000)	(19,440,000)

<b>Unspent conditional grant</b>	<b>-</b>	<b>-</b>
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The grant is used to supplement the municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.

#### Rehabilitation of sewerage network - DWA Grant



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<b>24. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	1,564,911	-
Current-year receipts	501,600	7,885,002
Conditions met - transferred to revenue	(1,936,268)	(6,320,091)
<b>Unspent conditional grant</b>	<b>130,243</b>	<b>1,564,911</b>

Conditions still to be met - remain liabilities (see note 20)

The grant is used to assist with the rehabilitation of the sewerage water treatment system of Moqhaka. This grant is funded by the Department of Water Affairs.

### DBSA Grant

Current-year receipts	2,700,000	-
Conditions met - transferred to revenue	(2,700,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 20)

This grant was received in order to assist the Municipality to close the toilet top structures.

### Fezile Dabi District Municipality Grant

Current-year receipts	285,000	-
Conditions met - transferred to revenue	(285,000)	-
	-	-

Conditions still to be met - remain liabilities (see note 20)

This grant was to assist the Municipality in the compilation of financial statements.

### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 2 financial years.

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### 25. Property rates

#### Rates received

Residential and commercial	31,269,691	28,243,901
State	7,530,523	7,008,551
	<b>38,800,214</b>	<b>35,252,452</b>

#### Valuations

Commercial	886,043,978	853,370,041
Multi-purpose	210,355,000	220,275,000
Municipal	166,719,527	167,304,035
Non-ratable	144,149,105	426,893,211
Residential	6,044,183,488	5,868,835,813
State	747,136,540	741,690,566
	<b>8,198,587,638</b>	<b>8,278,368,666</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions.

An average rate of R0.004 (2011: R0.004) is applied to property valuations to determine assessment rates. The first R50 000 of residential property is exempt from taxation. Rebates of 20% are granted to state property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum (2011: prime +1%) is levied on rates outstanding two months after due date.

### 26. Service charges

Refuse removal	9,858,380	8,833,141
Sale of electricity	165,528,293	142,926,696
Sale of water	49,813,147	39,120,746
Sewerage and sanitation charges	15,322,458	11,916,284
	<b>240,522,278</b>	<b>202,796,867</b>

### 27. Investment revenue

#### Dividend revenue

Unlisted shares	14,258	5,947
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#### Interest revenue

Bank	668,638	60,718
Interest charged on receivables from exchange transactions	5,037,575	4,113,386
Amortised interest on creditors	-	1,133,736
	<b>5,706,213</b>	<b>5,307,840</b>
	<b>5,720,471</b>	<b>5,313,787</b>

All amounts above included in investment revenue arises from exchange transactions.

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### 28. Other revenue

Admittance fees earned	647,113	578,845
Discount received	12,248	15,091
	<b>659,361</b>	<b>593,936</b>

### 29. Other income

Advertisements	44,229	209,405
Burial income	708,116	672,554
Connection fees	799,418	593,267
Erven sales	471,413	988,780
Insurance claims	845,423	440,864
Other income	1,270,435	2,678,716
Reconnection fees recovered	240,702	197,826
Donations received	28,123	240,423
Telephone costs recovered	325,960	409,386
Railway siding industrial	570,282	505,896
Special services	-	6,583
Sundry income	8,877	9,818
Water valuation adjustments	15,837	60,273
	<b>5,328,815</b>	<b>7,013,791</b>

### 30. Rental income

#### Facilities and equipment

Rental of facilities and equipment	4,522,527	3,379,868
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<b>31. General expenses</b>		
Advertising	567,102	383,913
Auditors remuneration	4,034,076	2,505,833
Bank charges	1,652,337	1,381,397
Chemicals	4,731,878	4,499,442
Cleaning	47,623	429,003
Commission paid	3,094,995	2,647,866
Conferences and seminars	1,229,158	594,516
Consulting and professional fees	8,499,336	5,778,183
Consumables	2,396	-
Entertainment	239,466	630,582
Fuel and oil	5,845,882	4,579,335
Indigent contributions	6,978,248	5,533,339
Insurance	5,116,921	3,855,949
Licences - other	1,559,920	733,142
Licences - vehicles	349,312	307,552
Other expenses	6,071,103	1,871,023
Postage and courier	1,244,863	1,122,622
Printing and stationery	1,424,249	1,457,451
Protective clothing	772,439	415,863
Provision for rehabilitation adjustment	809,320	2,075,171
Rental expenses	739,971	1,161,431
Skills development levies	1,201,411	1,049,901
Special programs	264,747	343,199
Subscriptions and membership fees	1,750,247	1,419,149
Telephone and fax	1,380,558	1,378,851
Training	73,445	127,457
Valuation roll	2,354,184	-
Workmen's compensation	1,009,008	800,000
	<b>63,044,195</b>	<b>47,082,170</b>
<b>32. Employee related costs</b>		
Basic	85,542,897	79,139,929
Bonus	6,781,264	6,384,133
Car allowance	6,441,635	5,259,497
Housing benefits and allowances	779,598	848,930
Leave pay provision charge	9,759,232	5,045,868
Long-service awards	5,858,747	-
Medical aid - company contributions	10,509,197	10,078,411
Other allowances	576,529	524,415
Other payroll levies	1,643,862	1,629,993
Overtime payments	11,894,870	9,719,434
Post-employment benefits - Defined contribution & benefit plans	14,429,844	13,743,594
Standby allowance	872,578	546,170
Telephone allowance	411,416	418,005
UIF	888,480	892,528
	<b>156,390,149</b>	<b>134,230,907</b>

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### 32. Employee related costs (continued)

#### Remuneration of Municipal Manager

Annual Remuneration	561,085	588,420
Contributions to UIF, Medical and Pension Funds	29,206	73,631
Allowances	383,330	350,646
Travel and subsistence	23,945	25,880
Skills development levy	8,799	8,604
	<b>1,006,365</b>	<b>1,047,181</b>

#### Remuneration of Chief Finance Officer

Annual Remuneration	527,000	417,000
Contributions to UIF, Medical and Pension Funds	118,966	95,205
Allowances	258,543	207,329
Travel and subsistence	12,768	3,952
Skills development levy	7,201	5,705
	<b>924,478</b>	<b>729,191</b>

#### Remuneration of executive directors

Executive Director: Technical services	-	-
Annual Remuneration	537,602	448,810
Allowance	220,633	217,767
Contributions to UIF, Medical and Pension Funds	105,203	103,453
Travel and subsistence	19,147	24,587
Skills development levy	6,954	5,956
	<b>889,539</b>	<b>800,573</b>

Executive Director: Corporate services	-	-
Annual Remuneration	502,584	482,438
Allowance	275,829	254,316
Contributions to UIF, Medical and Pension Funds	90,524	85,865
Travel and subsistence	9,856	7,785
Skills development levy	6,970	6,565
	<b>885,763</b>	<b>836,969</b>

Executive Director: Community services	-	-
Annual Remuneration	502,584	482,438
Allowance	304,357	338,684
Contributions to UIF, Medical and Pension Funds	23,320	1,497
Travel and subsistence	10,445	3,727
Skills development levy	7,665	7,763
	<b>848,371</b>	<b>834,109</b>

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### 33. Remuneration of Councillors

Executive Mayor	639,948	555,047
Mayoral Committee Members	5,448,818	3,630,500
Speaker	515,838	507,112
Councillors	7,523,755	7,898,903
	<b>14,128,359</b>	<b>12,591,562</b>

#### Executive Mayor - Cllr JM Mohapi

Basic Salary	399,328	-
Car Allowance	158,836	-
Social Contributions	62,944	-
Cellphone Allowance	18,840	-
	<b>639,948</b>	<b>-</b>

#### Speaker - Cllr ACWD Nakedi

Basic Salary	316,645	-
Car Allowance	126,853	-
Social Contributions	53,502	-
Cellphone Allowance	18,840	-
	<b>515,840</b>	<b>-</b>

#### Mayoral Committee Members

##### MMC - COMMUNITY SERVICES: Cllr S Mokoena (01/07/2011 - 30/06/2012)

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

##### MMC - TECHNICAL SERVICES: Cllr MP Thipane (01/07/2011 - 30/06/2012)

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

##### MMC - IDP AND PLANNING: Cllr DA Matshedisho (01/07/2011 - 30/06/2012)

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

##### MMC - PUBLIC SAFETY: Cllr ER Moletsane (01/07/2011 - 30/06/2012)

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

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### 33. Remuneration of Councillors (continued)

#### **MMC - PERSONNEL AND ADMINISTRATION: Cllr MA Koloji (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

#### **MMC - RURAL DEVELOPMENT AND LAND REFORM: Cllr ML Machobane (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

#### **MMC - HUMAN SETTLEMENT: Cllr ME Mokotla (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

#### **MMC - SPORT, ARTS, CULTURE & RECREATION: Cllr NP Mokodutlo (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

#### **MMC - COUNCIL WHIP: Cllr J Mareka (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

#### **MMC - LOCAL ECONOMIC DEVELOPMENT & INVESTMENT: Cllr TL Makau (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

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### 33. Remuneration of Councillors (continued)

**MMC - FINANCE, AUDIT AND RISK MANAGEMENT: Cllr DPC Colbert (01/07/2011 - 30/06/2012)**

Basic Salary	295,739	-
Car Allowance	119,127	-
Social Contributions	61,641	-
Cellphone Allowance	18,840	-
	<b>495,347</b>	<b>-</b>

### PART TIME COUNCILLORS

**Cllr's A Masuret, MJ Letsabo, AH Viljoen, TM Mkhwanazi, AMS Dire, JM Hattingh, MA Monoto, MJ Mofokeng, MD Mbono, M Pittaway, FM Taje, DM Shahim, SB Tladi, GV Wille, NW Mkhotheni, EM Notsi, SV Malokotsa, MM Green, DM Kubheka, LD Kgang, TM Ntsala, MJ Sethabela, B Rooskrans, NM Selikoe, ME Letsitsa, ZS Magadlala, LP Mahasa, EV Rajuili, DA Moeketsi, LM Seleke, MI Thajane, WL Makoele, CM Dalton, MJ Lithupa, DN Nzunga**

Basic Salary	4,049,893	-
Car Allowance	1,765,889	-
Social Contributions	1,247,874	-
Cellphone Allowance	435,375	-
	<b>7,499,031</b>	<b>-</b>

### In-kind benefits

The Executive Mayor, Deputy 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.

A new Mayor was elected from 1 June 2011. The previous Mayor had use of a council owned vehicle for official duties and one full-time driver. The newly appointed Mayor does make use of a council owned vehicle and does have a full-time driver.

### 34. Debt impairment

Debt impairment - receivables from exchange transactions	19,101,893	36,121,404
--	------------	------------

### 35. Fair value adjustments

Investment Senwes	(2,836)	26,639
-------------------	---------	--------

### 36. Depreciation and amortisation

Property, plant and equipment	8,213,401	49,314,885
Investment property	3,488,823	118,459
Intangible assets	430,297	316,348
	<b>12,132,521</b>	<b>49,749,692</b>

### 37. Finance costs

Finance Cost - Retirement Benefits	5,663,000	4,899,000
Interest on INCA Loans	70,573	23,718
Interest on annuity loans	3,431,098	3,197,592
Interest on bank overdraft	65	19,488
Interest on finance leases	1,315,129	1,858,504
Interest on late payment of creditors	6,998,956	5,268,868
	<b>17,478,821</b>	<b>15,267,170</b>



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<b>38. Auditors' remuneration</b>		
Fees	4,034,076	2,505,833
<b>39. Contracted services</b>		
Specialist Services	7,043,787	4,849,896
Other Contractors	1,421,529	1,338,690
	<b>8,465,316</b>	<b>6,188,586</b>
<b>40. Grants and subsidies paid</b>		
DBSA Grant - Expenditure	2,700,000	-
FMG Grant Expenditure	2,099,701	-
Fezile Dabi District Municipality Grant Expenses	285,000	-
Grant Expenditure - LG SETA	1,939,650	-
MSIG Grant Expenditure	790,000	-
<b>Other subsidies</b>	<b>7,814,351</b>	<b>-</b>
<b>41. Bulk purchases</b>		
Electricity	140,117,724	109,458,753
Water	2,103,908	2,371,902
	<b>142,221,632</b>	<b>111,830,655</b>
<b>42. Cash generated from operations</b>		
Surplus (deficit)	6,238,730	(21,553,027)
<b>Adjustments for:</b>		
Loss on sale of assets	138,241	476,688
Retirement Benefits - Actuarial Gains/(losses)	3,312,000	7,737,000
Fair value adjustments	2,836	(26,639)
Finance costs - Finance leases	1,315,129	1,858,504
Debt impairment	19,101,893	36,121,404
Movements in receivables from lease assets and accruals	71,674	18,850
Movements in provisions	4,860,068	3,150,963
Other non-cash items -Adjustments against accumulated surplus	24,495,042	50,699,484
Sundry receivables - Political Parties	(497,996)	-
Retirement Benefits - Finance Cost	5,663,000	4,899,000
Investment property - Cost adjustment	(5,578,862)	-
<b>Changes in working capital:</b>		
(Increase) / decrease in inventories	(358,559)	(853,953)
Decrease / (increase) in other receivables from non-exchange transactions	819,084	704,469
Increase in receivables from exchange transactions	(30,786,491)	(29,307,835)
Increase in trade and other payables from exchange transactions	14,387,895	25,743,790
(Decrease) / increase in VAT	1,281,700	(4,753,097)
Increase / (decrease) in unspent conditional grants and receipts	1,900,767	2,697,132
Increase in consumer deposits	608,486	469,479
	<b>46,974,637</b>	<b>78,082,212</b>

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### 43. Contingencies

#### Contingent liabilities - pending claims

The municipality is being sued for some of the following pending claims against the council. All the claims are being contested based on legal advice.

The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.

Claims by individuals due to damage of property in various incidents	104,117	815,437
Claims from the South African Local Government Association	4,000,000	1,300,000
Claims from creditors - account disputes	134,843	174,873
Claims from suppliers - contractual disputes	19,400,775	1,108,199
Landfil site	10,000,000	-
Claims by individuals due to injuries in various incidents	-	1,802,748
Claims for damages of Telkom property	-	2,467,181
	<b>33,639,735</b>	<b>7,668,438</b>

#### Contingent liabilities - post retirement benefit obligations

The municipality makes monthly contributions to retired employees' medical aid. This obligation has been valued by an actuary at balance sheet date.

Refer to note 15 and note 13.

### 44. Related parties

#### Relationships

Accounting Officer

Refer to accounting officer report

Post employment benefit plan for employees of entity and/or other related parties

Refer to note 15

Members of key management

Refer to note 32 and 49

The municipality did not enter into any related party transactions during the year under review, which were not at arm's length.

#### Key management information

Class	Description	Number
Section 57 managers		5
Mayor		1
Councillors		50
Municipal Manager		1

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### 45. Prior period errors

A number of prior period errors were corrected during the year ending 30 June 2012. The details of the prior period errors adjusted are reflected below.

#### Summary

Property, plant and equipment - this amount relates to additional accumulated depreciation that was accounted for, as a result of differences which arose on comparison of the AFS and the Fixed Asset Register.

Intangible Assets - the adjustment relates to the accumulated amortisation on intangible assets which was previously incorrectly calculated.

Retirement benefit obligation - these benefits were not previously recognised, a valuation was only performed by the actuaries during the 2011-12 financial year.

	R	R
<b>Statement of financial position</b>		
Property, plant and equipment	-	(402,963)
Intangible Assets	-	(189,422)
Retirement benefit obligation	-	(61,956,000)
Accumulated Surplus	-	49,819,430
	-	<b>(12,728,955)</b>

#### Statement of Financial Performance

Retirement benefit obligation-movement	-	12,636,000
Depreciation and amortisation	-	92,955
	-	<b>12,728,955</b>

### 46. 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 17, 18, 19, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

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 municipality's total net borrowings consist of the following:

		2012	2011
<b>Total Borrowings</b>			
Finance lease obligation	17	3,810,431	10,199,199
Other financial liabilities	18	28,455,244	26,243,532
Trade and other payables from exchange transactions	19	162,664,915	136,685,200
		<b>194,930,590</b>	<b>173,127,931</b>
Less: Cash and cash equivalents	3	15,746,966	4,629,165
Net debt		<b>179,183,624</b>	<b>168,498,766</b>

#### Financial risk management

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### 46. Risk management (continued)

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

#### 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.

The municipality's risk to liquidity is a result of funds not being available to cover future commitments. The table below analyses the municipality's 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 2012	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Finance lease obligations	3,810,431	3,409,740	400,691	-
Other financial liabilities	28,455,244	25,756,839	2,698,405	-
Trade and other payables	162,664,915	162,664,915	-	-
Consumer deposits	8,315,020	8,315,020	-	-
	<u>203,245,610</u>	<u>200,146,514</u>	<u>3,099,096</u>	<u>-</u>

At 30 June 2011	Total	Less than 1 year	Between 1 and 5 years	Over 5 years
Finance lease obligations	10,199,199	6,443,528	3,755,671	-
Other financial liabilities	26,243,532	23,911,230	2,332,302	-
Trade and other payables	148,277,016	148,277,016	-	-
Consumer deposits	7,706,534	7,706,534	-	-
	<u>192,426,281</u>	<u>186,338,308</u>	<u>6,087,973</u>	<u>-</u>

The municipality is currently negotiating revised repayment terms with regards to financial liabilities.

#### 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. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2012 and 2011, the municipality's borrowings at variable rate were denominated in the Rand.

At 30 June 2012, if interest rates on Rand-denominated borrowings had been 1% higher/lower with all other variables held constant, deficit for the year would have been R - lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R - lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

At year end, financial instruments exposed to interest rate risk were as follows:

- ABSA primary bank account;
- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Finance lease obligations; and
- Various annuity loans;

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### 46. Risk management (continued)

The following financial instruments at year-end carried a variable interest rate;

- ABSA primary bank account;
- Finance lease obligations;

The following financial instruments at year-end carried a fixed interest rate;

- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Various annuity loans;

#### Credit risk

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

#### Consumer Debtors

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 constitute approximately 86% 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 accordingly. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

#### Cash and Cash Equivalents

Moqhaka local municipality 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.

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

Financial instrument	2012	2011
ABSA bank	6,596,859	3,650,547
ABSA Bank Short-term Deposits	9,126,979	956,231
First National Bank	92	166
First National Bank Fixed Deposit	11,300	11,300
Receivables from exchange transactions	58,853,723	47,667,407
Investments	316,345	317,939
Other receivables from exchange transactions	147,021	1,464,101

#### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position as financial assets at fair value through surplus or deficit. The municipality is not exposed to commodity price risk.

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### 47. 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.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- The significant increase in accounts payable of R 15 million (2011: R 24 million);
- The municipality incurred a surplus during the year of R 6 million (2011: deficit R 21 million);
- The creditors are not paid within 30 days as required by the MFMA;
- Debt collection period has not improved during the current year;
- The gross outstanding debtors increased from R 254 million in 2011 to R 285 million as at 30 June 2012;
- The provision for doubtful debts have been estimated at R 226 million (2011: R 206 million). This equates to approximately 79% of gross outstanding debtors (2011: 85%) before accrued water and electricity. Included in provision for doubtful debts is an amount of R 82 million for indigent debtors (2011: R69 million) which will be written off by the municipality during 2013 year end.

At 30 June 2012 the municipality's current liabilities amounted to R 218 million (2011: R 196 million), whilst the current assets amounted to R 96 million (2011: R 71 million).

The municipality is exploring alternative options to improve its financial position.

### 48. Events after the reporting date

There were no subsequent events after the reporting date.

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

#### Contributions to organised local government

Opening balance	1,592,563	-
Current year subscription / fee	1,148,465	1,945,963
Amount paid - current year	(395,240)	(353,400)
Amount paid - previous years	(649,899)	-
	<b>1,695,889</b>	<b>1,592,563</b>

#### Material losses through criminal conduct

There were no material losses incurred due to criminal conduct identified during the year by the municipality.

#### Audit fees

Opening balance	1,798,784	1,489,066
Current year fee	4,270,558	1,631,021
Amount paid - current year	(2,140,221)	(1,321,303)
Amount paid - previous years	(1,798,784)	-
	<b>2,130,337</b>	<b>1,798,784</b>

#### PAYE and UIF

Opening balance	-	340,229
Current year payroll deductions	16,460,145	13,725,511
Amount paid - current year	(16,460,145)	(13,643,976)
	-	<b>421,764</b>

#### Pension and Medical Aid Deductions

Opening balance	-	-
Current year payroll deductions and council contributions	33,879,890	35,106,465
Amount paid - current year	(33,879,890)	(35,106,465)
	-	-

#### Skills Development Levy

Opening balance	-	-
Current year payroll deductions and council contributions	1,201,346	1,049,909
Amount paid - current year	(1,201,346)	(1,049,909)
	-	-

#### Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Estimated line losses	8,463,554	7,140,233
Losses due to tampering or theft	25,443,409	17,960,022
	<b>33,906,963</b>	<b>25,100,255</b>

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

Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses	25,414,151	18,437,712
------------------------	------------	------------

#### VAT

VAT receivable	15,524,369	12,506,446
VAT payable	(8,922,992)	(4,623,369)
	<b>6,601,377</b>	<b>7,883,077</b>

VAT output payables and VAT input receivables are shown in note 9 and 21.

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:

#### 30 June 2012

Outstanding more  
than 90 days  
R

Dire AMS	1,864
Green MM	15,881
Kgang LD	728
Letsabo MJ	714
Twapa VPM	97,931
Makau TL	933
Makoele WL	7,825
Mkhwanazi TM	732
Moeketsi DA	7,942
Moletsane ER	1,122
Notsi EM	9,539
Ntsala TM	1,976
Nzunga DN	23,796
Rajuli EV	11,721
Rooskrans B	7,297
Seleke LM	3,323
Selikoe NM	2,232
Silevu JS	2,983
Taje FM	3,789
Thajane MI	1,094
Thipane MP	271
	<b>203,693</b>



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

30 June 2011

Outstanding more  
than 90 days  
R

Green MM	15,587
Letsitsa	26,889
Lithupa MJ	1,197
Machobane ML	5,841
Magadlela ZS	3,303
Mahasa LP	1,346
Machobane ML	813
Makoele WL	8,974
Machobane ML	1,083
Malinga DM	1,619
Malokotsa SV	88
Machobane ML	2,364
Moletsane ER	41
Rooskrans B	300
Machobane ML	666
Seleke LM	5,424
Sethabela MJ	1,529
	<b>77,064</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses are listed in note 50 to 52.

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### 50. Irregular expenditure

Opening balance	88,698,826	40,977,590
Add: Irregular expenditure - current year	59,554,331	47,721,236
Less: Amounts condoned / written-off	(88,698,826)	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	<b>59,554,331</b>	<b>88,698,826</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	59,554,331	47,721,236
Prior years	-	40,977,590
	<b>59,554,331</b>	<b>88,698,826</b>

### Details of irregular expenditure – current year

#### Summary of irregular expenditure due to deviation from Supply Chain Management (SCM) requirements and tender regulations

#### Disciplinary steps taken/criminal proceedings

Opening balances brought forward from 2006/7

Disciplinary steps  
taken/criminal proceedings

Appointment of managers directly accountable to Municipal Manager	-	2,145,809
Appointment of debt collector - non adherence to tender regulations	-	4,516,925
Purchase of air conditioners for housing department at Maokeng	-	8,633
Missing computers	-	38,500
Refurbishment of traffic offices at Maokeng	-	33,087
Misuse of council vehicles	-	436
Performance bonuses	-	141,954
Related party transactions	-	214,325
Condoned or written off by council	-	-
		<b>7,099,669</b>

Summary of irregular expenditure due to deviation from the Supply Chain Management (SCM)

Opening balance	18,876,137	15,290,974
Irregular expenditure current year	59,554,331	3,585,163
Condoned or written off by council	(18,876,137)	-
	<b>59,554,331</b>	<b>18,876,137</b>

The appointment of consultants was an urgent deviation of the Supply Chain Management policy, which was reported to National Treasury and which has not been tabled before council.

Rendering of meter reading services

Opening balance	3,411,520	2,323,849
Irregular expenditure current year	-	1,087,671
Condoned or written off by council	(3,411,520)	-
	<b>-</b>	<b>3,411,520</b>

The appointment of meter reading services providers was due to the non adherence of the Supply Chain Management policy and tender regulations which have not been tabled before council.

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### 50. Irregular expenditure (continued)

Required quotation for purchases not obtained in terms of SCM policy		
Opening balance	976,428	763,884
Irregular expenditure current year	-	212,544
Condoned or written off by council	(976,428)	-
	<b>-</b>	<b>976,428</b>

The above consists of various payments made to service providers and suppliers that were not in compliance with the SCM policy, as the required quotation were not obtained from the suppliers.

Non adherence to SCM policy for payments made		
Opening balance	3,031,094	3,031,094
Condoned or written off by council	(3,031,094)	-
	<b>-</b>	<b>3,031,094</b>

The above consists of various payments made to service providers and suppliers that were not in compliance with SCM policy.

Non adherence to tender regulations		
Opening balance	-	12,468,120
Irregular expenditure current year	-	5,848,274
	<b>-</b>	<b>18,316,394</b>

The above consists of various payments made to service providers and suppliers during the year that were not in compliance with the tender regulations.

Urgent matters which required deviations of SCM policy and tender regulations		
Closing of toilet top structure at Rammulotsi	-	8,781,254
Waste water treatment works at Kroonstad near Viljoenskroon	-	8,477,357
Hiring of equipment	-	3,519,443
Reconstruction of streets, grading and re-gravelling	-	2,935,415
Replacement of main sewer line crossing Transnet property north of subway	-	1,954,854
Repairs and maintenance of library, trackers, oil filled cables etc	-	1,749,217
Hiring of TLB water services	-	288,910
Clearing of blocked main sewer lines	-	805,500
Procurement of office furniture	-	750,175
Upgrade and repair of main sewer outfall line to Constantia pump station	-	487,019
Replacement of faulty water meters	-	170,325
Accommodation for induction of councillors	-	63,193
Supply of water purification chemicals	-	3,672,628
Transportation of water from Kroonstad to Steynsrus	-	810,552
Supply of petrol	-	1,535,402
Supply and delivery of carboncor	-	659,451
Replacement of electric panels & motor pumps at Marais Street pump stations	-	326,889
	<b>-</b>	<b>36,987,584</b>

The above service providers and suppliers were appointed to render the required services on an emergency/urgent basis. Therefore the SCM policy and tender regulations were deviated. The majority of the matters above have been approved by management and are awaiting condonement from council.

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### 51. Fruitless and wasteful expenditure

Opening balance	28,043,473	21,444,126
Add: Fruitless and wasteful expenditure - current year	13,022,400	6,599,347
Less: Amounts condoned / written-off	(19,275,792)	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	<b>21,790,081</b>	<b>28,043,473</b>

### Analysis of expenditure awaiting condonation per age classification

Current year	13,022,400	6,599,347
Prior years	8,767,681	21,444,126
	<b>21,790,081</b>	<b>28,043,473</b>

### Details of fruitless and wasteful expenditure – current year

	<b>Disciplinary steps taken/criminal proceedings</b>	
Interest on arrear payments to creditors	-	6,476,468
Overpayment of Professional Services	-	1,452,287
Interest on loan amounts as a result of exceeding payment terms	-	2,857,599
Legal fees paid for contractual breach	-	324,533
Interest on arrear payments towards pension fund	-	334,228
Payments for services not provided: Payroll System	-	399,000
Payments made for inventory which could not be verified	-	1,178,285
		<b>13,022,400</b>
Fruitless and wasteful expenditure occurred from prior years	11,953,152	-
Opening balance consists of:	-	-
Late payment of VAT brought forward from 2006/7	-	46,697
Painting roof of municipality	-	110,338
Refurbishment and painting of six chalets and managers house at Kroonpark	-	95,437
Painting chalets at Kroonpark	-	46,590
Painting offices and the roof at Brentpark	-	40,053
Painting housing offices at Moakeng	-	44,930
Painting councillors offices and boardroom at Moakeng	-	39,960
Replacement of damaged tiles at the theatre	-	2,596
Fencing of Kroonpark	-	479,934
Tourism Extravaganza	-	8,767,681
Expenses as contained in the Majavu Report	-	677,673
Appointment of employees in positions not necessary for service delivery 2008/9	-	1,601,263
Fruitless and wasteful for current year	13,022,400	-
Fruitless and wasteful condoned or written off by council	(3,185,471)	-
	<b>21,790,081</b>	<b>11,953,152</b>

The tourism extravaganza is still under investigation.

# Moqhaka Local Municipality

(Municipal demarcation code FS201)

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012 Restated  
2011

### 51. Fruitless and wasteful expenditure (continued)

#### Interest on loan amounts as a result of exceeding payment terms

Opening balance	3,958,030	2,558,993
Fruitless and wasteful current year	2,857,599	1,769,915
Interest waived by loan provider	-	(370,878)
Condoned or written off by council	(3,958,030)	-
	<b>2,857,599</b>	<b>3,958,030</b>

#### Penalties on loan amounts as a result of exceeding payment terms

Opening balance	47,209	47,209
Fruitless and wasteful current year	-	-
Condoned or written off by council	(47,209)	-
	-	<b>47,209</b>

#### Interest on outstanding payments to pension fund

Opening balance	944,774	662,480
Fruitless and wasteful current year	334,228	282,294
Condoned or written off by council	(944,774)	-
	<b>334,228</b>	<b>944,774</b>

#### Interest on arrears payments to creditors

Opening balance	8,207,427	4,112,291
Fruitless and wasteful current year	6,476,468	4,095,136
Condoned or written off by council	(8,207,427)	-
	<b>6,476,468</b>	<b>8,207,427</b>

#### Interest on provision for outstanding payments towards water utilisation

Opening balance	2,902,559	2,157,210
Fruitless and wasteful current year	-	745,349
Condoned or written off by council	(2,902,559)	-
	-	<b>2,902,559</b>

#### Legal cost regarding secretarial fees payable to political parties

Opening balance	30,322	-
Fruitless and wasteful current year	-	30,322
Condoned or written off by council	(30,322)	-
	-	<b>30,322</b>

#### Overpayment of Professional Fees

Opening balance	-	-
Fruitless and wasteful current year	1,452,287	-
Condoned or written off by council	-	-
	<b>1,452,287</b>	-

# Moqhaka Local Municipality

(Municipal demarcation code FS201)

Annual Financial Statements for the year ended 30 June 2012

## Notes to the Annual Financial Statements

Figures in Rand

2012 Restated  
2011

### 51. Fruitless and wasteful expenditure (continued)

#### Legal fees paid for contractual breach

Opening balance	-	-
Fruitless and wasteful current year	324,533	-
Condoned or written off by council	-	-
	<b>324,533</b>	<b>-</b>

#### Payments for services not provided: Payroll System

Opening balance	-	-
Fruitless and wasteful current year	399,000	-
Condoned or written off by council	-	-
	<b>399,000</b>	<b>-</b>

#### Payments made for inventory which could not be verified

Opening balance	-	-
Fruitless and wasteful current year	1,178,285	-
Condoned or written off by council	-	-
	<b>1,178,285</b>	<b>-</b>

### 52. Unauthorised expenditure

Unauthorised expenditure - budget overspending	52,253,161	32,132,650
--	------------	------------

The above overspending is for individual votes.

### 53. Capital commitments

#### Approved and contracted for:

Infrastructure	52,728,230	56,709,386
Approved but not contracted for:	58,050,235	-
	-	-
	<b>110,778,465</b>	<b>56,709,386</b>

Infrastructure commitments approved and contracted for will be funded by grants from government.

# **Moqhaka Local Municipality**

(Municipal demarcation code FS201)

Annual Financial Statements for the year ended 30 June 2012

**MOQHAKA LOCAL MUNICIPALITY**  
**APPENDIX A (Unaudited)**  
**SCHEDULE OF EXTERNAL LOANS**  
**FOR THE YEAR ENDED 30 JUNE 2012**

<b>SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012</b>								
<b>EXTERNAL LOANS</b>	<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at 30 June 2011</b>	<b>Received / Accumulated during the year</b>	<b>Redeemed written off during the year</b>	<b>Balance at 30 June 2012</b>	<b>Carrying Value of Property, Plant &amp; Equipment</b>	<b>Other Costs in accordance with the MFMA</b>
<b>LONG-TERM LOANS</b>			<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Development Bank of SA @ 13.50%	100769	2012	R 21,194,674	R 3,183,823	-	24 378 497	-	-
Development Bank of SA @ 12.00%	12841	2013	R 227,925	R 93,185	-	321 110	-	-
Development Bank of SA @ 13.30%	12842	2014	R 46,982	R 24,125	-	71 107	-	-
Development Bank of SA @ 10.70%	101183	2026	R 3,533,256	R 151,275	-	3 684 531	-	-
Infrastructure Finance Corporation Ltd @ 17.25%	27	2011	R 584,950	-	R 584,950	-	-	-
Infrastructure Finance Corporation Ltd @ 16.80%	23	2011	R 178,445	-	R 178,445	-	-	-
Infrastructure Finance Corporation Ltd @ 17.26%	25	2011	R 477,301	-	R 477,301	-	-	-
<b>TOTAL EXTERNAL LOANS</b>			<b>26 243 533</b>	<b>3 452 408</b>	<b>1 240 696</b>	<b>28 455 245</b>	<b>-</b>	<b>-</b>



**MOQHAKA LOCAL MUNICIPALITY**  
**APPENDIX B (Unaudited)**  
**ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	COST			Accumulated Depreciation			Carrying Value	Budget Additions 2012
	Opening balance	Additions	Disposals	Closing balance	Opening balance	Depreciation		
<b>Land and Buildings</b>								
Land				-				-
Buildings				-				-
<b>Other PPE</b>								
Office equipment				-				-
Furniture and Fittings				-				-
Computer equipment				-				-
Plant and Machinery				-				-
Motor Vehicles				-				-
Other Assets				-				-
<b>TOTAL</b>	-	-	-	-	-	-	-	-

Will be updated as soon as infrastructure revaluations is complete.

**MOQHAKA LOCAL MUNICIPALITY**  
**APPENDIX C (Unaudited)**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	COST				Accumulated Depreciation				Carrying Value	
	Opening balance	Additions	Additions Under Construction	Disposals	Closing balance	Opening balance	Depreciation	Disposals		Closing balance
Executive & Council Municipal Manager	-	-	-	-	-	-	-	-	-	-
Finance	-	-	-	-	-	-	-	-	-	-
Information Technology	-	-	-	-	-	-	-	-	-	-
PMU	-	-	-	-	-	-	-	-	-	-
Corporate Support Services	-	-	-	-	-	-	-	-	-	-
Fire & Emergency Services	-	-	-	-	-	-	-	-	-	-
Disaster Management	-	-	-	-	-	-	-	-	-	-
LED	-	-	-	-	-	-	-	-	-	-
Environmental Health	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

Will be updated as soon as infrastructure revaluations is complete.

**MOQHAKA LOCAL MUNICIPALITY**  
**APPENDIX D (Unaudited)**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	2011		2011		2012		2012	
	REVENUE	EXPENSES	Surplus/ (Deficit)	R	REVENUE	EXPENSES	Surplus/ (Deficit)	R
	R	R	R	R	R	R	R	R
	2 779 000	23 245 139	(20 466 139)		3 008 000	26 171 666	(23 163 666)	
	74 316 520	175 657 644	(101 341 124)	Executive & Council	96 933 280	151 340 682	(54 407 402)	
	( 377 883)	10 748 496	(11 126 379)	Finance	499 810	13 186 531	(12 686 721)	
	474 946	8 536 425	(8 061 479)	Planning and Development/Economic Development/Plan	427 844	8 982 583	(8 554 739)	
	1 400 029	1 982 523	( 582 494)	Community and Social	810 888	2 170 903	(1 360 015)	
	966 996	13 475 730	(12 508 734)	Housing	695 657	15 150 813	(14 455 156)	
	1 727 309	16 280 654	(14 553 345)	Public Safety/Policy	1 437 071	17 079 838	(15 642 767)	
	153 689 782	29 649 831	124 039 951	Sport and Recreation	168 429 892	42 833 032	125 596 860	
	208 909	14 056 659	(13 847 750)	Waste Water Management/Sewerage	28 479	14 511 972	(14 483 493)	
	34 307 319	21 607 116	12 700 203	Road Transport/Roads	44 929 911	29 196 916	15 732 995	
	152 240 224	127 927 502	24 312 722	Water/Water Distribution	175 259 175	165 596 341	9 662 834	
	-	118 459	( 118 459)	Electricity/Electricity	-	-	-	
				Other/Air Transport				
				<b>Municipal Owned Entities</b>				
				<b>Other charges</b>				
	<b>421 733 151</b>	<b>443 286 178</b>	<b>(21 553 027)</b>	<b>Sub Total</b>	<b>492 460 007</b>	<b>486 221 277</b>	<b>6 238 730</b>	

MOQHAKA LOCAL MUNICIPALITY  
APPENDIX E (1) (Audited)  
ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)  
FOR THE YEAR ENDED 30 JUNE 2012

	Current Year 2012 Actual	Current Year 2012 Budget	Current Year 2012 Variance	Current Year 2012 Variance	Explanation of Significant Variances greater than 10% versus Budget
<b>REVENUE</b>					
Property rates	38 800 214	36 096 209	2 704 005	7.49%	
Service charges	240 522 278	255 474 949	(14 952 671)	-5.85%	
Rental of facilities and equipment	4 522 527	4 022 226	500 301	12.44%	
Fines	893 535	946 500	( 52 965)	-5.60%	
Government grants and subsidies					
Fees Earned	196 012 806	147 421 000	48 591 806	32.96%	The variance is due to the inclusion of the MIG and other capital grants realised in the actual operating revenue through application of the accounting policy as opposed to a capital classification of these capital grants in the budget.
Discount Received	647 113	810 000	( 162 887)	-20.11%	
Other Income	12 248	30 000	( 17 752)	-59.17%	
Interest received	5 328 815	6 537 092	( 1 208 277)	-18.48%	
Dividends received	5 706 213	5 100 000	606 213	11.89%	
	14 256	50 000	( 35 742)	-71.48%	The variance is due to overbudgeting of the expected dividends from the Senwes shares investment.
<b>Total Revenue</b>	<b>492 460 007</b>	<b>456,487,976</b>	<b>35 972 031</b>	<b>7.88%</b> 0.00%	
<b>EXPENDITURE</b>					
Employee related costs	(156 390 149)	(144,692,602)	(11 697 547)	8.08%	A variance is due to the inclusion of provision annual leave, bonuses and funeral benefits that were not included in the budget. The municipality also adopted the IAS 19 - Employee benefits which was not factored in the budget. This relates to post-retirement medical benefits and pension.
Remuneration of Councillors	(14 128 359)	(14,905,544)	777 185	-5.21%	
Depreciation	(11 702 224)	(43,000,000)	31 297 776	-72.79%	The depreciation reflected is only for movable assets. The infrastructure assets (immovable assets) depreciation is not included due to work still being done on the valuation of the infrastructure assets which the Auditor General issued a disclaimer on in the previous year. The figures will be reinstated in the 2012/13 comparative year.
Amortisation	( 430 297)	-	( 430 297)	0.00%	
Finance costs	(17 478 821)	(4,015,839)	(13 462 982)	335.25%	The variance is due to interest on ESKOM account which the municipality did not budget the interest for. The expectation was that the Eskom account would be paid on time to avoid the interest.
Debt impairment	(19 101 893)	-	(19 101 893)	0.00%	Payments to debt management and revenue enhancement company were allocated to consultants costs and not collection costs.
Collection Costs	-	(3,000,000)	3 000 000	-100.00%	The variance is due to construction of open toilets costs and repairs to Roro street that were included in the repairs and maintenance that were not budgeted for.
Repairs and maintenance	(41 990 953)	(30,775,426)	(11 215 527)	36.44%	
Bulk Purchases	(142 221 632)	(151,685,048)	9 463 416	-6.24%	
Contracted services	(8 465 316)	(8,047,190)	( 418 126)	5.20%	
Grants and subsidies paid	(7 814 351)	-	(7 814 351)	0.00%	
General expenses	(63 044 195)	(34,541,084)	(28 503 111)	82.52%	The variance is mainly due to the following expenses that were more than the budget: Audit fees, Insurance, consultants fees, fuel and oil, indigents contribution, valuation roll fees and licence costs of vehicles (refer to note 30 of the financial statements).
<b>Total Expenditure</b>	<b>(482 768 200)</b>	<b>(434,662,733)</b>	<b>(48 105 467)</b>	<b>11.1%</b>	
Loss on disposal of assets	( 138 241)	-	( 138 241)	0.00%	
Fair value adjustments	( 2 836)	-	( 2 836)	0.00%	
Actuarial Gains/(Losses) on retirement benefit obligation	(3 312 000)	-	(3 312 000)	0.00%	
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>6 238 730</b>	<b>21 825 243</b>	<b>(15 586 513)</b>		

**MOQHAKA LOCAL MUNICIPALITY**  
**APPENDIX E (2) (Unaudited)**  
**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT)**  
**FOR THE YEAR ENDED 30 JUNE 2012**

	<u>2012 Actual</u>	<u>2012 Under Construction</u>	<u>2012 Total Additions</u>	<u>2012 Budget</u>	<u>2012 Variance</u>	<u>2012 Variance</u>	<u>Explanation of Significant Variances greater than 10% versus Budget</u>
Executive & Council	R -	R -	R -	R -	R -	% 0.00%	
Finance	-	-	-	-	-	0.00%	
Planning and Development/Economic Development/Plan	-	-	-	-	-	0.00%	
Community and Social	-	-	-	-	-	0.00%	
Housing	-	-	-	-	-	0.00%	
Public Safety/Policy	-	-	-	-	-	0.00%	
Sport and Recreation	-	-	-	-	-	0.00%	
Waste Water Management/Sewerage	-	-	-	-	-	0.00%	
Road Transport/Roads	-	-	-	-	-	0.00%	
Water/Water Distribution	-	-	-	-	-	0.00%	
Electricity/Electricity Distribution	-	-	-	-	-	0.00%	
Other/Air Transport	-	-	-	-	-	0.00%	
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.00%</b>	

MOQHAKA LOCAL MUNICIPALITY  
APPENDIX F1 (Unaudited)  
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003  
FOR THE YEAR ENDED 30 JUNE 2012

Name of Grants	Name Organ of State or Municipal entity	Quarterly Receipts			Quarterly Expenditure			Grants and Subsidies withheld /				Reasons for delay / withholding of funds	Compliance with conditions (Y/N)	Reasons for non-compliance	
		September	December	March	June	September	December	March	June	September	December				March
Equitable Share	National Treasury	R 60,492,000	R 46,909,000	R 37,780,000	R -	R 60,492,000	R 46,909,000	R 36,295,000	R -	R -	R -	R -	-	Y	-
FMG	National Treasury	R 1,450,000	R -	R -	R -	R 800,000	R 250,000	R 150,000	R -	R -	R -	R -	-	Y	-
MSIG	National Treasury	R 790,000	R -	R -	R -	R -	R -	R 237,000	R -	R -	R -	R -	-	Y	-

MOQHAKA LOCAL MUNICIPALITY

APPENDIX F2 (Unaudited)

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, ACT 56 OF 2003  
FOR THE YEAR ENDED 30 JUNE 2012

Grant Description	Opening Balance 30 June 2011	Contributions during the year	Interest on Investments	Other Income	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Closing Balance 30 June 2012
	R	R	R	R	R	R	R
<b>UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS</b>							
Municipal Infrastructure Grant (MIG)	-	(38,661,000)	-	-	38,661,000	-	0
LGSETA Grants	(699,351)	(2,799,208)	-	-	1,939,650	-	(1,558,909)
Expenditure Public Works Programme (EPWP)	-	(1,295,000)	-	-	1,233,793	-	(61,207)
Integrated National Electrification programme	-	(5,400,000)	-	-	975,767	-	(4,424,233)
Department of water Affairs (DWA)	(1,564,911)	(501,600)	-	-	1,936,218	-	(130,293)
Financial Management Grant (FMG)	(692,000)	(1,450,000)	-	-	2,142,000	-	-
Municipal Systems Improvement Grant (MSIG)	(1,317,612)	(790,000)	-	1,317,612	790,000	-	-
Department of Local Government (DPLG)	(1,147,622)	-	-	-	-	-	(1,147,622)
Fezile Dabi District Municipality (FDDM)	-	(285,000)	-	-	285,000	-	-
Development Bank of South Africa (DBSA)	-	(2,700,000)	-	-	2,700,000	-	-
<b>Total</b>	<b>(5,421,496)</b>	<b>(53,881,808)</b>	<b>-</b>	<b>1,317,612</b>	<b>50,663,429</b>	<b>-</b>	<b>(7,322,263)</b>
<b>TOTAL UNSPENT CONDITIONAL GRANTS</b>							
	<b>(5,421,496)</b>	<b>(53,881,808)</b>	<b>-</b>	<b>1,317,612</b>	<b>50,663,429</b>	<b>-</b>	<b>(7,322,263)</b>