NDLAMBE LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended 30 June, 2012

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

The annual financial statements set out on pages 2 to 43, which have been prepared on the going concern basis, were approved on 31 August, 2012 and were signed by:

R DUMEZWENI
MUNICIPAL MANAGER

Statement of Financial Position

Figures in South African Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	4	593 706	293 818
Receivables from non-exchange transactions	5	20 897 743	16 997 274
Receivables from exchange transactions	6	28 086 383	7 903 424
Cash and cash equivalents	7	23 831 331	26 218 069
		73 409 163	**51 412 585**
Non-Current Assets			
Property, plant and equipment	9	124 217 903	98 944 841
Other financial assets		81 900	60 522
		124 299 803	**99 005 363**
Non-Current Assets		124 299 803	99 005 363
Current Assets		73 409 163	51 412 585
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**197 708 966**	**150 417 948**
Liabilities			
Current Liabilities			
Consumer deposits	10	1 666 575	1 554 479
Payables	11	16 075 652	29 242 819
Unspent conditional grants and receipts	12	15 028 815	19 231 210
VAT payable	30	2 520 920	2 372 841
Bank overdraft	7	3 367 713	2 215 361
Financial liabilities - DBSA	13	3 235 721	2 846 172
		41 895 396	**57 462 882**
Non-Current Liabilities			
Financial liabilities - DBSA	13	27 136 936	30 376 639
Retirement benefit obligation	14	47 795 079	44 409 051
		74 932 015	**74 785 690**
Non-Current Liabilities		74 932 015	74 785 690
Current Liabilities		41 895 396	57 462 882
Liabilities of disposal groups		-	-
Total Liabilities		**116 827 411**	**132 248 572**
Assets		197 708 966	150 417 948
Liabilities		(116 827 411)	(132 248 572)
Net Assets		**80 881 555**	**18 169 376**
Net Assets			
Accumulated surplus		80 881 558	18 169 375

Statement of Financial Performance

Figures in South African Rand	Note(s)	2012	2011
Revenue			
Rendering of services		152 025	366 971
Property rates	16	46 624 886	42 377 546
Service charges	17	93 050 204	72 812 670
Rental of facilities and equipment		3 073 360	3 178 190
Fines		443 321	482 007
Licences and permits		3 379 580	2 785 656
Government grants & subsidies	18	68 566 114	92 171 805
Rental income		8 059	10 546
Other income	31	1 556 839	1 800 666
Interest received - investment	23	4 697 775	4 292 545
Gains on disposal of assets	23	285 753	431 677
Dividends received	23	-	1 323
Total Revenue		**221 837 916**	**220 711 602**
Expenditure			
Personnel	20	(68 736 663)	(69 400 140)
Remuneration of councillors	21	(4 716 830)	(4 103 763)
Administration	32	(33 395)	105
Finance costs	25	(3 652 015)	(3 840 107)
Debt impairment	22	-	(17 357 808)
Repairs and maintenance		(6 751 677)	(7 980 899)
Bulk purchases	28	(32 592 060)	(26 741 624)
Grants and subsidies paid	27	(10 742 502)	(12 931 103)
General Expenses	19	(49 198 729)	(45 258 558)
Total Expenditure		**(176 423 871)**	**(187 613 897)**
Fair value adjustments	24	21 378	(664 436)
Revenue		221 837 916	220 711 602
Expenditure		(176 423 871)	(187 613 897)
Other		21 378	(664 436)
Surplus for the year		**45 435 423**	**32 433 269**

Statement of Changes in Net Assets

Figures in South African Rand	Accumulated surplus	Total net assets
Balance at 01 July, 2010	**(14 384 767)**	**(14 384 767)**
Changes in net assets		
Surplus for the year	32 433 269	32 433 269
Unbundling of funds	120 873	120 873
Total changes	32 554 142	32 554 142
Balance at 01 July, 2011	**18 169 375**	**18 169 375**
Changes in net assets		
Surplus for the year	45 435 423	45 435 423
Other adjustments	17 276 760	17 276 760
Total changes	62 712 183	62 712 183
Balance at 30 June, 2012	**80 881 558**	**80 881 558**

Note(s)

Cash Flow Statement

Figures in South African Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Exchange and non-exchange transactions		88 933 103	88 933 103
Grants		87 584 295	87 584 295
Interest income		4 697 775	4 292 545
Dividends received		-	1 323
		181 215 173	180 811 266
Payments			
Finance costs		(3 652 015)	(3 840 107)
Total receipts		181 215 173	180 811 266
Total payments		(3 652 015)	(3 840 107)
Net cash flows from operating activities	29	**28 388 673**	**49 056 637**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(25 273 060)	(33 077 646)
Proceeds from sale of property, plant and equipment	9	285 753	431 677
Net cash flows from investing activities		**(24 987 307)**	**(32 645 969)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(2 850 154)	(2 585 015)
Movement on unspent governmental grants and subsidies		(4 202 395)	(4 587 513)
Consumer deposits		112 096	140 609
Net cash flows from financing activities		**(6 940 453)**	**(7 031 919)**
Net increase/(decrease) in cash and cash equivalents		**(3 539 087)**	**9 378 749**
Cash and cash equivalents at the beginning of the year		24 002 708	14 623 958
Cash and cash equivalents at the end of the year	7	**20 463 621**	**24 002 707**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, and replace part of 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.

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

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

Accounting Policies

1.1 Property, plant and equipment (continued)

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

Item	**Average useful life**
Land	Indefinite
Buildings	50 Years
Plant and machinery	3-10 Years
Furniture and fixtures	5-10 Years
Motor vehicles	3-7 Years
Office equipment	3-5 Years
IT equipment	3 Years
Computer software	3 Years
Infrastructure	20- 80 Years
Community	10-30 Years
Specialised vehicles	10-15 Years
Wastewater network	80 Years
Water network	50 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.

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.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the Accounting Standards Board.

According to the transitional provision, the municipality is not required to measure property, plant and equipment subsequent to acquisition for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at cost, as disclosed in note 9. The transitional provision expires on Saturday, 30 June, 2012.

Until such time as the exemption period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

Accounting Policies

1.1 Property, plant and equipment (continued)

The exemption from applying the subsequent measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of this Standard of GRAP.

1.2 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.

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; and
- 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.

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

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

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

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

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

Item	Useful life
Computer software, other	3 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.

1.3 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - designated

1.3 Financial instruments (continued)

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

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

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

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

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 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.

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

1.3 Financial instruments (continued)

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Gains and losses

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

1.3 Financial instruments (continued)

- 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;
- 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.

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

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

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

Operating leases - lessee

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

1.5 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.

1.5 Inventories (continued)

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 weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.6 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.

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:

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.

Value in use

1.6 Impairment of cash-generating assets (continued)

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.

Basis for estimates of future cash flows

In measuring value in use the municipality uses:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality uses management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

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

1.6 Impairment of cash-generating assets (continued)

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service 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.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.8 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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.

1.8 Employee benefits (continued)

Consideration is given to any event that could impact the funds up to the 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 are 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 reduced by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some 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. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.9 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.

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.

1.9 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

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 34.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the Accounting Standards Board.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of this Standard of GRAP.

1.10 Borrowing costs

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

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

1.11 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:

1.11 Significant judgements and sources of estimation uncertainty (continued)

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

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

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 operation surplus note.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 14 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. 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

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

Allowance for doubtful debts

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

1.12 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.

1.12 Mergers (continued)

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

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

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

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

Cost model

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

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite
Property - buildings	50 years
Lifts	20 years
Air-conditioners	5 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.

Transitional provision

The municipality changed its accounting policy for investment property in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the Accounting Standards Board.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on Saturday, 30 June, 2012.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of this Standard of GRAP.

1.13 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Transitional provision

The municipality changed its accounting policy for construction contracts in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the Accounting Standards Board.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where construction contracts was acquired through a transfer of functions, the municipality is not required to measure that construction contracts for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and construction contracts has accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and construction contracts is recognised and measured in accordance with the requirements of the Standard of GRAP on Construction contracts, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Construction contracts implies that any associated presentation and disclosure requirements need not be complied with for construction contracts not measured in accordance with the requirements of this Standard of GRAP.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

1.14 Revenue from exchange transactions (continued)

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.

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, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

1.15 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..

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 arises 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.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Accounting Policies

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.

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

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.16 Investment income

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

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 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.

1.20 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.

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.

1.21 Use of estimates

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

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 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.

1.25 Conditional grants and receipts

Receipts of conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

1.26 Unconditional grants and receipts

Receipts of unconditional grants, donations and funding are recognised as revenue on receipt.

1.27 Budget information

Municipalities 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 the 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 not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 39.

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

2. Changes in accounting policy

Reconciliation of effect of accounting policy changes on accumulated surplus

	-	
Retirement benefit obligation recognised in statement of financial performance 2009	-	(37 242 947)
Trust funds	-	35 819 426
Property, plant and equipment	-	(21 067 266)
Receivables	-	(12 882 806)
Provision for audit fees	-	1 365 096
Unspent conditional grants	-	(21 142 529)
Accumulated funds movement	-	20 535 843
Other	-	(15)
Accumulated surplus restated at 1 July 2009	-	(27 623 291)

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 an accounting policy based on the following standards:

- GRAP 21
- GRAP 23
- GRAP 26
- GRAP 104

3. New standards and interpretations

3.1 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:

GRAP 106: Transfer of Functions between Entities not under common control

An Entity shall account for each transfer of functions between Entities not under common control by applying the acquisition method. This requires identifying the acquirer, the acquisition date, recognising and measuring Assets/Liabilities acquired and assumed, non-controlling interests in the acquiree, and recognise any differences between Net Assets/Liabilities and considerations received.

In the current financial year the Department of Health assumed all responsibility for providing Primary Health Care services in the municipal area. As such, associated assets and liabilities were acquired and assumed by the Department on 1 January 2011.

The effective date of the standard is still to be determined by the Minister of Finance in a Regulation to be published in accordance with Section 91(1)(b) of the Public Finance Management Act No 1 of 1999, as amended.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

Related Party relationships, transactions and outstanding balances, including commitments, shall be disclosed in a note to the Annual Financial Statements.

The effective date of the standard is still to be determined by the Minister of Finance in a Regulation to be published in accordance with Section 91(1)(b) of the Public Finance Management Act No 1 of 1999, as amended.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July, 2012 or later periods but are not relevant to its operations:

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

4. Inventories

Electrical spares	64 024	75 038
Water maintenance spares	132 335	64 155
Stores, materials and fuels	397 347	154 625
	593 706	**293 818**

Inventories to the amount of R356 837 were written down to net realisable value, due to stock value difference to general ledger

Inventory pledged as security

No inventory was pledged as security.

5. Receivables from non-exchange transactions

Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Sundry receivables	1 166 823	1 173 467
Prepaid expenses	117 530	117 530
Recoverable fruitless and wasteful expenditure	119 058	119 058
Rates	17 324 379	16 787 382
Housing sundry	792	-
Environmental levies	1 891 224	-
Impairment for non-exchange receivables	-	(1 478 100)
	20 897 743	**16 997 274**

6. Receivables from exchange transactions

Gross balances		
Electricity	8 168 518	7 213 759
Water	17 121 950	27 498 501
Waste water	628 412	469 044
Sewerage	8 165 225	9 443 522
Refuse	8 971 217	9 712 642
Housing rental	514 745	1 382 548
Service charges and other	14 283 341	18 843 547
	57 853 408	**74 563 563**
Less: Provision for debt impairment		
Impairment allowance	(29 767 025)	(66 660 139)

Figures in South African Rand	2012	2011

6. Receivables from exchange transactions (continued)

Net balance		
Electricity	8 168 518	7 213 759
Water	17 121 950	27 498 501
Waste water	628 412	469 044
Sewerage	8 165 225	9 443 522
Refuse	8 971 217	9 712 642
Housing rental	514 745	1 382 548
Service charges and other	14 283 341	18 843 547
Impairment allowance	(29 767 025)	(66 660 139)
	28 086 383	**7 903 424**

Electricity		
Current (0 -30 days)	4 911 702	3 031 509
31 - 60 days	901 590	1 126 875
61 - 90 days	402 718	307 016
> 90 days	1 952 508	2 748 359
	8 168 518	**7 213 759**

Water		
Current (0 -30 days)	5 435 013	1 022 645
31 - 60 days	735 738	840 325
61 - 90 days	488 067	996 792
> 90 days	10 463 132	24 638 739
	17 121 950	**27 498 501**

Waste water		
Current (0 -30 days)	221 763	71 621
31 - 60 days	67 266	36 163
61 - 90 days	22 380	37 048
> 90 days	317 003	324 212
	628 412	**469 044**

Sewerage		
Current (0 -30 days)	2 646 721	499 801
31 - 60 days	353 610	378 058
61 - 90 days	193 125	332 799
> 90 days	4 971 769	8 232 864
	8 165 225	**9 443 522**

Refuse		
Current (0 -30 days)	3 104 705	609 667
31 - 60 days	371 387	432 776
61 - 90 days	230 190	358 488
> 90 days	5 264 935	8 311 711
	8 971 217	**9 712 642**

Service charges and other		
Current (0 -30 days)	4 645 860	(18 310)
31 - 60 days	354 679	440 977
61 - 90 days	124 395	417 980
> 90 days	9 158 407	18 002 900
	14 283 341	**18 843 547**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

6. Receivables from exchange transactions (continued)

Housing rental		
Current (0 -30 days)	348 254	(26 300)
31 - 60 days	9 590	12 043
61 - 90 days	4 077	11 909
> 90 days	152 824	1 384 896
	514 745	**1 382 548**

Total		
Current (0 -30 days)	21 314 018	9 683 928
31 - 60 days	2 793 860	5 028 707
61 - 90 days	1 464 952	3 064 862
> 90 days	32 280 578	73 573 448
	57 853 408	**91 350 945**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(66 660 139)	(65 536 009)
Debt impairment for exchange receivables	-	(17 357 808)
Provision write-off approved by Council	36 893 114	16 233 678
	(29 767 025)	**(66 660 139)**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 361	4 550
Bank balances	18 360 802	20 987 905
Short-term deposits	5 466 168	5 225 614
Bank overdraft	(3 367 713)	(2 215 361)
	20 463 618	**24 002 708**

Current assets	23 831 331	26 218 069
Current liabilities	(3 367 713)	(2 215 361)
	20 463 618	**24 002 708**

The total amount of undrawn facilities available for future operating activities and commitments	3 077 000	3 077 000

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**
FIRST NATIONAL BANK - General Account - Current	6 554 457	1 411 724	2 352 434	(3 367 713)	(2 215 361)	(5 381 170)
FIRST NATIONAL BANK - Housing Account - Current	681 816	1 626 112	874 238	681 816	1 626 112	862 587
FIRST NATIONAL BANK - Revolving Account - Current	17 678 986	19 367 025	15 525 940	17 678 986	19 361 793	14 127 199
Total	**24 915 259**	**22 404 861**	**18 752 612**	**14 993 089**	**18 772 544**	**9 608 616**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

8. Non-current investments

These investments are classified financial assets.

Fair value of investments are as at face value and Old Mutual shares as at quoted market value at 30 June 2012

Listed shares - Old Mutual (acquired upon demutualisation)	81 900	60 522

9. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	8 485 749	-	8 485 749	8 485 749	-	8 485 749
Plant and machinery	2 629 228	-	2 629 228	2 613 281	-	2 613 281
Motor vehicles	2 313 618	-	2 313 618	2 148 976	-	2 148 976
Office equipment	423 018	-	423 018	197 938	-	197 938
Infrastructure	54 785 038	-	54 785 038	28 934 663	-	28 934 663
Wastewater network	34 757 800	-	34 757 800	36 770 578	-	36 770 578
Water network	13 179 447	-	13 179 447	12 938 111	-	12 938 111
Roads	6 625 327	-	6 625 327	6 606 295	-	6 606 295
IT equipment	175 373	-	175 373	55 066	-	55 066
Computer software	843 305	-	843 305	194 184	-	194 184
Total	**124 217 903**	**-**	**124 217 903**	**98 944 841**	**-**	**98 944 841**

Figures in South African Rand	2012	2011

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Total
Buildings	8 485 749	-	8 485 749
Plant and machinery	2 613 281	15 946	2 629 228
Motor vehicles	2 148 976	164 642	2 313 618
Office equipment	197 938	225 080	423 018
IT equipment	55 066	120 307	175 373
Computer software	194 184	649 121	843 305
Infrastructure	28 934 663	25 850 375	54 785 038
Roads	6 606 295	19 032	6 625 327
Wastewater network	36 770 578	(2 012 779)	34 757 800
Water network	12 938 111	241 336	13 179 447
	98 944 841	**25 273 060**	**124 217 903**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Buildings	8 485 749	-	8 485 749
Plant and machinery	2 411 668	201 613	2 613 281
Motor vehicles	-	2 148 976	2 148 976
Office equipment	55 610	142 328	197 938
IT equipment	-	55 066	55 066
Computer software	-	194 184	194 184
Infrastructure	14 820 434	14 114 230	28 934 663
Roads	4 097 575	2 508 720	6 606 295
Wastewater network	23 128 572	13 642 007	36 770 578
Water network	12 867 589	70 522	12 938 111
	65 867 197	**33 077 646**	**98 944 841**

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.

10. Consumer deposits

	2012	2011
Electricity	1 526 684	1 433 790
Water	139 891	120 689
	1 666 575	**1 554 479**

11. Payables

	2012	2011
Trade payables	444 531	84 663
Payments received in advance	2 133 525	2 207 714
Retention - valuations	-	319 200
Accrued leave pay	3 164 013	3 034 475
13th cheque accrual	1 715 063	1 565 340
Accrued expense	5 245 892	15 121 538
Deposits received	846 208	850 910
Other payables	138 124	43 396
Unidentified direct deposits	1 706 480	1 779 184
Eastern Cape Department of Housing	681 816	4 236 399
	16 075 652	**29 242 819**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

FMG	832 157	1 980 460
DWAF	3 411 167	3 822 053
Cacadu grants	2 153 710	3 619 774
MIG	2 427 603	5 806 566
MSIG	151 473	23 859
LED	4 357 664	1 703 198
ECDC	16 850	500
CIP	-	37 930
EC Sports/Arts and culture	(16 850)	(16 850)
LG SETA	341 622	142 761
Amatole Water Board	-	51 139
DLGTA	-	90 248
DME	268 786	207 228
Unspent grant -interest/VAT	1 762 344	1 762 344
Public Works - EPWP	137 000	-
Accrued income - grants	(814 711)	-
	15 028 815	**19 231 210**

The liability relates to unfulfilled conditions and other contingencies attached to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was witheld during the year

13. Financial liabilities - DBSA

Held at amortised cost		
DBSA Loan 102198 10 years @ 10,89%	7 760 648	8 622 141
DBSA Loan 101161/2 20 years @ 12,34%	6 564 678	6 801 536
DBSA Loan 13478/101 20 years @ 17%	3 773 310	4 012 096
DBSA Loan 101855 10 years @ 9,68%	3 600 018	4 616 632
DBSA Loan 102557/1 15 years @ 8,81%	8 674 003	9 170 406
	30 372 657	**33 222 811**
	-	-
	30 372 657	33 222 811

Non-current liabilities		
At amortised cost	27 136 936	30 376 639
Current liabilities		
At amortised cost	3 235 721	2 846 172
	27 136 936	30 376 639
	3 235 721	2 846 172
	30 372 657	**33 222 811**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011
13. Financial liabilities - DBSA (continued)		
Current portion by loan		
DBSA Loan 102198	1 222 532	1 098 062
DBSA Loan 101161/2	231 134	203 128
DBSA Loan 13478/101	234 783	195 225
DBSA Loan 101855	995 652	904 781
DBSA Loan 102557/1	487 160	444 976
	3 171 261	**2 846 172**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

14. Employee benefit obligations

Defined benefit plan

The results of this valuation show that the total accrued Post Retirement Medical Aid (PRMA) liability (or total past service liability) of Ndlambe Local Municipality amounts to R44.409m. This is comprised of active members' past service liability of R25.705m and pensioners' past service liability amounting to R18.704m. These figures exclude the impact of HIV / AIDS and are based on the following:
- The medical subsidy arrangements applying at the date of the valuation (30 June 2011);
- A set of realistic estimate assumptions;
- A valuation on the basis of contributions rather than claims;
- The data which we received; and
- Generally accepted actuarial methods.

Post retirement medical aid plan

Ndlambe Municipality employees contribute to 5 medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and SAMWU Med. Pensioners continue on the option they belong to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued by an independent qualified actuary. The last acturial valuation was performed on 30 June 2011 by Deloitte using the Projected Unit Credit Method.

Ndlambe Municipality opted not to recognise any acturial gains/losses applying the "Corridor" method.

The split for interest and service costs and benefits paid could not be obtained from the Valuer for this financial year and therefore the below figures could not be further analysed.

The calculation is based on 276 active members and 43 pensioners entitled to a post-retirement medical scheme contribution subsidy.

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

	2012	2011
Balance at the beginning of the year		
Balance at the beginning of the year	(44 409 051)	(41 505 723)
Service cost	(2 013 585)	-
Interest cost	(2 650 013)	-
Less: Benefits paid	1 277 570	-
Economic and actuarial assumptions	-	(196 400)
Medical contribution increases	-	(1 575 008)
Membership changes	-	2 463 406
Interest, service cost and benefits paid	-	(3 595 326)
Net liability	**(47 795 079)**	**(44 409 051)**

Employee status	Number of members	PSL	FSL	TSL
Actives	276	25 705 062	25 854 733	51 559 795
Pensioners	43	18 703 989	-	18 703 989
	319	**44 409 051**	**25 854 733**	**70 263 784**

Employee status	Number of members	Average PSL (R)	Average FSL (R)	Average TSL (R)
Actives	276	93 134	93 676	186 810
Pensioners	43	434 976	-	434 976
	319	**139 213**	**81 049**	**220 262**

The total liability represents the total PRMA obligation of Ndlambe Local Municipality to employees and pensioners. The past service liability (PSL) represents the amount that can reasonably be regarded as having accrued to members as at 30 June 2011 (given that Ndlambe Local Municipality is a going concern).

Figures in South African Rand | 2012 | 2011

14. Employee benefit obligations (continued)

The second table shows the average liability per employee. Active members have an average total-service liability of R0.187m per member while pensioners have a higher average total service liability of R0.435m per member

Changes in the present value of the defined benefit obligation are as follows:

	2012	2011
Opening balance	11 453 428	7 858 102
Net expense recognised in the statement of financial performance	-	3 595 326
Closing balance	**11 453 428**	**11 453 428**

Net expense recognised in the statement of financial performance

	2012	2011
Interest, service cost and benefits paid	-	3 595 326

Real discount rate	2%	1% (Base)	0%
Accrued PS liability as at 30 June 2011	37 262 102	44 409 051	53 732 767
Plus Service cost	1 599 612	2 013 585	2 569 835
Plus interest cost	2 217 502	2 650 013	3 214 312
Less benefits paid during 2011/2012	(1 272 055)	(1 278 560)	(1 285 146)
Projected PS liability as at 30 June 2012	**39 807 161**	**47 794 089**	**58 231 768**

The service cost in the above table represents the increase in the liability due to the additional years of service accrued by active members. For the base case, where we assumed that the gap or real discount rate was 1%, we project a service cost of R2.014m for the year ahead. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service.

The interest cost is based on the discount rate assumption for the current valuation which is based on the Zero-coupon Bond Yield Curve of South Africa as at 31 March 2011, the liability accrued as at 30 June 2011 and the contributions paid during the financial year.

The benefits paid during 2011/2012 is the estimated medical scheme contributions paid by Ndlambe Municipality with respect to PRMA receiving members during the period 1 July 2011 to 30 June 2012.

No valuation was done in the 2011/2012 financial year, we based our liability according to the 2010/2011 projected actuarial valuation.

Key assumptions used

<u>Economic and actuarial assumptions:</u>
The yield curve applied was updated to be reflective for the current valuation period as at 31 June 2011. The actual investment return earned over the valuation period was lower than that expected at the previous valuation. This resulted in the service cost being lower than what was projected in the previous valuation, therefore decreasing the past service liability for active members. Medical inflation is specified in relation to the discount rate, which means that the expected benefits paid to pensioners were also overstated, resulting in lower projection and hence an increase to the past service liability. Overall, the combined effects resulted in a small increase in liability, namely 0.44%.

<u>Medical contribution increases</u>
The medical aid contributions are expected to increase with medical inflation, which was expected to be 5.89% in the previous valuation. Upon investigation of the actual medical contribution rates in 2011, it was found that the rates for principal members increased by an average of 7.9%, which is much higher than the expected medical inflation. This has resulted in an increase in liability of 3.49%.

<u>Membership changes</u>
The 2011 valuation was based on 12 less active members and 1 less continued member than in the previous valuation. This large net decrease in membership of 13 employees has led to a significant decrease in liability of 5.46%.

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

14. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

15. Revenue

	2012	2011
Rendering of services	152 025	366 971
Property rates	46 624 886	42 377 546
Service charges	93 050 204	72 812 670
Rental of facilities & equipment	3 073 360	3 178 190
Fines	443 321	482 007
Licences and permits	3 379 580	2 785 656
Government grants & subsidies	68 566 114	92 171 805
	215 289 490	**214 174 845**

	2012	2011
The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	152 025	366 971
Service charges	93 050 204	72 812 670
Rental of facilities & equipment	3 073 360	3 178 190
Licences and permits	3 379 580	2 785 656
	99 655 169	**79 143 487**

	2012	2011
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	46 624 886	42 377 546
Fines	443 321	482 007
Transfer revenue		
Government grants & subsidies	68 566 114	92 171 805
	115 634 321	**135 031 358**

16. Property rates

Rates received

	2012	2011
Property rates	46 624 886	42 377 546

Valuations

	2012	2011
All	11 720 641 122	10 812 030 470

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis.

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

17. Service charges

Sale of electricity	41 999 325	32 350 755
Sale of water	22 138 573	18 579 641
Sewerage and sanitation charges	11 740 081	8 092 017
Refuse removal	16 685 880	14 644 250
Other service charges	486 345	(853 993)
	93 050 204	**72 812 670**

18. Government grants and subsidies

Equitable share	26 061 824	43 896 001
PMU	814 711	-
Health subsidies	1 218 392	2 840 543
Government grant (PPE)	29 356 834	33 212 350
Government grant (operating)	11 114 353	12 222 911
	68 566 114	**92 171 805**

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

19. General expenses

Advertising	164 605	68 201
Auditors remuneration	2 694 064	2 391 021
Bank charges	459 298	577 048
Cleaning	-	186
Commission paid	267 032	246 975
Consulting and professional fees	12 562 761	17 635 196
Communication programmes	323 829	47 277
Boat decals	106 324	62 748
Entertainment	84 287	41 159
Flowers	2 057	625
Hire	371 957	60 337
Insurance	1 716 603	1 557 046
Finance workshops	58 888	26 220
IT expenses	236 044	181 816
Lease rentals on operating lease	1 756 904	1 633 285
Motor vehicle expenses	207 338	180 080
Stock losses	408 584	-
Fuel and oil	4 048 972	2 941 665
Postage and courier	495 230	416 274
Printing and stationery	841 073	1 086 942
Promotions	22 676	37 752
Security (Guarding of municipal property)	735 100	628 098
Staff welfare	24 634	8 619
Subscriptions and membership fees	444 111	54 871
Telephone and fax	1 338 012	1 301 284
Transport and freight	17 190	47 886
Training	215 076	143 460
Travel - local	1 194 963	792 551
Refuse	60 360	48 603
Electricity	6 226 761	9 201 959
Sewerage and waste disposal	144 945	122 281
Uniforms & protective clothing	614 533	368 841
Tourism development	-	57 811
Water Testing	2 275 557	307 463
MIG Expenses	2 650 013	-
Bursaries	54 750	63 045
Water Services Authority expenses	151 214	172 026
Valuation expenses	265 583	582 889
Transport (workshop)	130 910	282 680
Chemicals	741 655	748 827
PMS review process	18 877	496
Clearing of erven	24 950	-
Other expenses	5 041 009	1 133 015
	49 198 729	**45 258 558**

Figures in South African Rand	2012	2011

20. Employee related costs

Basic	43 466 408	42 463 663
Bonus	149 724	1 565 340
Medical aid - company contributions	4 139 857	4 050 577
UIF	429 131	405 501
WCA	-	229 888
SDL	520 936	475 241
Leave pay provision charge	129 538	1 056 241
Post-employment benefits - Pension - Defined contribution plan	7 982 465	10 023 152
Overtime payments	5 343 263	3 892 762
Car allowance	2 213 944	2 256 229
Housing benefits and allowances	273 770	256 768
Group insurance	487 725	469 238
Allowances	2 289 429	1 682 144
Industrial levy	20 488	20 943
Casuals	1 289 985	552 453
	68 736 663	**69 400 140**

Remuneration of municipal manager

Annual Remuneration	601 379	533 973
Car Allowance	175 986	172 494
Telephone allowance	15 535	13 994
Other (Allowance, UIF, Medical, Pension, etc)	150 058	135 681
13th Cheque	50 701	41 241
Leave pay	56 031	45 372
	1 049 690	**942 755**

Remuneration of chief finance officer

Annual Remuneration	491 265	479 478
Car Allowance	170 951	168 831
Telephone allowance	16 251	13 994
Other (Allowance, UIF, Medical, Pension, etc)	155 157	146 183
13th Cheque	40 975	39 024
Leave pay	93 518	57 314
	968 117	**904 824**

Remuneration of executive directors

Remuneration of the director: infrastructural development

Annual Remuneration	493 706	478 087
Car Allowance	181 948	172 494
Performance Bonuses	23 699	-
Telephone allowance	13 833	13 994
Other (Allowance, UIF, Medical, Pension, etc)	151 407	145 599
13th Cheque	40 890	38 943
Leave pay	74 149	27 049
	979 632	**876 166**

Remuneration of the director: corporate services

Annual Remuneration	384 337	481 165
Car Allowance	134 923	172 494
Telephone allowance	11 910	13 994
Other (Allowance, UIF, Medical, Pension, etc)	25 457	33 141

Figures in South African Rand	2012	2011

20. Employee related costs (continued)

13th Cheque	41 003	39 050
Leave pay	-	25 799
	597 630	**765 643**

Remuneration of the director: community and protection services (two incumbents during current year)

Annual Remuneration	442 681	475 087
Car Allowance	166 629	172 494
Telephone allowance	13 832	13 994
Other (Allowance, UIF, Medical, Pension, etc)	130 240	138 445
13th Cheque	40 671	38 734
Leave pay	106 107	51 355
	900 160	**890 109**

21. Remuneration of councillors

Executive Major	652 148	601 989
Speaker	282 040	264 971
Other councillors	3 782 642	3 236 803
	4 716 830	**4 103 763**

22. Debt impairment

Contribution to debt impairment provision	-	17 357 808

23. Investment revenue

Dividend revenue		
Listed financial assets - Old Mutual	-	1 323
Interest revenue		
Unlisted financial assets	291 195	303 170
Bank	97 795	205 529
Interest charged on trade and other receivables	4 308 785	3 783 846
	4 697 775	**4 292 545**
	-	1 323
	4 697 775	4 292 545
	4 697 775	**4 293 868**

24. Fair value adjustments

Other financial assets		
• NRB (under curatorship) amount due, Old Mutual shares	21 378	(664 436)

25. Finance costs

Non-current borrowings	3 506 592	3 779 869
Auditor-General of South Africa	145 423	60 238
	3 652 015	**3 840 107**

26. Auditors' remuneration

Fees	2 694 064	2 391 021

Notes to the Annual Financial Statements

Figures in South African Rand	2012	2011

27. Grants and subsidies paid

Other subsidies		
Spatial development framework	924 067	951 260
Operating expenditure ex Grant Funding	9 818 435	11 979 843
	10 742 502	**12 931 103**
Grants paid to ME's	-	-
Other subsidies	10 742 502	12 931 103

28. Bulk purchases

Electricity	26 054 841	21 404 120
Water	6 537 219	5 337 504
	32 592 060	**26 741 624**

29. Cash generated from operations

Surplus	45 435 423	32 433 269
Non-cash transactions:		
Loss (gain) on sale of assets and liabilities	(285 753)	(431 677)
Fair value adjustments	(21 378)	664 436
Debt impairment	-	17 357 808
Retirement benefits	3 386 028	2 903 328
Other non-cash items	17 276 757	120 879
Inventories	(299 888)	192 209
Receivables from non-exchange transactions	(3 900 469)	1 367 122
Decrease/(increase) in receivables from exchange transactions	(20 182 959)	(18 134 269)
Payables	(13 167 167)	14 895 535
(Decrease)/increase in VAT	148 079	(2 312 003)
	28 388 673	**49 056 637**

30. VAT payable

VAT refunds payable	2 520 920	2 372 841

31. Other income

Admission fees	68 140	57 962
Building plan fees	655 789	550 576
Encroachments	4 713	2 471
Event application fees	5 010	8 667
Sundry fees	18 574	73 959
Sundry fees	10 518	-
Pit inspection fees	4 011	4 574
Refuse bags sold	19 474	20 993
River usage	118 512	101 565
Sundry income	407 736	756 696
Subdivisions	24 018	13 437
Town planning income	147 468	110 698
Valuation rolls	72 876	70 228
Disconnection admin fee	-	28 840
	1 556 839	**1 800 666**

32. Administrative expenditure

Administration and management fees - third party	33 395	(105)

Figures in South African Rand

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	978 570	7 111 934

This committed expenditure relates to infrastructure development and will be financed from grant funding.

34. Contingencies

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2012 is R4 959 186. The estimated amount on 30 June 2011 was R4 129 186.

35. 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.

36. Events after the reporting date

There were no events for disclosure that occurred after the reporting date.

37. Unauthorised expenditure

Unauthorised expenditure	-	23 625 401

The above amount represents expenditure incurred due to either no budget or overspending on budget.

38. Irregular expenditure

Opening balance	59 322 992	25 742 161
Irregular expenditure - competitive bidding process	-	28 186 917
Irregular expenditure - other	-	3 360 972
Valid Supply Chain Management Policy deviations not disclosed	-	2 032 942
	59 322 992	**59 322 992**

39. Reconciliation between budget and statement of financial performance

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

Net surplus per the statement of financial performance	45 435 423	32 433 268
Adjusted for:		
Fair value adjustments	21 378	664 436
External audit fees	2 694 064	625 721
Loss on the sale of assets	(285 753)	(431 677)
Increases / (decreases) in provisions	(380 640)	9 806 008
Service cost medical aid benefit	(3 893 504)	3 595 326
Net over (under) revenue and expenditure	4 619 195	(2 074 222)
Contribution to capital expenditure	(25 273 060)	(53 732 980)
Net surplus (deficit) per approved budget	**22 937 103**	**(9 114 120)**

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Figures in South African Rand	2012	2011

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

Current year subscription / fee	462 329	-

Audit fees

Expense - current year	2 694 064	2 391 021

PAYE and UIF

Amount paid - current year	7 512 881	6 911 243

Pension and Medical Aid Deductions

Amount paid - current year	18 405 412	16 317 522

VAT

VAT payable	2 520 920	2 372 841

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

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 incurred as listed hereunder have been condoned.

Incident		
Tender related irregular expenditure	-	28 186 917
Sundries	5 555 883	5 107 881
Uniforms & protective clothing	-	286 033
	5 555 883	**33 580 831**

41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	111 994