IKWEZI LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Type of municipality	Plenary
Members of the council	
Executive Mayor	S A Mngwevu
Speaker	S A Mngwevu
Members	K Hendricks
	M Bonaparte
	L Ntame
	A Mboneni
	J Lewis
	B W Seekoei
Grading of local authority	2
Municipal Manager	T Gutas
Chief Finance Officer	N Bomvane
Registered office	Ikwezi Local Municipality 34 Main Street Jansenville 6265
Physical address	34 Main Street Jansenville 6265
Postal address	P O Box 12 Jansenville 6265
Bankers	ABSA Bank - Jansenville
Auditors	Auditor-General of South Africa
Telephone number	049 836 0021
Fax number	049 836 0105
Email address	registry@ikwezimunicipality.co.za

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

Approval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 38, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.
I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

T Gutas
Municipal Manager
31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011 Restated
Assets			
Current Assets			
Cash and cash equivalents	3	311 456	212 705
Trade and other receivables from exchange transactions	4	1 315 442	242 674
Other receivables from non-exchange transactions	5	1 811 908	1 744 067
VAT receivable	6	334 395	1 498 381
		3 773 201	**3 697 827**
Non-Current Assets			
Property, Plant and Equipment	7	64 400 782	56 924 524
Investment Property	8	26 222 000	15 465 360
Intangible Assets	9	378 601	524 692
		91 001 383	**72 914 576**
Total Assets		**94 774 584**	**76 612 403**
Liabilities			
Current Liabilities			
Finance lease obligation	10	202 930	270 244
Trade and other payables from exchange transactions	11	10 476 768	10 256 892
Unspent conditional grants and receipts	12	3 556 118	6 089 487
Provisions	13	957 579	592 667
Bank overdraft	3	1 251 027	153 630
		16 444 422	**17 362 920**
Non-Current Liabilities			
Finance lease obligation	10	589 167	912 242
Provisions	13	8 385 000	8 385 000
		8 974 167	**9 297 242**
Total Liabilities		**25 418 589**	**26 660 162**
Net Assets		**69 355 995**	**49 952 241**
Net Assets			
Accumulated surplus		69 355 995	49 952 241

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011 Restated
Revenue			
Contributions and donations		-	123 870
Government grants & subsidies	14	25 968 417	32 953 438
Interest earned - oustanding receivables		503 582	611 840
Interest received - investment	15	139 939	654 316
Licences and permits		934 763	251 092
Other income	16	1 807 606	375 066
Property rates	17	1 042 936	1 129 353
Property rates - penalties imposed and collection charges	17	247 507	-
Rental of facilities and equipment		231 518	29 056
Service charges	18	6 071 769	5 376 302
Total Revenue		**36 948 037**	**41 504 333**
Expenditure			
Bulk purchases	19	(4 962 174)	(4 051 542)
Debt impairment	20	(2 719 210)	(2 574 150)
Depreciation and amortisation	21	(870 991)	(1 422 782)
Employee related costs	22	(12 967 519)	(11 327 625)
Finance costs	23	(98 120)	(79 883)
General expenses	24	(9 060 270)	(13 097 810)
Grants expenditure	25	(453 718)	-
Impairment loss		(17 353)	-
Loss on disposal of assets		(2 418)	(392 895)
Remuneration of councillors	26	(1 399 945)	(758 156)
Repairs and maintenance		(1 037 473)	(989 855)
Total Expenditure		**(33 589 191)**	**(34 694 698)**
Surplus for the year		**3 358 846**	**6 809 635**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	71 259 796	71 259 796
Adjustments		
Prior year adjustments	(28 124 628)	(28 124 628)
Balance at 01 July 2010 as restated	**43 135 168**	**43 135 168**
Changes in net assets		
Prior year debtors adjustments	(31 939)	(31 939)
Audit adjustment	39 378	39 378
Net income (losses) recognised directly in net assets	7 439	7 439
Surplus for the year	6 809 635	6 809 635
Total recognised income and expenses for the year	6 817 074	6 817 074
Total changes	6 817 074	6 817 074
Balance at 01 July 2011 as restated	**60 708 883**	**60 708 883**
Changes in net assets		
Retained earnings transfers in	4 858 650	4 858 650
Net income (losses) recognised directly in net assets	4 858 650	4 858 650
Surplus for the year	3 358 846	3 358 846
Total recognised income and expenses for the year	8 217 496	8 217 496
Audit adjustments - Finance Leases	429 616	429 616
Total changes	8 647 112	8 647 112
Balance at 30 June 2012	**69 355 995**	**69 355 995**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		8 040 102	6 024 969
Grants		25 968 417	32 953 438
Interest income		139 939	654 316
Other receipts		2 742 369	1 871 610
		36 890 827	41 504 333
Payments			
Employee costs		(12 967 519)	(12 085 781)
Suppliers		(7 884 020)	(13 789 958)
Finance costs		(94 941)	(65 933)
Repairs and maintenance		(1 037 473)	(989 858)
General expenses		(9 060 270)	(5 742 839)
		(31 044 223)	(32 674 369)
Net cash flows from operating activities	29	**5 846 604**	**8 829 964**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(6 451 680)	(21 679 351)
Cash received on disposal of property, plant and equipment	7	-	(392 895)
Purchase of investment property	8	(10 756 640)	(123 870)
Proceeds from sale of investment property	8	-	8 500
Movements in intangible assets	9	-	(730 453)
Net cash flows from investing activities		**(17 208 320)**	**(22 918 069)**
Cash flows from financing activities			
Finance lease payments		(393 569)	1 021 430
Movement in revaluation reserves		10 756 639	-
Other cash item		-	78 651
Net cash flows from financing activities		**10 363 070**	**1 100 081**
Net increase/(decrease) in cash and cash equivalents		**(998 646)**	**(12 988 024)**
Cash and cash equivalents at the beginning of the year		59 075	13 047 099
Cash and cash equivalents at the end of the year	3	**(939 571)**	**59 075**

Summary of Significant Accounting Policies

1. Basis of Accounting

1.1 Basis of Presentation

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board, in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 Presentation of Currency

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

1.3 Going Concern Assumption

The municipality is currently in a deficit position and has a minimum cash holding as at year end. Municipalities are not run on basis of a profit motive and will continue to receive equitable share in order to serve the local community. For this reason, we believe that the municipality will continue to operate as a going concern.

1.4 Comparative Figures

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

1.5 Standards, Amendments to Standards and Interpretations Issued But Not Yet Effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 8 Interest in Joint Ventures - issued August 2006
GRAP 18 Segment Reporting - issued March 2005
GRAP 21 Impairment of Non-Cash Generated Assets - issued January 2010
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee Costs - issued November 2009
GRAP 26 Impairment of Cash Generated Assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

GRAP 104 Financial Instruments has been early adopted by the municipality:

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

GRAP 20: Related Party disclosures
GRAP 105: Transfer of functions Between entities under common control
GRAP 106: Transfer of functions between entities not under common control
GRAP 107: Mergers

Summary of Significant Accounting Policies

1.6 Investment Property

1.6.1 Initial Recognition

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 includes property (land or a building, or part of a building, or both land or buildings held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

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

The cost of self-constructed investment property is the cost at date of completion.

1.6.2 Subsequent Measurement - Fair Value Model

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

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

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

Annual Government Valuation Roll was utilised when determining the fair value of the investment property.

1.6.3 Derecognition

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.

Summary of Significant Accounting Policies

1.7 Property, Plant and Equipment

1.7.1 Inital Recognition

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

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.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.7.2 Subsequent Measurement - Revaluation Model (Land and Buildings)

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revalutaion less any subsequent accumulated depreciation and impairment losses.

Land is not depreciated as it is deemed to have an indefinite useful life.

An increase in the carrying amount of an asset as a result of a revalutation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.7.3 Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment (movable assets) are measured at cost less accumulated depreciation and impairment losses.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.7.4 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation of property, plant and equipment commenced from 1 July 2009.

Summary of Significant Accounting Policies

1.7 Property, Plant and Equipment (continued)

Item	**Average Useful Life**
Land	Infinite
Buildings	
• Dwelling	25-30 years
• Non-residential dwelling	25-30 years
Infrastructure	
• Roads and Paving	30 years
• Water	5-30 years
• Electricity	25-30 years
• Sewerage	30 years
Community	
• Buildings	30 years
• Halls	30 years
• Libraries	30 years
• Recreational Facilities	20-30 years
• Parks and Gardens	10 years
• Security	5 years
Finance Leased Assets	
• Motor vehicles	5 years
Other Assets	
• Landfill sites	15 years
• Specialist vehicles	10 years
• Other vehicles	5 years
• Bins and containers	5 years
• Specialised plant and equipment	10-15 years
• Furniture and fixtures	7-10 years
• Office equipment	3-7 years
• Computer equipment	3 years

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.7.5 Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Intangible Assets

1.8.1 Initial Recognition

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 an identifiable non-monetary asset without physical substance. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

Where an intangible asset 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.

1.8.2 Subsequent Measurement - Cost Model

Intangible assets are subsequently carried at cost less accumulated depreciation and accumulated impairment losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.8.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in acounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

1.8.4 Derecognition

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

Summary of Significant Accounting Policies

1.9 Financial instruments

1.9.1 Initial Recognition

Financial instruments are intitally recognised at fair value.

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

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

1.9.2 Subsequent Measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from charges 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 interest.

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

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

1.9.2.1 Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.9.2.2 Trade and Other Receivables from Exchange/Non-Exchange Transactions

Trade and other receivables from exchange/non-exchange transactions are categorised as financial assets: consumer debtors, loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

1.9.2.3 Trade and Other Payables from Exchange Transactions and Borrowings

Financial liabilities consist of trade and other payables from exchange transactions and borrowings. They are categorised as financial liaibilities held at amortised cost, are intitially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

1.9 Financial instruments (continued)

1.9.2.4 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilties carried at amortised cost.

1.9.2.5 Derecognition

1.9.2.5.1 Financial assets

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

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

1.9.2.5.2 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.

Summary of Significant Accounting Policies

1.10 Leases

1.10.1 Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The effect of straightlining is recognized in suplus and deficit.

1.10.2 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate implicit in the lease agreement that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

1.11 Unauthorised expenditure

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

1.12 Fruitless and wasteful expenditure

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

1.13 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality’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.

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.

1.13 Irregular expenditure (continued)

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.

1.14 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality 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.

Summary of Significant Accounting Policies

1.15 Revenue

1.15.1 Revenue From Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Electricity meters are read on a monthly basis and are recognised as revenue when invoiced. Consumption for water services is charged at a flat rate. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale (cash basis).

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements.

Service charges from sewerage and sanitation are based on the number of sewerage connections to the main line on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue from banks is recognised on a time proportion basis at prime rates.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

1.15.2 Revenue From Non-Exchange Transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

1.15.3 Grants, Transfers and Donations

A liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Summary of Significant Accounting Policies

1.16 Borrowing Costs

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

Summary of Significant Accounting Policies

1.17 Impairment of Assets

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

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

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

Irrespective of whether there is any indication of impairment, the municipality also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

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

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

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

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

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Summary of Significant Accounting Policies

1.17 Impairment of Assets (continued)

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

1.18 Value Added Tax

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec 15(2)(a) of the Value Added Tax Act No 89 of 1991.

1.19 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.

1.20 Offsetting

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

1.21 Budget information

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

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

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

1.22 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 local 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.

Summary of Significant Accounting Policies

1.23 Significant judgements and sources of estimation uncertainty

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

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.

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 intangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

Ikwezi Local Municipality is a low capacity Municipality and hence has to fully comply to all accounting standards as issued by Directive 5 of the Accounting Standards Board. The transitional provisions provided by Directive 4 have expired and the annual financial statements should be fully GRAP compliant for the financial year ending 30 June 2012.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2011 is as follows:

Statement of financial position

	2012	2011
Property, Plant and Equipment		
Previously stated	-	84 753 348
Adjustment	-	(27 828 824)
	-	**56 924 524**
Investment Property		
Previously stated	-	16 862 810
Adjustment	-	(1 397 450)
	-	**15 465 360**
Intangible Asset		
Previously stated	-	4
Adjustment	-	730 453
	-	**730 457**
Opening retained earnings		
Previously stated	-	70 427 078
Adjustment	-	(28 124 628)
	-	**42 302 450**

Statement of Financial Performance

	2012	2011
Depreciation		
Adjustment	-	1 217 018
Amortisation		
Adjustment	-	205 765

Figures in Rand	2012	2011

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Short-term deposits	311 456	212 705
Bank overdraft	(1 251 027)	(153 630)
	(939 571)	**59 075**

Current assets	311 456	212 705
Current liabilities	(1 251 027)	(153 630)
	(939 571)	**59 075**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
Absa Bank - Main Cheque Account - 4053099797	(75 025)	(153 680)	13 047 099	(1 259 425)	(155 384)	13 047 099
Absa Bank - Salary Cheque Account - 2520141122	8 398	1 755	-	8 398	1 755	-
Absa Bank - Money Market - 9137635959	224 127	126 827	-	224 127	126 827	-
Absa Bank - Call Deposit - 9118667183	73 017	71 568	-	73 017	71 568	-
Absa Bank - Bank Call Deposit - 9101589574	5 310	5 307	-	5 310	5 307	-
Standard Bank - Ikwezi Trust Fund 3 - 288865537-001	9 002	9 002	-	9 002	9 002	-
Total	**244 829**	**60 779**	**13 047 099**	**(939 571)**	**59 075**	**13 047 099**

4. Trade and other receivables from exchange transactions

Gross balances		
Electricity	898 729	343 324
Water	2 735 925	1 930 580
Sewerage	2 687 500	2 585 907
Refuse	3 126 891	2 675 113
Other - sundry debtors	1 435 619	61 460
	10 884 664	**7 596 384**

Less: Provision for debt impairment		
Electricity	(898 145)	(335 067)
Water	(2 735 849)	(1 884 150)
Sewerage	(2 686 874)	(2 523 716)
Refuse	(3 248 354)	(2 610 777)
	(9 569 222)	**(7 353 710)**

Figures in Rand	2012	2011

4. Trade and other receivables from exchange transactions (continued)

Net balance		
Electricity	584	8 257
Water	76	46 430
Sewerage	626	62 191
Refuse	(121 463)	64 336
Other - sundry debtors	1 435 619	61 460
	1 315 442	**242 674**
Rates		
Current (0 -30 days)	23 573	32 135
31 - 60 days	18 311	26 404
61 - 90 days	16 220	24 235
91 - 120 days	16 031	22 295
121 - 365 days	2 178 004	1 685 485
	2 252 139	**1 790 554**
Electricity		
Current (0 -30 days)	160 490	61 210
31 - 60 days	120 425	41 596
61 - 90 days	84 717	33 054
91 - 120 days	72 344	11 510
121 - 365 days	460 753	195 954
	898 729	**343 324**
Water		
Current (0 -30 days)	51 369	49 175
31 - 60 days	51 186	46 152
61 - 90 days	45 895	45 275
91 - 120 days	44 566	43 982
121 - 365 days	2 542 909	1 745 996
	2 735 925	**1 930 580**
Sewerage		
Current (0 -30 days)	53 697	38 071
31 - 60 days	51 955	36 892
61 - 90 days	50 900	36 569
91 - 120 days	49 864	35 820
121 - 365 days	2 481 084	2 438 555
	2 687 500	**2 585 907**
Refuse		
Current (0 -30 days)	51 585	44 379
31 - 60 days	50 727	41 799
61 - 90 days	46 662	41 173
91 - 120 days	46 118	40 279
121 - 365 days	2 931 799	2 507 483
	3 126 891	**2 675 113**
Other - sundry debtors		
121 - 365 days	1 435 619	61 460

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Trade and other receivables from exchange transactions (continued)

Reconciliation of debt impairment provision

Balance at beginning of the year	7 353 710	6 527 050
Less contribution related to property rates	-	(1 747 491)
Debt impairment written off against provision	2 215 512	2 574 151
	9 569 222	**7 353 710**

Consumer debtors pledged as security

Consumer debtors have not been pledged as security or encumbered in any way.

Credit quality of consumer debtors

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

5. Other receivables from non-exchange transactions

Fuel deposit	20 000	20 000
Sundry debtors	1 790 958	1 681 004
Rates	950	43 063
	1 811 908	**1 744 067**

Credit quality of other receivables from non-exchange transactions

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

Rates is made up as follows:

Gross - Rates Debtors	2 252 139	1 833 617
Impairment - Rates Debtors	(2 251 189)	(1 790 554)
Net - Rates	**950**	**43 063**

6. VAT receivable

VAT	334 395	1 498 381

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Property, Plant and Equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land and Buildings	19 640 080	(352 256)	19 287 824	19 640 080	(1 964 008)	17 676 072
Leased assets	1 309 371	(154 956)	1 154 415	1 257 371	(58 924)	1 198 447
Other Assets	1 506 062	(768 210)	737 852	1 255 585	(558 158)	697 427
Infrastructure assets	9 307 837	(938 952)	8 368 885	9 307 837	(609 749)	8 698 088
Capital work in progress	26 466 806	-	26 466 806	20 269 490	-	20 269 490
Landfill site	8 385 000	-	8 385 000	8 385 000	-	8 385 000
Total	**66 615 156**	**(2 214 374)**	**64 400 782**	**60 115 363**	**(3 190 839)**	**56 924 524**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Disposals**	**Prior year error**	**Depreciation**	**Total**
Land and buildings	17 676 072	-	-	1 699 896	(88 144)	19 287 824
Leased assets	1 198 447	-	-	52 000	(96 032)	1 154 415
Other Assets	697 427	254 364	(2 417)	-	(211 522)	737 852
Infrastructure assets	8 698 088	-	-	-	(329 203)	8 368 885
Capital work in progress	20 269 490	6 197 316	-	-	-	26 466 806
Landfill site	8 385 000	-	-	-	-	8 385 000
	56 924 524	**6 451 680**	**(2 417)**	**1 751 896**	**(724 901)**	**64 400 782**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Change in accounting policy**	**Other changes, movements**	**Depreciation**	**Total**
Land and buildings	18 330 741	-	-	-	(654 669)	17 676 072
Leased assets	403 652	1 257 371	(403 652)	-	(58 924)	1 198 447
Other Assets	861 226	152 490	(141 168)	-	(175 121)	697 427
Infrastructure assets	35 093 378	-	(26 066 987)	-	(328 303)	8 698 088
Capital work in progress	-	20 269 490	-	-	-	20 269 490
Landfill site	9 036 400	-	-	(651 400)	-	8 385 000
	63 725 397	**21 679 351**	**(26 611 807)**	**(651 400)**	**(1 217 017)**	**56 924 524**

Pledged as security

Property, plant and equipment have not been pledged as security or encumbered in any way.

Other information

Other assets consist of office equipment and furniture & fixtures.

8. Investment Property

	2012			2011		
	Cost / Valuation	**Accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment**	**Carrying value**
Investment property	26 222 000	-	26 222 000	15 465 360	-	15 465 360

Reconciliation of investment property - 2012

	Opening balance	Revaluations	Total
Investment property	15 465 360	10 756 640	26 222 000

Reconciliation of investment property - 2011

	Opening balance	Additions	Disposals	Total
Investment property	15 349 990	123 870	(8 500)	15 465 360

	2012	2011
Rental revenue from income generating property	231 518	29 056

9. Intangible Assets

	2012			2011		
	Cost	**Accumulated amortisation**	**Carrying value**	**Cost**	**Accumulated amortisation**	**Carrying value**
Performance management system	272 564	(163 539)	109 025	272 564	(109 026)	163 538
Website development	12 292	(2 500)	9 792	12 500	(208)	12 292
Samras system	408 125	(163 250)	244 875	408 125	(81 625)	326 500
Vuku fleet management	37 268	(22 359)	14 909	37 268	(14 906)	22 362
Total	**730 249**	**(351 648)**	**378 601**	**730 457**	**(205 765)**	**524 692**

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Performance management system	163 538	(54 513)	109 025
Website development	12 292	(2 500)	9 792
Samras system	326 500	(81 625)	244 875
Vuku fleet management	22 362	(7 453)	14 909
	524 692	**(146 091)**	**378 601**

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Performance management system	1	272 563	(109 026)	163 538
Website development	1	12 499	(208)	12 292
Samras system	1	408 124	(81 625)	326 500
Vuku fleet management	1	37 267	(14 906)	22 362
	4	**730 453**	**(205 765)**	**524 692**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Finance lease obligation

Minimum lease payments due		
- within one year	273 987	274 607
- in second to fifth year inclusive	675 192	918 759
	949 179	1 193 366
less: future finance charges	(157 082)	(10 880)
Present value of minimum lease payments	**792 097**	**1 182 486**
Present value of minimum lease payments due		
- within one year	198 436	270 234
- in second to fifth year inclusive	593 661	912 252
	792 097	**1 182 486**

Non-current liabilities	589 167	912 242
Current liabilities	202 930	270 244
	792 097	**1 182 486**

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

The average lease term was 3-5 years and the average effective borrowing rate was 9%.

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

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

Defaults and breaches

No defaults and breaches occured.

11. Trade and other payables from exchange transactions

Sundry creditors	2 750 822	2 386 497
Trade creditors	7 616 231	7 758 520
Service charges paid in advance	-	2 160
Retentions	109 715	109 715
	10 476 768	**10 256 892**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Hiv Aids Programme	39 631	39 631
Financial Management Grant	-	31 719
Local Economic Development Grant	1 645 893	2 115 623
Tourism Grant - Cacadu	130 000	130 000
International Mohair Summit	1 872 385	1 614 660
Health Department Grant	236 916	236 916
Spatial Development Grant	212 759	350 000
Grap Coversion Grant	231 897	-
CIP Fund	199 725	199 725
Mun Admin: Water Serv Author	-	250 000
Other Grants	(1 013 088)	1 121 213
	3 556 118	**6 089 487**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Unspent conditional grants and receipts (continued)

Movement during the year

	2012	2011
Balance at the beginning of the year	6 089 487	14 536 637
Additions during the year	23 131 405	24 506 288
Income recognition during the year	(25 664 774)	(32 953 438)
	3 556 118	**6 089 487**

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Utilised during the year	Total
Landfill site	8 385 000	-	8 385 000
Performance bonuses - s57 employess	184 963	38 617	223 580
Provision for leave pay	407 704	326 295	733 999
	8 977 667	**364 912**	**9 342 579**

Reconciliation of provisions - 2011

	Opening Balance	Utilised during the year	Reversed during the year	Total
Landfill site	9 036 400	-	(651 400)	8 385 000
Performance bonuses - s57 employess	168 239	16 724	-	184 963
Provision for leave pay	533 018	-	(125 314)	407 704
	9 737 657	**16 724**	**(776 714)**	**8 977 667**

	2012	2011
Non-current liabilities	8 385 000	8 385 000
Current liabilities	957 579	592 667
	9 342 579	**8 977 667**

Performance bonuses are paid one year in arrear as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

The balance of the performance bonus provisions relate to amounts not yet paid to section 57 employees.

14. Government grants and subsidies

	2012	2011
Equitable Share	13 753 000	11 553 081
Municipal Infrastructure Grant	9 459 034	8 331 270
Finance Management Grant	1 763 178	-
Municipal Systems Improvement Grant	532 275	750 000
Government Grant - Other	460 930	12 319 087
	25 968 417	**32 953 438**

15. Interest received - investment

	2012	2011
Bank and investment	139 939	654 316

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Other income

Sundry income	1 807 606	375 066

17. Property rates

Rates received

Rates raised	1 042 936	1 129 667
Less: Income forgone	-	(314)
	1 042 936	1 129 353
Property rates - penalties imposed and collection charges	247 507	-
	1 290 443	**1 129 353**

18. Service charges

Electricity	2 782 160	3 671 051
Water	1 005 656	670 108
Sewerage and sanitation charges	1 231 300	453 477
Refuse removal	1 052 653	581 666
	6 071 769	**5 376 302**

19. Bulk purchases

Electricity	4 962 174	4 051 542

20. Debt impairment

Bad debts	2 719 210	2 574 150

21. Depreciation and amortisation

Property, Plant and Equipment	724 900	1 217 017
Intangible assets	146 091	205 765
	870 991	**1 422 782**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Employee related costs

Bargain council	95 593	3 169
Basic	8 388 378	7 820 637
Bonus	1 033 171	541 859
Housing allowance	22 406	11 535
Leave pay provision charge	-	331 501
Medical aid	355 296	320 754
Other allowances	3 290	63 951
Overtime payments	546 107	428 574
Pension fund	957 602	633 141
Skills development levy	68 244	74 482
Standby allowance	79 205	49 778
Subsistence allowance	875 832	573 734
Travel allowance	369 802	404 794
Unemployment insurance fund	172 593	69 716
	12 967 519	**11 327 625**

Remuneration of Municipal Manager

Annual Remuneration	281 833	455 169
Car Allowance	47 000	84 000
Performance Bonuses	99 210	77 163
Cellphone allowance	1 200	-
Public office allowance	6 000	12 000
Subsistence allowance	6 000	-
Backpay	22 966	-
	464 209	**628 332**

Remuneration of Chief Finance Officer

Annual Remuneration	323 458	301 000
Car Allowance	84 000	84 000
Performance Bonuses	69 300	53 900
Backpay	16 042	-
	492 800	**438 900**

Remuneration Technical Services Manager

Annual Remuneration	70 583	385 000
Performance Bonuses	-	53 900
Cellphone allowance	2 000	-
	72 583	**438 900**

23. Finance costs

Machines	3 179	13 950
Vehicles	94 941	65 933
	98 120	**79 883**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. General expenses

Service provider fees	2 602 629	-
Advertising	145 989	108 678
Assessment rates & municipal charges	2 162	-
Audit committee fees	38 530	277 010
Audit fees - external	1 104 751	408 708
Audit fees - internal	943 053	1 316 464
Bank charges	139 398	112 652
Chemicals	174 608	310 245
Cleaning	48 692	-
Computer expenses	220 466	-
Congress fees	27 500	12 542
Courier services	25 944	5 963
Electricity	305 950	4 051 542
Entertainment	172 854	187 127
Fuel and oil	463 860	413 646
Indigent free services	-	1 616 002
Insurance	144 294	160 068
Inventory items	-	69
Lease rentals on operating lease	292 136	14 409
Licenses	431 198	60 999
Magazines, books and periodicals	23 379	4 856
Marketing	126 793	8 125
Motor vehicle and plant expenses	243 259	-
Other expenses	(193 008)	140 609
Pauper burials	13 120	11 990
Postage and courier	53 420	65 337
Printing and stationery	174 813	182 473
Project maintenance costs	339 748	509 490
Provision for perfomance bonus	-	16 724
Rentals	-	90 465
Subscriptions and membership fees	173 037	105 825
Sundry expenses	36 481	1 872 165
Telephone and fax	383 513	594 430
Title deed search fees	12 874	15 607
Tools and equipment	29 503	-
Tourism development	511	10 400
Training	261 044	316 135
Uniforms and protective clothing	47 394	35 123
Valuations	50 375	61 932
	9 060 270	**13 097 810**

25. Grants expenditure

Municipal Infrastructure Grant	20 828	-
Municipal Systems Infrastructure Grant	432 890	-
	453 718	**-**

26. Remuneration of councillors

Mayor	317 700	-
Councillors	1 082 245	758 156
	1 399 945	**758 156**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Revenue

Property rates	1 042 936	1 129 353
Property rates – Penalties imposed and collection charges	247 507	-
Service charges	6 071 769	5 376 302
Rental of facilities & equipment	231 518	29 056
Interest received – trading	503 582	611 840
Public contributions and donations	-	123 870
Licences and permits	934 763	251 092
Government grants & subsidies	25 968 417	32 953 439
	35 000 492	**40 474 952**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	6 071 769	5 376 302
Rental of facilities & equipment	231 518	29 056
Interest received – trading	503 582	611 840
Licences and permits	934 763	251 092
	7 741 632	**6 268 290**

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

Property rates	1 042 936	1 129 353
Property rates – Penalties imposed and collection charges	247 507	-
Public contributions and donations	-	123 870
Government grants	25 968 417	32 953 439
	27 258 860	**34 206 662**

28. Rental of facilities and equipment

Halls and equipment	174 308	29 056
Fax/photocoy machines	57 210	-
	231 518	**29 056**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Cash generated from operations

Surplus	3 358 846	6 809 632
Adjustments for:		
Depreciation and amortisation	870 991	1 422 782
Loss on sale of assets	2 418	392 895
Finance costs - Finance leases	3 179	13 950
Impairment deficit	17 353	-
Debt impairment	2 719 210	2 574 150
Movements in provisions	364 912	(759 990)
Retained earnings transfers in	4 858 650	580 194
Vat and intangibles	-	832 719
Other non-cash item	(1 339 633)	-
Changes in working capital:		
Trade and other receivables from exchange transactions	-	16 936
Other receivables from non-exchange transactions	(67 840)	(889 787)
Consumer debtors	(3 791 976)	(556 145)
Trade and other payables from exchange transactions	219 877	6 478 416
Vat	1 163 986	(1 253 298)
Unspent conditional grants and receipts	(2 533 369)	(6 832 490)
	5 846 604	**8 829 964**

30. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	-	4 637 584
• Finance Lease Obligation	277 167	270 244
• Highmast Lights	1 706 216	-
• Cemetery Fencing	1 306 800	-
• Roads and Stormwater	2 664 093	-
• Park Fencing	223 000	-
• Waste Water Treatment Works	359 409	-
	6 536 685	**4 907 828**

This committed expenditure relates to property and will be financed by available bank facilities and retained surpluses.

31. Contingencies

There were following contingent liabilities against the Ikwezi Local Municipality as at balance sheet date.

Mr M Meyer for unfair dismissal for employment contract not renewed in September 2010. The status to date of this case is pending and the financial implications to the council is not yet determined.

Mrs P Erasmus for damages incurred while working for the municipality in December 2010. The status to date of this case is pending and the financial implications to the council is not yet determined.

Jansenville Taxi Association for dispute over ERF 465 in Jansenville in 2006. The status to date of this case is pending and the financial implications to the council is not yet determined.

Refer to an additional annexure to the annual financial statements for further details on page 41

Figures in Rand	2012	2011

32. Related parties

Related party transactions

Donations received from related parties		
Manang & Associates	-	10 000
Stemele Bosch Africa	-	10 000
Amava IT (Pty) Ltd	-	10 000

One of the ward councillors – Mr K Hendrick is a member of Divashne Trading and has declared her interest to the Municipal Manager. No other councillors and key management staff had business interests with the municipality during the year.

33. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

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

Interest rate risk

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

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.

Credit risk

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

Trade receivables comprise a widespread customer base (within the parameters of the municipality). Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

No credit limits were exceeded during the reporting period, and management does not expect any deficits from non-performance by these counterparties.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. 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 financial statements indicates that the municipality's current liabilities exceeded its total current assets by R12 671 221. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

35. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to year end.

36. Unauthorised expenditure

Opening balance	5 635 750	-
Over expenditure - Ikwezi Mohair festival	-	1 220 000
Grant funding not used for intended purpose - Bridging finance of house	-	4 415 750
Over expenditure - Community and social services	56 559	-
Over expenditure - Public safety	95 539	-
Over expenditure - Budget and treasury	1 398 391	-
Over expenditure - Electricity	1 119 760	-
Closing balance	**8 305 999**	**5 635 750**

The above is an overspend on the budgeted expenditure on the Mohair Festival. The balance relates to bridging finance on the housing projects. Over expenditure on MIG and Intergrated National Electrification Program relates to prior year.

37. Fruitless and wasteful expenditure

Opening balance	69 120	-
Add : Fruitless and Wasteful Expenditure - current year	80 641	69 120
Closing balance	**149 761**	**69 120**

The opening balance relates to interest incurred as a result of outstanding external audit fees of R69 120 up to June 2011. The other R80 641 relates to interest on outstanding external audit fees up to 30 June 2012. The amount of R10 200 which relates to expenditure incurred in towing and storage of municipal vehicle involved in an accident was recovered at 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Irregular expenditure

Opening balance	31 142 798	-
Irregular expenditure incurred for the year	-	31 142 798
Deviation from SCM policy - This includes expenditure incurred where 3 quotes were not obtained. This also consists of expenditure where there was no declaration of interest by the sucessful bidder.	1 743 246	-
Upgrading of college street in Jansenville - No evidence could be found that it was advertised in the newspaper. No confirmation that succesful bidders or their directors weren't in arrears for more than 3 months. There weren't four senior managers present on the bid adjudication committee	3 037 065	-
Upgrade of waste water treatment works in Klipplaat - No confirmation that succesful bidders or their directors weren't in arrears for more than 3 months for municipal rates and taxes. There weren't four senior managers present on the bid adjudication committee	409 726	-
Erection and commissioning of 15m high mast lights - There weren't four senior managers present on the bid adjudication committee	1 422 561	-
Fencing of cemetry - No evidence could be found that it was advertised in the newspaper. No confirmation that succesful bidders or their directors weren't in arrears for more than 3 months for municipal rates and taxes. There weren't four senior managers present on the bid adjudication committee	1 489 752	-
Instalation of high mast lights - No evidence could be found that it was advertised in the newspaper. No confirmation that succesful bidders or their directors weren't in arrears for more than 3 months for municipal rates and taxes. There weren't four senior managers present on the bid adjudication committee	522 525	-
Upgrading of Roads & Stormwater drainage - Expenditure incurred in current for tender identified in previous year as irregular	888 128	-
Amounts condoned for the 2010/2011 year	(31 142 798)	-
	9 513 003	**31 142 798**

39. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year fee	1 104 751	408 708
Amount paid - current year	(1 104 751)	(408 708)
	-	**-**

PAYE and UIF

Current year subscription / fee	1 341 544	-
Amount paid - current year	(1 341 544)	-
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	1 174 714	-
Amount paid - current year	(1 174 714)	-
	-	**-**

Figures in Rand	2012	2011

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

VAT

	2012	2011
VAT receivable	334 395	1 498 381

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 less than 90 days R	Outstanding more than 90 days R	Total R
Councillor J Lewis	490	12 706	13 196
Councillor A Mboneni	122	-	122
Councillor K Hendricks	490	15 049	15 539
Councillor M Bonaparte	220	148	368
Councillor W Seekoei	150	-	150
	1 472	**27 903**	**29 375**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor J Lewis	-	1 706	1 706
Councillor D Lizwane	335	-	335
Councillor K Hendricks	489	16 755	17 244
Councillor M Bonaparte	220	148	368
Councillor W Seekoei	150	-	150
	1 194	**18 609**	**19 803**

40. Deviation from supply chain management regulations

In terms of Local Government : Municipal Finance Management Act, 2003 Municipal Supply Chain Management Regulations, paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

Please refer to an additional annexure to the annual financial statements on page 43.

41. Electricity Loss

The municipality suffered a significant electricity loss of 1.4 million kilowatts with a value of R 1 700 814 during the year. these losses are as a result of consumption by municipal buildings and infrastructure assets. The balance is also due to technical losses within the distribution system.