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

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General Information

Legal form of entity	Government Entity
The following is included in the scope of operation	Municipality
Mayoral committee	
Executive Mayor	Cllr B Ganjana
	Cllr Magadla - Speaker
	Cllr Mnqwazi - Chief Whip
Councillors	Cllr Tongo - Caretaker Corporate Services
	Cllr Ntshebe - Caretaker Budget & Treasury Office
	Cllr Ntanga - Portfolio Head Strategic Management
	Cllr Bikitsha - Portfolio Head Community Services
	Cllr Sheleni - Portfolio Head - Water & Sanitation
	Cllr Noganta - Portfolio Head - Special Programmes Unit
	Cllr Madikane - Portfolio Head - LED
	Cllr Ncetezo - Portfolio Head - Infrustructural Planning & Development
	Please refer to Note 30 for the full list of councillors
Grading of local authority	Grade 3
Accounting Officer	Mr. N. Pakade
Acting Chief Finance Officer (CFO)	Mr. B. Mashiyi
Registered office	Corner King & Umtata Street BUTTERWORTH 4960
Postal address	P.O Box 36 BUTTERWORTH 4960
Bankers	First National Bank
Auditors	AUDITOR GENERAL Certified Public Accountant (S.A.) Registered Auditors
Attorneys	Mpeto & Associates Mangcotywa Ndzabela Associates Ross G. M. Sogoni ZYM Ndzabela Incorporated Smith Tabata Attorneys Sonamzi Mkata Attorneys Keithley Incorporated Velile Tinto & Associates Pumeza Bono Incorporated

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRS	International Financial Reporting Standard
IFRIC	International Financial Reporting Standards

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 42, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

N PAKADE
Municipal Manager

BUTTERWORTH

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Trade and other receivables from exchange transactions	6	2,089,634	1,180,103
Receivables from non-exchange transactions	7	3,005,621	1,116,678
VAT receivable	8	8,937,155	14,142,232
Cash and cash equivalents	9	47,288,358	11,497,232
		61,320,768	**27,936,245**
Non-Current Assets			
Investment property	2	61,592,557	62,250,176
Property, plant and equipment	3	243,690,167	220,772,815
Intangible assets	4	87,934	183,624
		305,370,658	**283,206,615**
Total Assets		**366,691,426**	**311,142,860**
Liabilities			
Current Liabilities			
Finance lease obligation	10	703,588	413,874
Trade and other payables	13	26,344,084	19,596,696
Unspent conditional grants and receipts	11	5,060,732	2,156,943
Provisions	12	615,864	695,292
		32,724,268	**22,862,805**
Non-Current Liabilities			
Finance lease obligation	10	2,165,692	926,363
Retirerment benefit/ Long service obligation	5	2,988,000	2,753,000
Provisions	12	15,333,773	14,862,262
		20,487,465	**18,541,625**
Total Liabilities		**53,211,733**	**41,404,430**
Net Assets		**313,479,693**	**269,738,430**
Net Assets			
Accumulated surplus		313,479,693	269,738,430

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	15	10,711,797	10,419,471
Service charges	16	3,404,162	3,286,502
Rental of facilities and equipment		2,180,122	2,147,928
Fines		1,751,322	890,030
Licences and permits		3,341,218	3,030,500
Government grants & subsidies	17	190,155,072	154,433,096
Fees earned		457,570	625,687
Over provision		101,814	-
Refund from SARS		10,541	-
Donation		-	15,000
Interest received	23	4,055,587	3,007,361
Total Revenue		**216,169,205**	**177,855,575**
Expenditure			
Personnel	20	(78,744,974)	(73,322,747)
Remuneration of councillors	21	(15,810,658)	(15,448,389)
Depreciation and amortisation	25	(28,733,609)	(20,646,217)
Finance costs	26	(947,231)	(446,420)
Debt impairment	22	(4,833,185)	(9,780,251)
Repairs and maintenance		(4,212,782)	(20,335,985)
Bulk purchases	27	(1,351,059)	(2,838,504)
General Expenses	19	(42,167,208)	(29,764,688)
Total Expenditure		**(176,800,706)**	**(172,583,201)**
Surplus for the year		**39,368,499**	**5,272,374**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	263,241,036	263,241,036
Adjustments		
Fundamental errors affecting net assets	1,225,020	1,225,020
Balance at 01 July 2010 as restated	**264,466,056**	**264,466,056**
Changes in net assets		
Surplus for the year	5,272,374	5,272,374
Total changes	5,272,374	5,272,374
Opening balance as previously reported	278,410,954	278,410,954
Adjustments		
Correction of errors	(4,299,760)	(4,299,760)
Balance at 01 July 2011 as restated	**274,111,194**	**274,111,194**
Changes in net assets		
Surplus for the year	39,368,499	39,368,499
Total changes	39,368,499	39,368,499
Balance at 30 June 2012	**313,479,693**	**313,479,693**
Note(s)	32	

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		22,428,435	21,166,344
Grants		190,155,072	154,433,096
Interest income		4,055,587	3,007,361
		216,639,094	178,606,801
Payments			
Employee costs		(94,633,908)	(89,522,399)
Suppliers		(40,270,984)	(70,930,638)
Finance costs		(334,234)	(414,141)
		(135,239,126)	(160,867,178)
Total receipts		216,639,094	178,606,801
Total payments		(135,239,126)	(160,867,178)
Net cash flows from operating activities	28	**81,399,968**	**17,739,623**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(49,608,994)	(28,420,338)
Proceeds from sale of property, plant and equipment	3	959,862	277,498
Purchase of other intangible assets	4	(470)	(62,161)
Net cash flows from investing activities		**(48,649,602)**	**(28,205,001)**
Cash flows from financing activities			
Finance lease payments		916,046	(765,401)
Other cash item		2,124,714	(475,206)
Net cash flows from financing activities		**3,040,760**	**(1,240,607)**
Net increase/(decrease) in cash and cash equivalents		**35,791,126**	**(11,705,985)**
Cash and cash equivalents at the beginning of the year		11,497,232	21,214,171
Cash and cash equivalents at the end of the year	9	**47,288,358**	**9,508,186**

Accounting Policies

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.

Entities are required to apply the standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the following Standards of GRAP:

GRAP 1	Presentation of Financial Statements (as revised in 2010)
GRAP 2	Cash Flow Statements (as revised in 2010)
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4	The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions (as revised in 2010)
GRAP 10	Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11	Construction Contracts (as revised in 2010)
GRAP 12	Inventories (as revised in 2010)
GRAP 13	Leases (as revised in 2010)
GRAP 14	Events After the Reporting Date (as revised in 2010)
GRAP 16	Investment Property (as revised in 2010)
GRAP 17	Property, Plant and Equipment (as revised in 2010)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
GRAP 21	Impairment of Non-cash-generating Assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 26	Impairment of Cash-generating Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 103	Heritage Assets

Standards of GRAP approved, not yet effective:

GRAP 25	Employee Benefits
GRAP 104	Financial Instruments
GRAP 105	Transfers of Functions Between Entities Under Common Control
GRAP 106	Transfers of Functions Between Entities Not Under Common Control
GRAP 107	Mergers

Approved Standards of GRAP that entities are not required to apply:

GRAP 18	Segment Reporting

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

Directives issued and effective:

Directive 5	Determining the GRAP reporting framework.

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

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

Accounting Policies

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

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

GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

COMPARATIVE INFORMATION

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

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 12 - Provisions.

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the 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 5

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

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.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Fair value

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

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

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

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

1.3 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

1.3 Property, plant and equipment (continued)

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.

1.3.1. INITIAL RECOGNITION

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

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the asseton the date acquired.
Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.
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.

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

1.3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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

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

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

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

Item	Average useful life
Infrastructure	
• Roads and paving	30 years
• Pedestrian Malls	30 years
• Electricity	20-30 years
• Water	15-20 years
• Sewerage	15-20 years

1.3 Property, plant and equipment (continued)

Community

• Buildings	30 years
• Recreational Facilities	20-30 years
• Security	5 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	20-30 years
• Other assets	20-30 years

Heritage Assets

• Buildings	30 years
• Paintings and artifacts	Infinite

Finance lease assets

• Vehicles	5 years

Other Assets

• Buildings	30 years
• Specialist Vehicles	10 years
• Other Vehicles	5 years
• Office Equipment	7 years
• Furniture and Fittings	10 years
• Watercraft	15 years
• Bins and Containers	5 years
• Specialised plant and equipment	15 years
• Other items of plant and equipment	5 years
• Landfill Sites	30 years
• Computer Equipment	3 years

The residual value, and the useful life and depreciation method of each asset are reviewed annually and any changes are recognised as a change in accounting estimates in the Statement of Financial Perfomance.

Reviewing the useful life of an asset on an annual basis does not require the Municipality to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the 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.

1.4 Intangible assets (continued)

1.4.1. INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

"Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential."

Intangible assets are initially recognised at cost.

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

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.4.2. SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amoritisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. Expenditure of an intangible asset is recognised as an expensewhen it is incured unless it forms part of the cost of an intangible asset that meets the recognition criteria. Residual value of intangible asset is estimated to be nil.

1.4.3. AMORTISATION AND IMPAIRMENT

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

Computer Software	5 years

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

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

1.4.4. DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance

1.5 Financial instruments

Classification

The Municipality classifies financial assets and financial liabilities into the following categories:
- 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.

Regular way purchases of financial assets are accounted for at .

Subsequent measurement

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.

Accounting Policies

1.5 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.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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

1.5.1 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 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.

1.5.2 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.

1.5.3 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.

1.5 Financial instruments (continued)

1.5.5 Financial liabilities and equity instruments

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

1.6 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 Municipality 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 - 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.

1.7 Impairment of cash-generating assets

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

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

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

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

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.

1.8 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.9 Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

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

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

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

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

1.10 Provisions and contingencies

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

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

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

1.10 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

1.11 Revenue from exchange transactions

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

Service charges relating to electricity and water are based on consumption. Meteres are ride on a quarterly bases and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly whem metere readings have not been performed. The provisional estimate of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meteres has been read. These adjustments are recognised as revenue in the invoicing period.

Measurement

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

Accounting Policies

1.11 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When 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 .

1.12 Revenue from non-exchange transactions

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

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

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

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.

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 from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

1.12 Revenue from non-exchange transactions (continued)

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

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

Measurement

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

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the Municipality.

Gifts and donations, including goods in-kind

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

1.13 Investment income

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

1.14 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.

1.15 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.

Accounting Policies

1.15 Unauthorised expenditure (continued)

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.

1.16 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.

1.17 Irregular expenditure

(a) this Act; or

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.18 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.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand.

1.20 Offsetting

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

1.21 Conditional grants and receipts

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

1.22 Budget information

The Municipality is typically subject to budgetary limits in the form of budget authorisations (or equivalent).

2. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	76,429,510	(14,836,953)	61,592,557	76,429,510	(14,179,334)	62,250,176

Reconciliation of investment property - 2012

	Opening balance	**Depreciation**	**Total**
Investment property	62,250,176	(657,619)	61,592,557

Reconciliation of investment property - 2011

	Opening balance	**Depreciation**	**Total**
Investment property	62,907,794	(657,618)	62,250,176

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.

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	79,016,134	(42,366,481)	36,649,653	79,016,134	(40,705,447)	38,310,687
Plant and machinery	4,983,029	(1,139,054)	3,843,975	5,059,826	(1,038,558)	4,021,268
Furniture and fixtures	2,992,278	(992,359)	1,999,919	2,830,798	(939,510)	1,891,288
Motor vehicles	10,697,503	(3,507,880)	7,189,623	8,800,993	(2,894,902)	5,906,091
Office equipment	774,909	(205,646)	569,263	652,011	(167,031)	484,980
IT equipment	954,025	(406,002)	548,023	994,806	(377,880)	616,926
Infrastructure	597,734,071	(417,561,723)	180,172,348	549,546,843	(392,834,133)	156,712,710
Community	14,249,000	(3,492,535)	10,756,465	14,249,000	(3,205,557)	11,043,443
Other property, plant and equipment	2,351,432	(390,534)	1,960,898	2,135,396	(349,974)	1,785,422
Total	**713,752,381**	**(470,062,214)**	**243,690,167**	**663,285,807**	**(442,512,992)**	**220,772,815**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Additions through finance lease	Depreciation	Total
Buildings	38,310,687	-	-	-	(1,661,034)	36,649,653
Plant and machinery	4,021,268	-	(76,797)	-	(100,496)	3,843,975
Furniture and fixtures	1,891,288	311,429	(149,950)	-	(52,848)	1,999,919
Motor vehicles	5,906,091	625,680	(546,610)	1,817,441	(612,979)	7,189,623
Office equipment	484,980	133,678	(10,781)	-	(38,614)	569,263
IT equipment	616,926	-	(40,781)	-	(28,122)	548,023
Infrastructure	156,712,710	48,187,228	-	-	(24,727,590)	180,172,348
Community	11,043,443	-	-	-	(286,978)	10,756,465
Other property, plant and equipment	1,785,422	350,979	(134,943)	-	(40,560)	1,960,898
	220,772,815	**49,608,994**	**(959,862)**	**1,817,441**	**(27,549,221)**	**243,690,167**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	39,971,721	-	-	(1,661,034)	38,310,687
Plant and machinery	2,602,432	1,558,700	(18,777)	(121,087)	4,021,268
Furniture and fixtures	1,573,835	436,935	(5,340)	(114,142)	1,891,288
Motor vehicles	4,936,302	1,902,666	(159,563)	(773,314)	5,906,091
Office equipment	424,182	114,054	(14,498)	(38,758)	484,980
IT equipment	703,659	43,638	(78,692)	(51,679)	616,926
Infrastructure	151,840,238	23,257,320	-	(18,384,848)	156,712,710
Community	11,360,086	-	-	(316,643)	11,043,443
Other property, plant and equipment	752,455	1,107,025	(628)	(73,430)	1,785,422
	214,164,910	**28,420,338**	**(277,498)**	**(21,534,935)**	**220,772,815**

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

4. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	87,934	-	87,934	183,624	-	183,624

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Transfers	Amortisation	Impairment loss	Total
Computer software, other	183,624	470	69,528	(34,764)	(130,924)	87,934

Figures in Rand	2012	2011

4. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	236,159	62,161	(114,696)	183,624

5. Employee benefit obligations

Defined benefit plan

The Muncipality has a defined benefit obligation in terms of the Long Service Awards. The independent valuers, Pricewaterhousecoopers Actuarial and Insurance Management Solutions ("PwC AIMS") have been engaged to carry out an IAS 19: Employee Benefits actuarial valuation of the Municipality's liability as at 30 June 2012 arising from the long-service leave awarded to qualifying in-service employees.

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

	2012	2011
Carrying value		
Opening Balance	(2,753,000)	(2,350,000)
Service cost	(482,000)	(303,000)
Interest cost	(222,000)	(220,000)
Expected benefit paid	438,000	465,000
Actuarial gains/(losses)	31,000	(345,000)
Net liability	**(2,988,000)**	**(2,753,000)**

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	(482,000)	(303,000)
Interest cost	(222,000)	(220,000)
Actuarial (gains) losses	31,000	345,000
Total included in employee related costs	**(673,000)**	**(178,000)**

Key assumptions used

Assumptions used at the reporting date:

	2012	2011
Discount rates used	8.00 %	8.10 %
Expected increase in salaries	7.50 %	7.70 %

6. Trade and other receivables from exchange transactions

	2012	2011
Trade debtors Impairment	(33,138,360)	(30,147,991)
Housing rentals	10,462,491	9,074,556
Fire Levy	3,467,113	3,551,320
Other debtors	1,038	4,465
Prepaid Assets	36,000	-
Refuse	21,261,352	18,697,753
	2,089,634	**1,180,103**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings to historical information about counterparty default rates:

Figures in Rand	2012	2011

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

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 1,457,501 (2011: R 1,707,326) were past due but not impaired.**The ageing of amounts past due but not impaired is as follows**:

1 month past due	593,122	434,125
2 months past due	437,617	427,925
3 months past due	426,762	411,151

Trade and other receivables impaired

As of 30 June 2012, trade and other receivables of R - (2011: R 29,549,401) were impaired and provided for.

The amount of the provision was R - as of 30 June 2012 (2011: R 28,960,820).

The ageing of these receivables is as follows:

3 to 6 months	12,168,147	7,173,657
Over 6 months	-	22,375,744

Reconciliation of provision for impairment of trade and other receivables

Opening balance	80,113,151	70,291,859
Provision for impairment	1,130,800	9,821,292
	81,243,951	**80,113,151**

7. Receivables from non-exchange transactions

Debt Impairment	(51,979,659)	(49,924,120)
Assessment Rates	54,985,280	51,040,798
	3,005,621	**1,116,678**

Credit quality of receivables from non-exchange transactions

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

Receivables from non-exchange transactions

Counterparties with external credit rating		
A - Government	6	-
B - Business	6	-
	12	**-**

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 4,430,926 (2011: R 545,717) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3,466,792	297,587
2 months past due	484,103	124,544
3 months past due	480,031	123,586

Figures in Rand	2012	2011

7. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions impaired

As of 30 June 2012, other receivables from non-exchange transactions of R 45,076,875 (2011: R 50,587,706) were impaired and provided for.

The amount of the provision was R - as of 30 June 2012 (2011: R (49,667,120)).

The ageing of these receivables is as follows:

3 to 6 months	45,076,875	50,587,706

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	80,113,151	70,291,859
Provision for impairment	1,130,800	9,821,292
	81,243,951	**80,113,151**

8. VAT receivable

VAT	8,937,155	14,142,232

The VAT Receivable balance as at 30 June 2011; amounting; to R8 million represents VAT Receivable which relates to the periods 2007 to 2011. The amount receivable was received in February 2012, thus resulting in a significant decline in the balance due from the South African Revenue Service (SARS).

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	4,125,142	160,861
Short-term deposits	43,163,216	11,336,371
	47,288,358	**11,497,232**

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**
Primary Bank Account - FNB - Current - 62 247 497 872	3,911,973	1,265,573	1,693,112	4,124,321	1,265,573	2,682,611
Meeg Bank - Currnet Account - 40 52 732025	-	-	1,716,842	-	-	1,716,842
Registration and Licensing Account -	-	-	375,839	-	-	375,839
Total	**3,911,973**	**1,265,573**	**3,785,793**	**4,124,321**	**1,265,573**	**4,775,292**

Figures in Rand	2012	2011

10. Finance lease obligation

Minimum lease payments due		
- within one year	423,741	413,874
- in second to fifth year inclusive	2,401,407	926,363
Present value of minimum lease payments	**2,825,148**	**1,340,237**

Non-current liabilities	2,165,692	926,363
Current liabilities	703,588	413,874
	2,869,280	**1,340,237**

9.1) <u>OLD LOANS</u>

9.1.1) MEEG BANK: QUANTUM AND 2X TWIN CABS

The liability under a finance lease agreement is payable in monthly instalments R5 986 and R13 334 over a period of 5 years at an interest rate of 2,5% below prime per year. Refer to Note 2.

9.1.2.) TOYOTA FINANCE: 8X TOYOTA COROLLAS

The liability under a finance lease agreement is payable in monthly instalments R28 641 and R13 334 over a period of 6 years at an interest rate of 1% below prime per year.

9.2) <u>NEW LEASE ACQUIRED IN THE YEAR 2012</u>

9.2.1) TOYOTA FINANCE: 1X 25 SEATER BUS

The liability under a finance lease agreement is payable in monthly instalmentsof R18 355 over a period of 5 years at an interest rate of 1% below prime per year.

9**.2.2) TOYOTA FINANCE: 3 X TOYOTA HILUX**

The liability under a finance lease agreement is payable in monthly instalments R3 962 over a period of 6 years at an interest rate of 1% below prime per year. .

9.2.3 TOYOTA FINANCE: 1 X TOYOTA HILUX

The liability under finance lease agreement is payable in monthly instalments R4 123.50 over a period of 6 years at an interest rate of 1% below prime per year.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

MIG	282,230	940,868
Other grants	4,778,502	1,216,075
	5,060,732	**2,156,943**

Movement during the year

Balance at the beginning of the year	2,158,957	5,407,258
Additions during the year	22,641,201	38,589,880
Income recognition during the year	(29,861,625)	(41,840,195)
	(5,061,467)	**2,156,943**

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

11. Unspent conditional grants and receipts (continued)

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

12. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	14,862,262	471,511	-	15,333,773
Performance Bonuses	695,292	-	(79,428)	615,864
	15,557,554	**471,511**	**(79,428)**	**15,949,637**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	14,494,000	368,262	-	14,862,262
Performance Bonus	1,376,522	-	(681,230)	695,292
	15,870,522	**368,262**	**(681,230)**	**15,557,554**

	2012	2011
Non-current liabilities	15,333,773	14,862,262
Current liabilities	615,864	695,292
	15,949,637	**15,557,554**

Environmental rehabilitation provision

The Municipality operates a landfill site in Butterworth. This site is approximately 5224 square metres. The current legislation indicates that the landfill site is and has been operating illegally as the municipality has no licence to operate the site.

Additionally it is required that this landfill site should be closed in terms of minimum requirements. The legislation however does not specify the time frame within which this must be undertakend.

During the financial year consultants were appointed to calculate thecost of rehabilitating and closing this site. The amount was calculated and has been included above as the provision for the rehabilitation and closure of the site.

13. Trade and other payables

	2012	2011
Trade payables	12,605,988	4,863,142
Advance payment - Consumer Debtors	6,252,888	7,885,412
Accrued leave	7,485,208	6,848,142
	26,344,084	**19,596,696**

14. Revenue

	2012	2011
Property rates	10,711,797	10,419,471
Service charges	3,404,162	3,286,502
Rental of facilities & equipment	2,180,122	2,147,928
Fines	1,751,322	890,030
Licences and permits	3,341,218	3,030,500
Government grants & subsidies	190,155,072	154,433,096
	211,543,693	**174,207,527**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	3,404,162	3,286,502
Rental of facilities & equipment	2,180,122	2,147,928
Licences and permits	3,341,218	3,030,500
	8,925,502	**8,464,930**

The amount included in revenue arising from non-exchange transactions is as follows:		
Rates revenue		
Property rates	10,711,797	10,419,471
Fines	1,751,322	890,030
Transfer revenue		
Government Grants	190,155,072	154,433,096
	202,618,191	**165,742,597**

15. Property rates

Rates received

Property rates	10,711,797	10,419,471

Valuations

Residential	461,048,105	406,852,900
Business and Commercial	277,675,300	219,413,100
Vacant	102,057,100	95,762,100
Public Services	62,071,000	40,810,000
Small holdings and farms	6,950,000	6,950,000
Industrial	94,000,000	89,500,000
	1,003,801,505	**859,288,100**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.01532- (2011: R 0.01532) is applied to property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

16. Service charges

Refuse removal	3,404,162	3,286,502

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Government grants and subsidies

Equitable share	135,532,000	112,591,984
MIG	45,021,638	36,264,028
Other grants	9,601,434	5,577,084
	190,155,072	**154,433,096**

Equitable Share

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

All registered indigents receive the following subsidies:
1. For paraffin beneficiaries, every ward has 100 beneficiaries at 20 litre person bi-monthly
2. For all electricity beneficiaries, 50 KW per month
3. Rebates of R20,000 are granted to residential and state property owners.

Municipal Infrustructural Grant

Balance unspent at beginning of year	940,868	565,907
Current-year receipts	44,363,000	36,638,989
Conditions met - transferred to revenue	(45,021,638)	(36,264,028)
	282,230	**940,868**

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

OTHER GRANTS

Balance unspent at beginning of year	1,593,050	3,799,084
Current-year receipts	13,069,851	1,950,000
Conditions met - transferred to revenue	(9,601,434)	(4,156,034)
	5,061,467	**1,593,050**

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

18. Other revenue

Fees earned	457,570	625,687
Over/under provision	101,814	-
Other income 2	10,541	-
Donation	-	15,000
	569,925	**640,687**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. General expenses

Audit fees	2,572,680	3,180,108
Advertising fees	242,231	359,322
Bank charges	302,335	184,956
Cleaning materials	453,394	198,870
Computer expenses	-	1,758
Consulting and professional fees	4,109,058	1,123,112
Consumables	1,185,584	1,601,575
Chemicals	-	7,954
Refuse bags	1,699,733	551,896
Entertainment	14,177	22,722
License & registration fees	928,862	536,843
Decorations	4,393	213,750
Hire of transport & equipment	591,178	1,383,508
Insurance	275,608	217,747
Conf. fees & workshops	149,025	318,119
Community awareness	39,427	46,815
Vehicle licensing	136,819	117,759
Seeds, bulbs & plants	13,203	4,914
Skills development levy	659,106	442,584
First aid material	7,330	-
Fuel and oil	1,694,738	1,193,866
Petty cash	13,690	9,965
Postage and telecommunication	4,143,392	3,571,934
Printing and stationery	791,704	928,672
Security	289,153	283,308
Landfill site	471,511	368,262
Electric consumption	1,431,306	1,728,464
Gas & oxygen	1,742	2,727
Water consumption	438,802	426,695
Uniforms, overall and protect	502,329	209,040
Operating Projects	15,410,753	7,103,839
Subsistence & travelling fees	1,380,177	876,970
Sundry expenses	128,553	89,385
Operating Lease	1,835,240	2,172,134
Civic functions	224,414	256,223
Membership fees	17,119	5,934
Car wash	2,893	16,587
News paper and periodicals	5,549	6,371
	42,167,208	**29,764,688**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Employee related costs

Salaries	55,118,341	51,487,530
Bonus	4,735,044	4,230,010
Medical aid - company contributions	3,638,438	3,158,368
UIF	436,835	428,835
Insurance accident liability	151,963	84,724
Other payroll levies	22,316	(597,936)
Accumulated leave	2,499,895	2,062,518
Pension fund	8,800,308	8,414,620
Allowances	1,120,355	1,451,483
Overtime	833,518	904,645
Acting allowances	674,594	803,532
Car allowance	628,803	789,080
Housing subsidy	84,564	105,338
	78,744,974	**73,322,747**

The amounts below are included above.

Remuneration of municipal manager

Annual Remuneration	758,458	721,311
Car Allowance	118,808	112,001
Performance Bonuses	117,789	101,595
Contributions to UIF, Medical and Pension Funds	1,497	1,497
Cellphone allowance	52,802	51,152
	1,049,354	**987,556**

Remuneration of chief finance officer

Annual Remuneration	444,031	363,979
Car Allowance	139,801	121,488
Performance Bonuses	95,146	156,750
Contributions to UIF, Medical and Pension Funds	117,971	148,761
Cellphone Allowance	55,590	45,871
	852,539	**836,849**

Remuneration of Legal Advisor

Annual Remuneration	374,773	358,170
Car Allowance	148,358	139,857
Performance Bonuses	253,690	163,004
Contributions to UIF, Medical and Pension Funds	24,000	24,000
Computer Allowance	4,945	4,662
	805,766	**689,693**

Remuneration of Director Strategic Management

Annual Remuneration	395,320	377,256
Car Allowance	113,033	106,558
Performance Bonuses	48,079	68,441
Contributions to UIF, Medical and Pension Funds	115,304	108,779
Cellphone Allowance	60,708	58,609
	732,444	**719,643**

Corporate and human resources (corporate services)

Figures in Rand	2012	2011

20. Employee related costs (continued)

Annual Remuneration	602,970	573,518
Car Allowance	119,724	112,865
Performance Bonuses	95,146	160,520
Contributions to UIF, Medical and Pension Funds	1,497	1,497
Cellphone Allowance	33,202	32,675
	852,539	**881,075**

Remuneration of Director Infrustructural Development and Planning

Annual Remuneration	658,868	625,756
Performance Bonuses	65,887	62,219
Contributions to UIF, Medical and Pension Funds	1,497	1,497
Cellphone Allowance	24,000	24,000
	750,252	**713,472**

Remuneration of Director Community Services

Annual Remuneration	596,163	567,102
Car Allowance	126,531	119,281
Performance Bonuses	80,509	7,534
Contributions to UIF, Medical and Pension Funds	1,497	1,497
Cellphone Allowance	33,202	32,675
Unpaid leave	-	(2,247)
	837,902	**725,842**

21. Remuneration of councillors

Executive Mayor	2,913,290	2,619,860
Speaker	824,319	696,487
Councillors	12,073,049	12,132,042
	15,810,658	**15,448,389**

22. Debt impairment

Debts impaired	4,833,185	9,780,251

23. Interest Received

Interest revenue		
Bank	2,800,219	2,061,428
Interest charged on trade and other receivables	1,255,368	945,933
	4,055,587	**3,007,361**
	-	-
	4,055,587	3,007,361

24. Fair value adjustments

25. Depreciation and amortisation

Property, plant and equipment	28,733,609	20,531,520
Intangible assets	-	114,697
	28,733,609	**20,646,217**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Finance costs

Trade and other payables	334,234	194,141
Finance leases	612,997	32,279
Bank	-	220,000
	947,231	**446,420**

27. Bulk purchases

Electricity and parraffin	1,351,059	2,838,504

28. Cash generated from operations

Surplus	39,368,499	5,272,374
Adjustments for:		
Depreciation and amortisation	28,733,609	20,646,217
Finance costs - Finance leases	612,997	32,279
Debt impairment	4,833,185	9,780,251
Movements in retirement benefit assets and liabilities	235,000	403,000
Movements in provisions	392,083	(312,965)
Changes in working capital:		
Trade and other receivables from exchange transactions	(909,531)	27,707
Other receivables from non-exchange transactions	(1,888,943)	-
Consumer debtors	(4,833,185)	(6,370,690)
Trade and other payables	6,747,388	(3,210,704)
VAT	5,205,077	(6,239,658)
Unspent conditional grants and receipts	2,903,789	(2,288,188)
	81,399,968	**17,739,623**

29. Commitments

Authorised capital expenditure

Contracted for and provided for		
• Property, plant and equipment	8,893,348	29,563,220

Not yet contracted for and authorised by accounting officer		
• Infrustructural Assets	-	441,629

These commitments are to be funded by government grants

Figures in Rand	2012	2011

30. Contingencies

LITIGATIONS FOR 2012

1. Case no 770/2011 Africa's best Limited vs Mnquma Municipality - Claim for suffered damages as result of impounding of the bus - R65 000

2. Case no Letter of demand A.K. Gqiba vs Mnquma Municipalty - Claim for monies not paid after retirement - R9 100

3. Case no 744/2012 Thozamile Kenneth Semekazi vs Mnquma Municipality - Costs of the application made by the Appklicant - R85 000

LITIGATIONS FOR 2011

1. Case 5/2007 Mtshongwana vs Municipality - Claim for money deducted for no work no pay - R 3 277

2. Case 1087/08 Langulabantu Construction vs Municipality - Claim for construction done not paid R292 919

3. Case 1152/07 Atlas Construction vs Municipality - Claim for services rendered R 238 572

4.Case 25/2009 Pumeza Mapazi vs Municipality - Claim on unlawful deductions from salary - R3 069

5. Case 1104/2009 - Claim on unlawful arrest by traffic official R100 000

6. Case 1104/2009S S Mangaliso vs Municipality - Claim on wrongfull arrest by traffic officer Mr. M. Seku R130 000

7. 484/2010 Bongani Gqubela and two others vs Municipality - Claim on damages and injuries when arrested by traffic - R100 000

31. Related parties

Relationships

Mayoral Committee	
Executive Mayor	Cllr Ganjana
Chief Whip	Cllr Mnqwazi
Mayoral Committee Member	Cllr Ntanga {Portfolio Head: Strategic Management}
Mayoral Committee Member	Cllr Bikitsha {Portfolio Head: Community Services}
Mayoral Committee Member	Cllr Ncethezo {Portfolio Head: Infrastructure}
Mayoral Committee Member	Cllr Noganta {Portfolio Head: SPU}
Mayoral Committee Member	Cllr Sheleni {Portfolio Head : Water and Sanitation}
Mayoral Committee Member	Cllr Ntshebe {Portfolio Head: Housing}
Mayoral Committee Member	Cllr Madikane {Portfolio Head: LED}
Mayoral Committee Member	Cllr Tongo {Portfolio Head: Communications}
Municipal Manager	N. Pakade
Chief Financial Officer	B. Mashiyi
Councillors	
Cllr. BikitshaTobeka	Cllr. Ganjana
Cllr .Thoko Manyenyeza	Cllr. Nokwanda Sheleni
Cllr .Mgandela Luxolo	Cllr. Luckman Kuselo Ntshebe
Cllr .Mgonyama Yoliswa	Cllr. Vuyani Tongo
Cllr .Mankune Andries Velile	Cllr. Zukile Sogayise
Cllr .Tyala Nomakorinte	Cllr. Pamella Mntwini
Cllr .Mahlanza Sibongiseni Zimasile	Cllr. Ntombotando Winifred Mzimba
Cllr .Sukwana Nokwakha Queen	Cllr. Qinisile Armstrong Mpande
Cllr .Jiya Nomonde	Cllr. Thobakazi Patience Ntanga
Cllr .Plaatjie Nomabhele	Cllr. Matanga
Cllr .Mtalo Livingstone Mziyanda	Cllr. Magnet Zibuthe Mnqwazi
Cllr .Makholwa Synthia Nomaphelo	Cllr. Caroline Nomnikelo Magadla

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

31. Related parties (continued)

Cllr .Mdudo Gaylard
Cllr .Mnqokoyi Zikhethele
Cllr .Luwaca Nokhona
Cllr. Tsetse Namawethu Sylvia
Cllr .Gobingca Zukile
Cllr .Gade Zinzile
Cllr .Phahlane Nomatshayina Vivienne
Cllr .Nkaule Ambrose
Cllr .Nyengule Esther Weena
Cllr .Mbelani Thamsanqa Zamukulungisa
Cllr .Buso Mziwonke
Cllr .Mkhwezo Maboyisana Divide
Cllr .Madikane Timothy
Cllr .Zaba Nozinzile
Cllr .Njengele Nofundile
Cllr .Sajini Nokind
Cllr .Nkamisa Tunyiswa
Cllr .Velaphi Monde Sydney Hurtzenburg
Cllr .Mbuku Nangamso
Cllr. Eunice Nomdakazana Noganta
Cllr. Sithembiso Ncetezo
Cllr. Magqabini
Cllr. Gidion Qalayo Ngqongolo
Cllr. Mbaso Ntongana
Cllr. Thamsanqa Ntshawuzana
Cllr. Thomas Mazizi Ntisana
Cllr. Maureen Zimba
Cllr. Zamindawo David Solontsi
Cllr. Kholisile Charles Mpeluza
Cllr. Nikiwe Thandela
Cllr. Zama Bomela
Cllr. Nofinish Nqata
Cllr. Mzwanele Nyhontso
Cllr. Zamindawo Abner Mqolo
Cllr. Nosikhumbuzo Dayimani
Cllr. Thembisile Dyani
Cllr. Cleopatra Xoliswa Doko
Cllr. Xolile Nkwateni

32. Prior period errors

NATURE

DUPLICATE TRANSACTIONS

Prior period errors relating to duplicate transactions in the FNB Bank for the year ending 30 June 2011 were corrected. The duplicate transactions relate to instances where transactions were recorded twice on the financial sysytem.

WORKMAN'S COMPENSATION

Prior period errors relating to workman's compensation for the year ending 30 June 2011 were corrected. The errors corrected relate to an assessment.which was not included in the prior year figure.

ERRONEOUS BILLING

Prior period errors relating to amounts which were incorrectly billed for the year ending 30 June 2011 were corrected. The errors corrected relate to over/under biling which took place during the prior year.

UNSPENT CONDITIONAL GRANT

Prior period errors relating to the unspent conditional grant incorrectly included in the balance for the year ending 30 June 2011 were corrected. The errors corrected relate to unspent conditional grant amounts which were incorrectly accounted during the prior year.

BALANCE SHEET VOTES WITH NO MOVEMENT

Prior period errors relating to "balance sheet votes with no movement" pertain to votes for which no movement was recorded for the year ending 30 June 2011 and these were corrected. The errors corrected relate to votes where the movement which was supposed to have been recorded was not.

UNIDENTIFIED DEPOSITS

Prior period errors relating to unidentified deposits pertains to deposits which could not be allocated to any vote as the nature thereof was not known. These have been corrected

VAT RECEIVABLE

Prior period errors relating to VAT RECEIVABLE pertain to the following:
- VAT not taken into account in the provision for the impairment of doubtful debts in the previous year;
- VAT claimed and not included in the general ledger;

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Prior period errors (continued)

<u>IMPACT</u>
Statement of Financial Position

	2012	2011
ACCUMULATED SURPLUS	-	-
Balance per the 2011 Annual Report	-	(272,027,627)
Decrease in the trade payables balance	-	(1,160,277)
Decrease in the FNB bank balance due to the cancellation of stale cheques	-	(151,033)
Decrease in the in the FNB bank balance due to the reversal of duplicated transactions pertaining to the year ending 30 June 2011	-	1,255,746
Increase in the workmans compensation fund payable balance	-	2,120,035
Decrease in the debtors balance due to the correction of erroneous billing	-	244,784
Recognition of unidentified deposits previously included as outstanding items in the 30 June 2011 bank reconciliation	-	1,989,045
Decrease in the unspent conditional grants balance	-	(2,014)
Increase in the VAT Receivable balance	-	(3,648,438)
Increase in the VAT Receivable balance	-	(82,551)
Increase in the VAT Receivable balance	-	(2,648,865)
Restated balance disclosed in the corresponding figure	-	**267,810,418**

	2012	2011
WORKMAN'S COMPENSATION FUND		
Balance per the 2011 Annual Report	-	(820,363)
Increase in the Workmans Compensation Fund payable	-	(2,120,035)
Restated balance disclosed in the corresponding figure	**-**	**(2,940,398)**

Figures in Rand	2012	2011

32. Prior period errors (continued)

TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Balance per the 2011 Annual Report	-	4,465
Increase in Trade and Other Receivables from exchange transactions	-	20,751
Restated balance disclosed in the corresponding figure	-	**25,216**
UNSPENT CONDITIONAL GRANTS		
Balance per the 2011 Annual Report	-	(4,447,145)
Decrease in unspent conditional grants	-	2,014
Restated balance disclosed in the corresponding figure	**-**	**(4,445,131)**
MEEG BANK		
Balance per the 2011 Annual Report	-	-
Increase in the bank vote caused by the unidentified deposits	-	1,989,045
Decrease in the MEEG bank balance	-	(1,989,045)
Restated balance disclosed in the corresponding figure	**-**	**-**
FNB BANK		
Balance per the 2011 Annual Report	-	527,135
Decrease in the FNB bank balance	-	1,104,713
Restated balance disclosed in the corresponding figure	**-**	**1,631,848**
VAT RECEIVABLE		
Balance per the 2011 Annual Report	-	14,142,232
Increase in the VAT Receivable	-	82,551
Increase in VAT Receivable incorrectly accounted for in the prior year	-	2,648,865
Restated balance disclosed in the corresponding figure	**-**	**16,873,648**
TRADE PAYABLES		
Balance per the 2011 Annual Report	-	(3,378,456)
Decrease in trade payables	-	1,160,277
Restated balance disclosed in the corresponding figure	**-**	**(2,218,179)**

33. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Decrease in the Property, Plant and Equipment balance	-	(62,250,172)
Increase in the Investment Property Balance	-	62,250,172
Net Effect	-	-

34. Risk management

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the financial department under policies approved by the accounting officer in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies.

Liquidity risk

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in finacnial loss to the municipality. Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

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

The Municipality is not aware of any matter or circumstance which has arisen since the end of the financial year.

37. Deviations from SCM policies during the year

Deviations from the Municipal Supply Chain Management Policy	2,746,847	2,507,077

38. Unauthorised expenditure

Interest charged on retirement benefit	-	220,000
Interest charged by Workmens Compensation	-	528,768
Catering of IDP/Budget road shows	-	27,565
	-	**776,333**

39. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	16,473	528,014
Interest on overdue accounts	413,214	194,141
	429,687	**722,155**

Figures in Rand	2012	2011

39. Fruitless and wasteful expenditure (continued)

The R16,473 pertains to a double booking which was made for accomodation which was made through the appointed Service Provider . The double booking was only discovered subsequent to the relevant date.

The interest on overdue accounts of R413,214 pertains to the following:
- Interest charged by suppliers on outstanding amounts owed by the Municipality;
- Interest on Eskom Lines,
- Interest on Long Service Awards

40. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2012	2011
Opening balance	-	967,562
Current year subscription / fee	2,878,562	2,160,405
Amount paid - current year	(2,826,665)	(3,127,967)
	51,897	**-**

PAYE and UIF

	2012	2011
Current year subscription / fee	8,066,064	9,975,548
Amount paid - current year	(8,066,064)	(9,975,548)
	-	**-**

Pension and Medical Aid Deductions

	2012	2011
Current year subscription / fee	15,671,753	19,198,537
Amount paid - current year	(15,671,753)	(19,198,537)
	-	**-**

VAT

	2012	2011
VAT receivable	8,937,155	14,142,232

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

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

Councillors' arrear consumer accounts

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

30 June 2012	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
MGANDELA	12,948	14,181	27,129
MAGADLA	2,547	5,856	8,403
	15,495	**20,037**	**35,532**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.