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

General Information

Legal form of entity	Government entity
The following is included in the scope of operation	Municipality
Grading of local authority	Grade 5
Members of the executive committee	
Mayor	M Peter (Chair of the executive committee)
Councillors/ Portfolio Heads	K A Mhambi (Portfolio Head - Finance)
	Z Falo (Portfolio Head - Administration and Human Resources)
	P Qaba (Portfolio Head - Development and Planning)
	P Liwani (Portfolio Head - Service Delivery and Infrastructure)
	N Busika (Portfolio Head - Community Empowerment)
	A Hobo (Portfolio Head - Social Services)
Councillors	NP Mlahleki
	KA Mhambi
	P Qaba
	N Nkunkuma
	P Liwani
	Z Falo
	NA Kato-Manyika
	M Peter
	NR Magwaxaza
	NE Tom
	B Siko
	MH Funani
	M Mjikelo
	B Jama
	ZE Mfulana
	A Mzamo
	M Mani
	ME Hejane
	X Roji
	A Hobo
	NAD Ndlangalavu
	N Busika
	T Pakade
	MN Ngcofe
	BA Lande
	M Jack
	RT Desi
	TP Mpendu
	N Ndodana
	AE Hlalapi
	CT Poni
	S Malawu
	NN Kumbaca
	T Wellem
	N Mkosana
	N Nombamba

General Information

	T Balindlela PG Kyriacos NJ Gxalaba HE Govender
Chief Finance Officer (CFO)	GP Hill
Accounting Officers	B K Socikwa
Registered office	12 Maclean Street Stutterheim 4930
Postal address	Private Bag X 4002 Stutterheim 4930
Bankers	First National Bank Stutterheim
Auditors	Auditor General South Africa

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

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Abbreviations

IFRIC	International Financial Reporting Interpretations Committee
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
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 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).

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 places 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, they are 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 accounting officer certifies that the salaries, allowances and benefits of Councillors as disclosed in note 26 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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 XXX.

The annual financial statements set out on pages 6 to 53, 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:

Accounting Officer
B Ondala - Acting Municipal Manager

Amahlathi Local Municipality

(Registration number EC124)
Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	9	1,029,720	86,068
Investments	6	124,079,274	103,558,884
Trade and other receivables from exchange transactions	10	3,928,297	3,929,939
Other receivables from non-exchange transactions	11	668,040	384,789
VAT receivable	12	2,933,785	-
Short term portion of long term receivables	8	153,228	206,137
Cash and cash equivalents	13	13,347,611	6,686,123
		146,139,955	**114,851,940**
Non-Current Assets			
Investment property	3	68,808,711	68,808,711
Property, Plant and Equipment	4	288,210,855	278,818,030
Intangible assets	5	82,914	99,360
Long term receivables	8	492,427	640,048
		357,594,907	**348,366,149**
Non-Current Assets		357,594,907	348,366,149
Current Assets		146,139,955	114,851,940
Total Assets		**503,734,862**	**463,218,089**
Liabilities			
Current Liabilities			
Other financial liabilities	14	17,171	13,050
Finance lease obligation	15	321,941	137,095
Trade and other payables from exchange transactions	18	16,202,593	11,542,381
VAT payable	19	-	364,250
Consumer deposits	20	388,503	391,410
Retirement benefit obligation	7	401,000	319,839
Unspent conditional grants and receipts	16	3,615,817	4,715,635
Provisions	17	5,057,323	4,861,226
		26,004,348	**22,344,886**
Non-Current Liabilities			
Other financial liabilities	14	662,276	600,455
Finance lease obligation	15	399,287	195,144
Retirement benefit obligation	7	13,444,718	13,107,879
		14,506,281	**13,903,478**
Non-Current Liabilities		14,506,281	13,903,478
Current Liabilities		26,004,348	22,344,886
Total Liabilities		**40,510,629**	**36,248,364**
Assets		503,734,862	463,218,089
Liabilities		(40,510,629)	(36,248,364)
Net Assets		**463,224,233**	**426,969,725**
Net Assets			
Accumulated surplus		463,224,233	426,969,725

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	22	7,783,225	7,772,425
Rendering of services	23	29,418,256	25,039,945
Rental of facilities and equipment		210,487	294,918
Interest income - debtors		1,498,353	1,581,378
Fines		180,268	92,952
Government grants & subsidies	24	107,979,287	96,000,949
Motor vehicle registration		1,161,920	856,350
Miscellaneous other revenue		2,286,887	644,565
Other income		12,724	170,764
Interest income - investment	30	6,779,285	5,798,600
Total Revenue		**157,310,692**	**138,252,846**
Expenditure			
Personnel	26	34,771,480	37,452,358
Remuneration of councillors	27	9,875,805	8,102,207
Vending management fee	28	443,909	356,731
Depreciation and amortisation	32	19,122,929	18,690,901
Finance costs	33	979,603	676,313
Debt impairment	29	6,623,296	4,898,795
Leave pay provision		372,808	397,643
Repairs and maintenance		5,794,691	4,913,097
Bulk purchases	35	16,023,683	13,495,863
General expenses	25	28,303,244	20,517,362
Total Expenditure		**122,311,448**	**109,501,270**
Fair value adjustments	31	1,255,265	487,514
Revenue		157,310,692	138,252,846
Expenditure		(122,311,448)	(109,501,270)
Surplus for the year		**36,254,509**	**29,239,090**

Amahlathi Local Municipality
(Registration number EC124)
Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	72,351,757	72,351,757
Adjustments		
Change in accounting policy	325,378,878	325,378,878
Balance at 01 July 2010 as restated	**397,730,635**	**397,730,635**
Changes in net assets		
Surplus for the year	29,239,090	29,239,090
Total changes	29,239,090	29,239,090
Opening balance as previously reported	112,142,263	112,142,263
Adjustments		
Prior period error	7,976,225	7,976,225
Change in accounting policy	306,851,236	306,851,236
Balance at 01 July 2011 as restated	**426,969,724**	**426,969,724**
Changes in net assets		
Surplus for the year	36,254,509	36,254,509
Total changes	36,254,509	36,254,509
Balance at 30 June 2012	**463,224,233**	**463,224,233**
Note(s)	2&41	

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		35,647,215	32,466,871
Grants		106,879,469	92,399,199
Interest income		6,779,285	5,798,600
		149,305,969	130,664,670
Payments			
Employee costs		(44,647,285)	(45,554,565)
Suppliers		(49,185,953)	(33,277,007)
Finance costs		(135,147)	(154,596)
		(93,968,385)	(78,986,168)
Total receipts		149,305,969	130,664,670
Total payments		(93,968,385)	(78,986,168)
Net cash flows from operating activities	36	**55,337,590**	**51,678,502**
Cash flows from investing activities			
Purchase of moveable and immovable assets	4	(28,811,173)	(18,908,588)
Purchase of financial assets		(20,520,390)	(31,752,603)
Proceeds from sale of long term receivables		200,530	589,853
Net cash flows from investing activities		**(49,131,033)**	**(50,071,339)**
Cash flows from financing activities			
Increase / (decrease) in other financial liabilities		454,931	91,448
Net cash flows from financing activities		**454,931**	**(91,448)**
Net increase/(decrease) in cash and cash equivalents		**6,661,488**	**1,515,715**
Cash and cash equivalents at the beginning of the year		6,686,123	5,170,414
Cash and cash equivalents at the end of the year	13	**13,347,611**	**6,686,123**

Accounting Policies

1. Preparation of Annual Financial Statements

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the Accounting Standards listed below and in terms of the standards and principles contained in Directives 4 and Directive 5 issued by the Accounting Standards Board.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 9	Paragraphs relating to Revenue from Non-Exchange Transactions
GRAP 100	Non -Current Assets held for sale and discontinued operations
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of non-cash generating assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an arrangement contains a lease

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

1.1 Significant judgements and sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

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, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Allowance for slow moving, damaged and obsolete stock

Stock is written 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, if applicable.

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the note for 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 post retirement medical 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 post retirement medical liability.

Other key assumptions for post retirement medical obligations are based on current market conditions. Additional information is disclosed in the applicable note.

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.

The cost of self-constructed investment property is the cost at date of completion.
Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:
- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
- The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:
- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

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.

Property interests held under operating leases are classified and accounted for as investment property if property interest that is held by lessee under an operating lease may be classified and accounted for as investment property, if and only if, the property would otherwise meet the definition of an investment property and the leese uses fair value model.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business is established by using criteria that it can utilise to exercise judgement consistently in accordance with the definition of investment property and with the related guidance.

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.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

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

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

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the

1.3 Property, plant and equipment (continued)

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

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

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

Item	Average useful life
Infrastructure	
• Roads and paving	10-50 years
• Cemetries	15-30 years
• Airports	20-25 years
• Sewerage	25 years
• Housing	Not depreciated
Other	
• Buildings	10-30 years
• Plant and machinery	4-15 years
• Office and IT equipment	5 years
• Furniture and fittings	7 years
Community	
• Assets under construction	Not depreciated
• Electricity	10-50 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.

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.

Incomplete Construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as property , plant and equipment controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition of property plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.
The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. These are included in other income.

1.3 Property, plant and equipment (continued)

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

Impairment of assets of cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.
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 recoverable amount of the cash-generating unit to which the asset belongs is determined.
The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit.
An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a pro rata basis of the carrying amount of each asset in the unit.

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in surplus or deficit.

Impairment of non cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.
If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.
An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit.
An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a pro rata basis of the carrying amount of each asset in the unit.

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.
A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

1.4 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 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.

Intangible assets are initially recognised at cost.

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

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

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

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 assets given up.

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.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:
Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of value in use and fair value less costs to sell.

The estimated useful life and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Surplus or deficit for the year.

Item	Useful life
Computer software	5 years

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

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

1.5 Financial instruments

Classification

The classification of financial assets and liabilities into categories, is based on judgement by management.

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

A financial asset is any asset that is cash or a contractual right to receive cash or another financial asset or equity. The municipality has the following types of financial assets:

- Investments in fixed deposits (Banking Institutions, etc)
- Long-term receivables
- Consumer debtors
- Certain other debtors
- Short-term Investment deposits
- Bank balances and cash

The Financial Assets of the municipality are classified as follows into the four categories allowed:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term investment deposits – call	Held-to-maturity investments
Bank balances and cash	Cash and cash equivalents
Long-term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
Investments in fixed deposits	Held-to-maturity investments

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

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

The municipality categorises cash and cash equivalents as financial assets..

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities:

- Long-term liabilities
- Certain other creditors
- Bank overdraft
- Short-term loans
- Current portion of long-term liabilities
- Consumer deposits

There are two main categories of financial liabilities, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are

1.5 Financial instruments (continued)

derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as "Other financial liabilities".

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

Regular way purchases of financial assets are accounted for at trade date.

Financial assets

Held-to-maturity Investments and loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with revenue recognised on an effective yield basis.

Financial liabilities

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in surplus or deficit.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer debtors are stated at cost less a provision for impairment. The provision is made whereby the recoverability of consumer debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit for the year.

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the surplus or deficit for the year to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Trade and other receivables

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

1.5 Financial instruments (continued)

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.

Trade and other payables

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.

Held to maturity Investments

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Derecognition

Financial Assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non - recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.6 Leases

The municipality as a lessee

Accounting Policies

1.6 Leases (continued)

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

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

The municipality as a lessor

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

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, if it is practicable to determine. If not, the rate for the goverment bond with a maturity date similar to the lease is used.

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.

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

1.7 Inventories

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. 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.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is

Accounting Policies

1.7 Inventories (continued)

deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of surplus and deficit in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

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.Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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.

1.8 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:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.9 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in the statement of surplus and deficit as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality’s contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of surplus and deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

1.10 Provisions

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.

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

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the surplus or deficit for the year as a finance cost as it occurs.

1.11 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service benefit will flow to the municipality and when specific criteria have been met for each of the municipality's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

1.12 Revenue from exchange transactions

Service Charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Income from agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- The municipality has transferred to the buyer 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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such lease periods span over more than one financial year.

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.

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

Accounting Policies

1.13 Revenue from non-exchange transactions

Measurement

Rates, including collection charges and penalty interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other Donations and contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

Government grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of surplus and deficit in the year in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality’s interest it is recognised as interest earned in the statement of surplus and deficit.

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Other grants and donations

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:
- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of surplus or deficit as expenses in the period that the events giving rise to the transfer occurred.

Accounting Policies

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Extended periods is periods that exceeds 12 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 VAT

The Municipality accounts for Value Added Tax on the payments basis.

1.16 Comparative figures

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.17 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.18 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality’s or Municipal Entities’ supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of surplus or deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

Accounting Policies

1.20 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of surplus and deficit. If the expenditure is not subsequently condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.21 Presentation of currency

The Annual Financial Statements are presented in South African Rand (rounded off to the nearest Rand) which is the municipality's functional currency.

1.22 Offsetting

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

1.23 Changes in accounting policies, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

1.24 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.25 Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.26 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.27 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.

1.28 Going concern

The Annual Financial Statements have been prepared on a going concern basis.

Accounting Policies

1.29 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued and are effective but not have not been early adopted by the municipality in terms of appendix E of Directive 5 paragraph A7:

- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 103 Heritage Assets
- GRAP 26 Impairment of cash generating assets
- GRAP 21 Impairment of non cash generating assets

Application of all of the above GRAP standards will be effective from financial years starting on or after 1 April 2012.

The following standards of GRAP are approved, but the Minister of Finance has not yet determined an effective date, and the municiapality may consider them in formulating their accounting policy:

GRAP 25	Employee Benefits
GRAP104	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

The following approved standard of GRAP need not be applied by the Municipality:

GRAP18	Segment Reporting

Management has considered all of the above-mentioned GRAP standards issued but not yet effective or adopted and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

2. Changes in accounting policy

The Accounting Policies have been consistently applied, except as indicated below.

The municipality changes an accounting policy only if the change:
a) is required by a Standard of GRAP; or
b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

In addition, GRAP 3 (paragraph 21) states that a change in accounting policy is adjusted for retrospectively or if it is a initial application of a Standard in terms of the transitional provisions in Directive 4.

The municipality has applied the requirements of the following GRAP statements retrospectively in terms of the transitional provisions in Directive 4:

GRAP 12 - Inventories
GRAP 17 - Property, Plant and Equipment
GRAP 16 - Investment Properties
GRAP 13 - Leases
GRAP 102 - Intangible Assets
GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the recognition of items as required for the disclosure of GRAP compliant annual financial statements.

Finance lease assets
The full application of GRAP 13 (leases) resulted in the Office Equipment rental agreement being classified as finance leases in the 2012 financial year. The requirments have been applied retrospectively and therefore the prior year figures have been restated restated as listed below.

Property, plant and equipment
The full application of GRAP 17 (leases) resulted in the a retrospective adjustment and therefore the prior year figures have been restated restated as listed below.

Statement of Financial Performance

Finance lease asset	**2011**	**Cumulative 2010**
Previously stated	-	-
Accumulated Depreciation - Finance Lease Asset	(314,402)	(438,615)
	(314,402)	**(438,615)**

Finance lease asset		
Previously stated	-	-
Property,plant and equipment - Finance lease assets	566,007	755,401
	566,007	**755,401**

Finance lease asset		
Previously stated	-	-
Finance lease obligation	(332,239)	(412,035)
	(332,239)	**(412,035)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Changes in accounting policy (continued)

Property, plant and equipment

Previously stated	(37,526,422)	(19,616,996)
Recognition of property, plant and equipment	278,566,425	279,867,910
	241,040,003	**260,250,914**

Intangible assets

Previously stated	-	-
Recognition of intangible assets	99,630	124,892
	99,630	**124,892**

Investment property

Previously stated	-	-
Recognition of investment property	68,808,711	68,808,711
	68,808,711	**68,808,711**

Provision for landfill site

Previously stated	-	-
Recognition of provision for landfill site	(3,016,204)	(3,119,458)
	(3,016,204)	**(3,119,458)**

Statement of financial performance

Finance lease asset

Finance lease assets - Previously stated	-	-
Depreciation	148,643	-
	148,643	**-**

Finance lease asset

Finance lease assets - Previously stated	-	-
Interest expense - Finance Leases	30,000	-
	30,000	**-**

Finance lease asset

Finance lease assets - Previously stated	193,259	-
Operating Leases	(193,259)	-
	-	**-**

Property, plant and equipment

Previously stated	-	-
Depreciation	18,517,280	-
	18,517,280	**-**

Intangible assets

Previously stated	-	-
Depreciation	24,978	-
	24,978	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	68,808,711	-	68,808,711	68,808,711	-	68,808,711

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	68,808,711	68,808,711

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	68,808,711	68,808,711

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. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.	-	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	6,653,287	-	6,653,287	6,645,595	-	6,645,595
Buildings	47,385,839	(5,369,396)	42,016,443	47,171,364	(3,797,293)	43,374,071
Machinery and equipment	1,529,503	(539,950)	989,553	1,315,400	(354,215)	961,185
Furniture and office equipment	1,804,416	(965,819)	838,597	1,759,823	(710,776)	1,049,047
Transport assets	13,872,834	(4,661,476)	9,211,358	8,758,857	(3,008,900)	5,749,957
Computer equipment	938,590	(601,653)	336,937	841,587	(419,403)	422,184
Roads	173,776,109	(45,794,209)	127,981,900	165,947,868	(33,356,184)	132,591,684
Electricity	85,185,531	(9,721,563)	75,463,968	82,876,239	(7,194,563)	75,681,676
Cemetries	1,256,961	(215,640)	1,041,321	1,256,961	(161,347)	1,095,614
Capital work in progress	18,509,472	-	18,509,472	6,378,867	-	6,378,867
Office Equipment - Leased Asset	1,063,316	(407,121)	656,195	566,007	(314,402)	251,605
Airports	1,127,000	(135,240)	991,760	1,127,000	(90,160)	1,036,840
Heritage assets	563,500	-	563,500	563,500	-	563,500
Landfill sites	3,317,953	(361,389)	2,956,564	3,317,953	(301,748)	3,016,205
Total	**356,984,311**	**(68,773,456)**	**288,210,855**	**328,527,021**	**(49,708,991)**	**278,818,030**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Land	6,645,595	7,692	-	-	6,653,287
Buildings	43,374,071	83,798	130,677	(1,572,103)	42,016,443
Machinery and equipment	961,185	214,103	-	(185,735)	989,553
Furniture and office equipment	1,049,047	44,592	-	(255,042)	838,597
Transport assets	5,749,957	5,113,977	-	(1,652,576)	9,211,358
Computer equipment	422,184	97,003	-	(182,250)	336,937
Roads	132,591,684	1,580,051	6,248,189	(12,438,024)	127,981,900
Electricity	75,681,676	2,309,292	-	(2,527,000)	75,463,968
Cemetries	1,095,614	-	-	(54,293)	1,041,321
Capital work in progress	6,378,867	12,130,605	-	-	18,509,472
Office Equipment - Leased Asset	251,605	811,711	-	(407,121)	656,195
Airports	1,036,840	-	-	(45,080)	991,760
Heritage assets	563,500	-	-	-	563,500
Landfill sites	3,016,205	-	-	(59,641)	2,956,564
	278,818,030	**22,392,824**	**6,378,866**	**(19,378,865)**	**288,210,855**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment- 2011

	Opening balance	Additions	Transfers	Accumulated Depreciation	Total
Land	6,635,972	9,623	-	-	6,645,595
Buildings	44,868,064	32,260	46,375	(1,572,628)	43,374,071
Machinery and equipment	1,018,307	91,687	-	(148,809)	961,185
Furniture and office equipment	1,239,836	56,931	-	(247,720)	1,049,047
Transport assets	5,908,450	914,813	-	(1,073,306)	5,749,957
Computer Equipment	500,501	82,400	-	(160,717)	422,184
Roads	133,888,390	8,013,175	3,220,690	(12,530,571)	132,591,684
Electricity	76,626,538	1,512,138	-	(2,457,000)	75,681,676
Cemetries	1,149,907	-	-	(54,293)	1,095,614
Capital work in progress	3,267,066	3,111,801	-	-	6,378,867
Office Equipment - Leased Asset	316,785	249,222	-	(314,402)	251,605
Airports	1,081,920	-	-	(45,080)	1,036,840
Heritage assets	563,500	-	-	-	563,500
Landfill sites	3,119,458	123,904	-	(227,157)	3,016,205
	280,184,694	**14,197,954**	**3,267,065**	**(18,831,683)**	**278,818,030**

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. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

5. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	134,797	(51,883)	82,914	124,892	(25,532)	99,360

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	99,360	9,905	(26,351)	82,914

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software	124,892	(25,532)	99,360

6. Investments

	2012	2011
At fair value through surplus or deficit - designated		
Investec investments	81,743,468	53,345,379
First National Bank- 62063171351	211,342	206,528
First National Bank- 61381739619	316,101	1,599,814
First National Bank- 74213214708	-	3,857,194
First National Bank- 74200629770	1,058,620	1,002,800
First National Bank- 74188016669	2,817,018	2,668,481
First National Bank- 74193195797	377,762	357,843

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Investments (continued)

First National Bank- 74263885682	15,856,044	15,019,979
First National Bank -74273914207	21,698,919	25,500,866
The average rate of return on the investments was 5.46% (2011: 5.77%).		
Funds are invested according to Circular No C/46/1994 issued by the Provincial Administration Community Services Branch with Approved Banking Institutions.		
The investments are reinvested once they have matured.		
	124,079,274	**103,558,884**

Current assets		
At fair value through surplus or deficit	124,079,274	103,558,884

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

Fair values of loans and receivables

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

7. Retirement benefits

Post retirement medical aid

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, Hosmed, Keyhealth, La Health and Samwu.Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, PricewaterhouseCoopers Actuarial Services carried out a statutory valuation on 30 June 2012 (Deloitte - 2011).

Carrying value

Present value of the defined benefit obligation at the beginning of the year	(13,427,718)	(7,759,718)
Service costs	(752,000)	(737,000)
Interest cost	(810,000)	(412,000)
Net actuarial gains / (losses)	774,000	(4,850,000)
Benefits paid	370,000	331,000
	(13,845,718)	**(13,427,718)**

Non-current liabilities	(13,444,718)	(13,107,879)
Current liabilities	(401,000)	(319,839)
	(13,845,718)	**(13,427,718)**

Movements for the year

Opening balance	13,427,718	7,759,718
Net expense recognised in the statement of financial performance	418,000	5,668,000
	13,845,718	**13,427,718**

Net expense recognised in the statement of financial performance

Current service cost	752,000	737,000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Retirement benefits (continued)

Interest cost	810,000	412,000
Actuarial (gains) / losses	(774,000)	4,850,000
Benefits paid	(370,000)	(331,000)
	418,000	**5,668,000**

Key assumptions used

Assumptions used on last valuation on 30 June 2012.

Net discount rate	1.40 %	1.00 %

The discount rate assumed for 2012 is 9% (2011: Zero-coupon South African Bond Yield Curve) and a medical inflation for 2012 is 7.50% (2011: 1% p.a lower than the discount rate.)

Other assumptions	**2012**	**2011**
Pre retirement	SA 85-90L	SA 85-90L
Post retirement	PA (90)-1	PA(90)
Normal retirement age	63 years	60 years
Spouse age differences	Male 3 years older than female.	
AIDS	Not allowed for.	

Disclosure in terms of paragraph 120A(p) of IAS 19

Defined benefit obligation	(13,847,000)	-
Experience adjustments on plan liabilities	48,000	-
	(13,799,000)	**-**

8. Long term receivables

Long term receivables comprise of the following amounts:

Cost of HT lines	642,020	842,549
Long term housing debtors	397,086	421,891
Other long term receivables	3,636	3,636
Less: Provision for bad debts for long term housing debtors	(397,086)	(421,891)
Less: Short term portion of HT lines	(207,528)	(206,137)
	438,128	**640,048**

Cost of HT lines comprise of trade debtors and interest is charged at 6% per annum.

The long term housing debtors were raised in the current year, however it is felt that the chance of recoverability is less than probable and thus have been impaired accordingly.

9. Inventories

Water	5,937	5,937
Electricity	987,708	51,941
Rates and general	36,075	28,190
	1,029,720	**86,068**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Trade and other receivables from exchange transactions

Trade debtors	35,428,231	30,153,019
Trade debtors impairment	(33,562,682)	(27,432,466)
Prepayments	-	92,983
Leave Gratuity - Debtor	17,635	-
Other debtors	2,045,113	1,116,403
	3,928,297	**3,929,939**

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 below.

Trade receivables

Counterparties with external credit rating		
A (Government)	672,920	871,267
B(Business)	771,579	1,181,318
C(Domestic and other)	421,050	667,967
	1,865,549	**2,720,552**

Analysis of table:
A - The debtors are of good credit quality and no default in payment is expected.
B - The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time
C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

Trade and other receivables are impaired when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. At 30 June 2012, R 1,865,549 (2011: R 2,720,552) were past due but not impaired.

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

1 month past due	1,301,154	1,849,374
2 months past due	220,464	457,072
3 months past due	343,931	414,106

Reconciliation of provision for impairment of trade and other receivables

Opening balance	27,432,466	22,403,107
Provision for impairment	6,130,216	5,149,376
Amounts written off as uncollectible	-	(120,017)
	33,562,682	**27,432,466**

11. Other receivables from non-exchange transactions

Assessment rates	12,686,601	11,532,045
Debt Impairment	(12,018,561)	(11,147,256)
	668,040	**384,789**

Other receivables from non-exchange transactions past due but not impaired

Trade and other receivables are impaired when there is objective evidence that the municipality will not be able to collect all

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Other receivables from non-exchange transactions (continued)

amounts due according to the original terms of the receivables. At 30 June 2012, R 668,040 (2011: R 384,789) were past due but not impaired.

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

1 month past due	465,934	261,630
2 months past due	78,946	64,616
3 months past due	123,159	58,543

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

Opening balance	11,147,256	11,163,556
Provision for impairment	965,164	-
Amounts written off as uncollectible	(93,859)	(4,622)
Unused amounts reversed	-	(11,678)
	12,018,561	**11,147,256**

12. VAT receivable

VAT	2,933,785	-

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,016	5,016
Bank balances	13,342,595	6,681,107
	13,347,611	**6,686,123**

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**
Account No: 53813535227	9,272,736	2,140,841	2,131,897	8,516,917	1,900,967	2,041,271
Current Account: 62116156987	5,333,182	2,384,102	388,352	2,786,046	1,750,800	(2,332,567)
Call Account: 62135193770	2,039,632	3,029,340	5,456,694	2,039,632	3,029,340	5,456,694
Total	**16,645,550**	**7,554,283**	**7,976,943**	**13,342,595**	**6,681,107**	**5,165,398**

14. Other financial liabilities

At fair value through surplus or deficit		
Bank loan Loans held by the Development Bank of South Africa bear an interest between 10.25% and 16.033% per annum and are repayable over periods between five and thirty years. All loans will be repaid by 2025.	679,447	613,505
	679,447	613,505
Non-current liabilities		
Fair value through surplus or deficit	662,276	600,455
Current liabilities		
Fair value through surplus or deficit	17,171	13,050
	662,276	600,455

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
14. Other financial liabilities (continued)		
	17,171	13,050
	679,447	**613,505**

15. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	346,086	147,378
- in second to fifth year inclusive	450,566	220,827
	796,652	368,205
Less: future finance charges	(75,425)	(35,965)
Present value of minimum lease payments	**721,227**	**332,240**
Present value of minimum lease payments due		
- within one year	321,941	137,095
- in second to fifth year inclusive	399,286	195,144
	721,227	**332,239**

The finance lease obligation is made up of numerous rental agreements for office equipment. The details are as follows:

Bond - R206
Rate - 7.50%
Issue date - 15 August 2005
Redemption date - 15 January 2014

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rated shall be used. Any initial direct costs of leases are added to teh amount recognised as an asset.

Due to the nature of the information provided the implicit rate could not be calculated as the cost price of the copier is not provided in the agreement. Only the terms and the payment amount are provided.

The R206 bond rate was used (refer below) as the issue date and redemption date approximately matches the date range of the copier agreements entered into.

In addition, prime (9%) less 1.5% is considered reasonable in the market place for asset finance.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal systems improvement	395,619	531,806
LED Promotions	-	2,326,622
Recycling centre	1,474,898	-
Vuna awards - Audit	30,000	30,000
Capacity of Municipality	814,058	1,000,000
Expanded Public works Programme	-	-
Staff training	116,077	120,183
Finance management programme	774,371	1,281,728
Establish ward committees	-	-
MIG funding	-	(587,450)
LED Intern	10,794	12,746
	3,615,817	**4,715,635**

Movement during the year

Balance at the beginning of the year	4,715,635	8,505,946
Additions during the year	26,884,394	20,288,982
Income recognition during the year	(27,984,212)	(24,079,293)
	3,615,817	**4,715,635**

See note 24 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill sites	3,016,204	-	(59,641)	2,956,563
Bonuses	1,545,522	555,238	-	2,100,760
Audit Fees	299,500	-	(299,500)	-
	4,861,226	**555,238**	**(359,141)**	**5,057,323**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill sites	3,119,458	123,903	(227,157)	3,016,204
Bonuses	1,467,703	77,819	-	1,545,522
Audit Fees	-	299,500	-	299,500
	4,587,161	**501,222**	**(227,157)**	**4,861,226**

Provision for Landfill site rehabilitation

The municipality has an obligation to restore 2 landfill sites, situated in Stutterheim, erf 80. The site is currently licensed and is used for general waste disposal (non hazardous) purposes.

Provision for service bonuses

A bonus provision is raised for the amount which the municipality is obligated to pay employees.

18. Trade and other payables from exchange transactions

	2012	2011
Trade payables	3,560,405	2,213,946
Other payables	10,176,213	6,976,420
Deposits received	61,467	56,923
Accrual for leave gratuity	2,404,508	2,295,092
	16,202,593	**11,542,381**

19. VAT payable

	2012	2011
Tax refunds payables	-	364,250

20. Consumer deposits

	2012	2011
Electricity	388,503	391,410

21. Revenue

	2012	2011
Property rates less rebates	7,783,225	7,772,425
Service charges	29,418,256	25,039,945
Rental of facilities & equipment	210,487	294,918
Fines	180,268	92,952
Government grants & subsidies	107,979,287	96,000,949
Motor vehicle registrations	1,161,920	856,350

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Revenue (continued)

Miscellaneous other revenue	2,286,887	644,565
	149,020,330	**130,702,104**

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

Service charges	29,418,256	25,039,945
Rental of facilities & equipment	210,487	294,918
Miscellaneous other revenue	2,286,887	644,565
	31,915,630	**25,979,428**

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

Property rates	7,783,225	7,772,425
Fines	180,268	92,952
Government grants & subsidies	107,979,287	96,000,949
Motor vehicle registrations	1,161,920	856,350
	117,104,700	**104,722,676**

22. Property rates

Rates received

Property rates	8,747,175	8,681,071
Less: Rebates	(963,950)	(908,646)
	7,783,225	**7,772,425**

Valuations

Residential	641,009,155	637,869,755
Commercial	282,863,140	286,013,640
State	262,699,385	258,230,885
Municipal	38,287,300	40,950,100
Small holdings and farms	657,165,966	655,464,596
Public benefit organisations	18,942,500	18,274,500
Property rates 2	17,289,500	19,808,500
Vacant land	61,171,335	60,867,635
Monuments	8,000	-
	1,979,436,281	**1,977,479,611**

Valuations on land and buildings are performed every 4 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 0.0068 (2011- 0,0064) is applied to property valuations to determine assessment rates. Rebates of R963,950 (2011: R908,646) are granted according to Council's Policy.

Rates are levied on an monthly basis. Interest is charged at prime plus 1% per annum.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. Service charges

Sale of electricity	23,271,984	19,517,602
Refuse removal	6,142,834	5,339,211
Other service charges	3,438	183,132
	29,418,256	**25,039,945**

24. Government grants and subsidies

Equitable share	79,616,000	69,461,014
Subsidies - Goverment	-	1,027,232
MIG grant (operating)	-	798,880
Utilised operating grants	7,830,886	10,066,818
Library Grant	791,500	1,583,000
Utilised capital grants	18,983,901	13,064,005
Expended Public Works Programme	757,000	-
	107,979,287	**96,000,949**

Municipal systems improvement

Balance unspent at beginning of year	531,806	20,277
Current - year expenditure	(926,187)	(238,471)
Current - year receipts	790,000	750,000
	395,619	**531,806**

The grant was received from the Department of Provincial Government (see note 16).

The grant was used for the ward committee training and the valuation roll.

Staff training

Balance unspent at beginning of year	120,183	253,699
Current - year expenditure	(147,313)	(212,498)
Current-year receipts	143,207	78,982
	116,077	**120,183**

The grant was received from the Sectorial Education Training Authority (SETA) for the training of staff (see note 16).

Finance management programme

Balance unspent at beginning of year	1,281,728	1,284,384
Current - year expenditure	(2,007,357)	(1,252,656)
Current-year receipts	1,500,000	1,250,000
	774,371	**1,281,728**

The grant was received from National Tresury and was mainly used for budget reforms and financial management reforms. (see note 16)

MIG funding

Balance unspent at beginning of year	(587,450)	6,783,944
Current - year expenditure	(22,296,550)	(21,398,394)
Current year receipts	22,884,000	14,027,000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Government grants and subsidies (continued)

	-	**(587,450)**

The above grant was financed by National Revenue Fund and was used to finance the capital infrastructure (see note 16).

LED Promotions

Balance unspent at the beginning of the year	2,326,622	(273,378)
Current year - expenditure	(2,326,622)	-
Current year - receipts	-	2,600,000
	-	**2,326,622**

The above grant was received from the Department Economic Development and Environmental Affairs.

LED Intern

Balance unspent at the beginning of the year	12,746	-
Current - year expenditure	(69,139)	53,000
Current - year receipts	67,187	(40,254)
	10,794	**12,746**

The above grant was received from the Department Economic Development and Environmental Affairs.

Capacity of municipality

Balance unspent at the beginning of the year	1,000,000	-
Current year receipts	-	1,000,000
Current year - expenditure	(185,942)	-
	814,058	**1,000,000**

The grant was obtained from the Department of Local Government and Housing.

Recycling centre

Balance unspent at the beginning of the year	-	16,829
Current year receipts	1,500,000	-
Current - year expenditure	(25,102)	(16,829)
	1,474,898	**-**

Vuna awards - Audit

Balance unspent at the beginning of the year	30,000	-
Current year -receipts	-	30,000
	30,000	**30,000**

The grant was obtained from the Department of Local Government and Housing.

Road Maintenance

Current - year receipts	-	500,000
Current - year expenditure	-	(500,000)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. General expenses

Advertising	224,745	88,653
Audit Fees	2,116,723	2,344,511
Bank charges	218,566	164,578
Computer expenses	42,299	47,867
Consulting and professional fees	2,391,708	924,072
Consumables	222,283	219,857
Entertainment	225,013	169,117
Insurance	2,058,323	1,745,790
Community development and training	1,443,593	101,904
Service Charges	101,596	16,456
Medical expenses	1,228	547
Motor vehicle expenses	338,334	259,083
IDP process plan	360,961	190,256
Fuel and oil	2,324,140	1,465,237
Postage and courier	123,699	137,840
Printing and stationery	671,345	482,306
Promotions of LED	1,041,372	688,239
Project maintenance costs	703,372	661,658
Vehicle license fees	98,027	106,549
Security (Guarding of municipal property)	133,371	281,086
Staff welfare	29,973	12,914
Subscriptions and membership fees	405,526	245,978
Telephone and fax	881,461	670,932
Training	1,893,283	1,161,356
Refuse	40,399	31,621
Electricity consumption (Street Lights)	567,906	480,467
Electricity	657,306	191,076
Uniforms	196,810	111,855
Loose tools	-	9,882
Remissions	2,682,042	2,130,478
Free basic electricity	5,403,181	4,947,895
Plant hire	263,285	173,666
Skills development levy	253,429	233,858
Other expenses	187,945	19,778
	28,303,244	**20,517,362**

26. Employee related costs

Basic	24,227,178	22,303,529
Bonus	2,178,589	2,152,768
Medical aid - company contributions	1,608,035	1,478,409
UIF	189,876	179,828
Post-employment benefits - defined contribution plan	418,000	5,668,000
Overtime payments	815,363	452,826
Acting allowances	290,237	-
Travel allowances	973,584	1,250,139
Housing benefits and allowances	25,361	28,325
Telephone Allowance	173,430	137,013
Industrial Council Levy	9,524	9,524
Pension Fund Contributions by Council	3,862,303	3,791,997
	34,771,480	**37,452,358**

Refer to Note 7: Retirement benefits, for the analysis of the post employment medical benefit expense for the year.

The amounts disclosed below are included in the total for employee costs above.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Employee related costs (continued)

Remuneration of municipal manager

Annual Remuneration	605,881	430,919
Car Allowance	-	178,765
Performance Bonuses	-	98,574
Contributions to UIF, Medical and Pension Funds	-	92,202
Cellphone Allowance	8,000	10,000
	613,881	**810,460**

The contract for the employment of the acting Municipal Manager ended on 28 February 2012.

Remuneration of chief finance officer

Annual Remuneration	597,989	571,071
Car Allowance	125,438	125,438
Performance Bonuses	-	108,126
Contributions to UIF, Medical and Pension Funds	136,609	132,760
Cellphone Allowance	8,400	8,400
Acting Allowance	4,125	-
Other Allowances	19,138	-
	891,699	**945,795**

Remuneration of administration manager

Annual Remuneration	47,106	504,897
Car Allowance	9,856	118,272
Service Bonus	-	98,296
Contributions to UIF, Medical and Pension Funds	10,829	130,915
Cellphone Allowance	700	8,400
Other Allowances	63,313	-
	131,804	**860,780**

The administration manager retired on 31 July 2011. The post has been vacant for the rest of the financial year.

Remuneration of engineering services manager

Annual Remuneration	555,045	529,715
Car Allowance	127,423	127,432
Performance Bonuses	-	103,356
Contributions to UIF, Medical and Pension Funds	139,693	135,752
Cellphone Allowance	8,400	8,400
Other Allowances	18,294	-
	848,855	**904,655**

Figures in Rand	2012	2011

26. Employee related costs (continued)

Remuneration of strategic manager

Annual Remuneration	526,279	503,517
Car Allowance	110,735	110,735
Performance Bonuses	-	98,296
Contributions to UIF, Medical and Pension Funds	144,978	139,563
Cellphone allowance	8,400	8,400
Long Service Bonus	10,836	-
Other Allowance	17,398	-
	818,626	**860,511**

27. Remuneration of councillors

Mayor	574,237	518,705
Speaker	510,792	454,797
Councillors	7,960,499	6,381,505
Contributions to Medical and Pension Funds	830,277	747,200
	9,875,805	**8,102,207**

28. Vending Management Fee

Management fees - third party	443,909	356,731

29. Debt impairment

Debt impairment	6,623,296	4,898,795

30. Investment revenue

Interest Income		
Bank	6,779,285	5,798,600
	-	-
	6,779,285	5,798,600

31. Fair value adjustments

Other financial assets and liabilities		
• Fair Value Adjustments	1,255,265	487,514

32. Depreciation and amortisation

Property,plant and equipment	18,971,746	18,517,280
Intangible assets	26,351	24,978
Finance lease asset	124,832	148,643
	19,122,929	**18,690,901**

33. Finance costs

Finance leases	23,978	30,000
Current borrowings	111,169	124,596
Late submission of VAT returns	5,815	-
Fair value adjustments on payables	838,641	521,717
	979,603	**676,313**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Audit Fees

Auditors Remuneration	2,116,723	2,344,511

35. Bulk purchases

Electricity	16,023,683	13,495,863

36. Cash generated from operations

Surplus	36,254,509	29,239,090
Adjustments for:		
Depreciation and amortisation	19,122,929	18,690,901
Fair value adjustments	(1,255,265)	(487,514)
Finance costs	135,147	154,596
Debt impairment	6,623,296	4,898,795
Movements in retirement benefit assets and liabilities	418,000	5,668,000
Movements in provisions	372,808	397,643
Movement in interest expense for fair value adjustment	1,255,265	487,514
Changes in working capital:		
Inventories	(943,652)	46,541
Trade and other receivables from exchange transactions	1,642	(251,640)
Other receivables from non exchange transactions	(283,251)	1,164,009
Debt Impairment	(6,623,296)	(4,898,795)
Trade and other payables from exchange transactions	4,660,212	(1,450,934)
VAT	(3,298,035)	1,584,160
Unspent conditional grants and receipts	(1,099,818)	(3,601,750)
Consumer deposits	(2,907)	37,886
	55,337,584	**51,678,502**

37. Events after the reporting date

The municipality is not aware of any matter or circumstance arising since the end of the financial year.

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	30,384,205	3,349,418

This committed expenditure relates to property and will be financed by MIG.

39. Contingencies

An employee is instituting a claim against Amahlathi Municipality for unfair dismissal. The lawyers estimate of financial exposure is set at R1,500,000.

There is a claim for personal damages by a customer against Amahlathi Municipality.The claim is for personal damages resulting from an open manhole area. The lawyers estimate of financial exposure is set at R25,363.

There is a claim for unfair dismissal against Amahlathi Municipality instituted by an employee which has proceeded to arbitration. The employee is claiming R118,290.

40. Related parties

Relationships
Members of key management GP Hill

The main member of Domoney Bros. an entity that supplies uniforms to the municipality is a family member of the CFO, Mr GP Hill. Payments to the amount of R6,646 were made to the aforementioned entity during the year. All transactions were above board and all supply chain management regulations were adhered to.

Key Management Information

Key Management of the municipality are:

a. BK Socikwa - Municipal Manager

b. GP Hill - Chief Financial Officer

c. LRN du Randt - Administration Manager (retired 31 July 2011)

d. AR Ahlschlager - Engineering Services Manager

e. B Ondala - Strategic Manager

Refer to note 26 for the disclosure of remuneration of key management.

For a listing of all councillors of the municipality refer to page 2 and 3. In addition note 47, provides details of councillors with long outstanding municipal accounts. The councillor remuneration is disclosed in note 27.

41. Prior period errors

1. VAT on conditional grants and unspent conditional grants was previously not recorded in terms of MFMA Circular 48. This resulted in subsidies and government grants (revenue) being under stated by the amount below and the unspent conditional grant (liability) being overstated by the same amount.

2. Revenue from sale of tender deposits was previously recorded in the suspense account.
3. Unspent conditional grants, on which there was no obligation to repay the funds received, were to be recognised in revenue in the 2009/10 year, as per the transitional provisions in directive 4.

The correction of the errors results in adjustments as follows:

	2010/11	Cumulative 2009/10
1. Subsidies and Goverment grants - Statement of Financial Performance	-	-
Subsidies and Government Grants - Previously reported	88,088,176	-
Transferred from unspent conditional grants	7,912,771	-
	96,000,947	-
1. Unspent Conditional Grants - Statement of Financial Position	-	-
Unspent Conditional Grants - Previously reported	12,628,408	-
Transferred to Subsidies and Government Grants	(7,912,771)	-
	4,715,635	-
	-	**-**
2. Tender deposits - Statement of Financial Performance		
Previously reported	-	-
Revenue from sale of tender documents	(63,453)	-
	(63,453)	-

Figures in Rand	2012	2011

41. Prior period errors (continued)

2. Tender deposits - Statement of Financial Position		
Previously reported	(63,453)	-
Tender deposits (Suspense)	-	-
	(63,453)	**-**

42. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial performance		
Contingency expenses was disclosed under general expenditure in 2010/11 this was reallocated to miscellaneous other revenue:	-	-
General expenses	147,246	195,053
Miscellaneous other revenue	(146,246)	(195,053)
Rebate for property rates was disclosed under general expenditure in 2010/11 this was reallocated to property rates revenue:		
Property Rates	(963,950)	(908,646)
Rates Rebate	963,950	908,646
	-	-

Due to the inclusion of finance lease obligation and a correction in the calculation the interest rate sensitivity for 2011 was restated . The net effect on surplus decreased from -R6219 to -R1556.

The description for"Assets expensed" has been changed to "Electricity consumption [street lights]" to correctly reflect the nature of the expense. In addition R261 124 (2011: R173 666) was reclassified from "Assets expensed" to "Plant Hire" within general expenses note.

The description for "capital expenses" has been changed to "Loose tools" to correctly reflect the nature of the expense.

Refer to note 2 for the changes in the comparative figures which have arisen due to the change in accounting policy.

Refer to note 41 for the changes in comparative figures which have arisen due to prior period errors.

Notes to the Annual Financial Statements

43. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and 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 with the assistance of operating divisions. Risk management is carried out under policies approved by the accounting officer.

Market risk: Currency risk

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency.

Interest rate risk

The municipality’s interest bearing assets are included under cash and cash equivalents. The municipality’s income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

At year-end financial assets exposed to interest rate risk were for the DBSA loan of R 679 447 (2011: R613 505)

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with the South African Prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Trade debtors in arrears linked to South African prime rate plus one percent.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 5.

At year end, financial liabilities exposed to interest rate risk were as follows:
DBSA loan of R679,447 linked to the South African prime rate.

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management’s assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite percentage adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis for one year to the next.

	2012	**2011**
The estimated increase rates		
The estimated increase in basis points	100	100
Effect on Net Surplus	(9,684)	(1 556)

43. Risk management (continued)

Market risk: other price risk

The Municipality’s financial assets do not include equity investments that will expose it to price risks.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any particular counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the municipality's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

The carrying amount of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the municipality’s maximum exposure to credit risk:

	2011/2012	**2010/2011**
Investments	R 124 079 274	R 103 558 884
Trade and other receivables from exchange transactions	R 3 928 297	R 3 929 939
Other receivables from non exchange transactions	R 668 040	R 384 789
Long term receivables	R 492 427	R 640 048
Short term receivables	R 153 228	R 206 137

Credit quality

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

	2012	**2011**
A	9%	9%
B	8%	14%
C	83%	77%

Analysis of table:

A The debtors are of good credit quality and no default in payment is expected.
B The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time
C These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Refer to the receivables note for an analysis of the impaired receivables.

Liquidity risk

The municipality’s risk relates to funds available that will cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and projected grant receipts. Cash flow forecasts are prepared and adequate managed borrowing facilities are continually monitored.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

44. Unauthorised expenditure

No unauthorised expenditure had been incurred during the year.

45. Fruitless and wasteful expenditure

Interest paid on late submission and payment of VAT	5,815	-

Analysis of expenditure awaiting condonation per age classification

Current year	5,815	-

The matter has been investigated and will proceed to Council for condonement.

46. Irregular expenditure

Opening balance	2,399,852	-
Add: Irregular Expenditure - current year	4,569,059	2,399,852
	6,968,911	**2,399,852**

Analysis of expenditure awaiting condonation per age classification

Current year	4,569,059	-
Prior years	2,399,852	-
	6,968,911	**-**

Details of irregular expenditure – current year

Irregular Expenditure on Contracts	Various consultant were appointed outside the tender processes	4,569,059

Details of irregular expenditure - prior year

Irregular expenditure on Contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	1,856,966
Irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	23,428
Bonuses	Bonuses paid during the year were deemed to be irregular.	519,458
		2,399,852

These matters have been investigated and will proceed to Council for condonement

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

	2012	2011
Current year subscription / fee	381,236	233,588
Amount paid - current year	(381,236)	(233,588)
	-	-

Material losses

The electricity distribution losses amounted to 3 341 248 kwh with a value of R968,627 and 2011 (3 047 384 kwh with a value of R 785 616)

Audit fees

	2012	2011
Current year fee	2,116,723	2,344,511

UIF and PAYE

	2012	2011
Current year expenditure	3,438,273	4,881,483
Amount paid - current year	(3,438,273)	(4,881,483)
	-	-

Pension and Medical Aid Deductions

	2012	2011
Current year expenditure	5,470,338	5,270,406
Amount paid - current year	(5,470,338)	(5,270,406)
	-	-

VAT

	2012	2011
VAT receivable	2,933,785	-
VAT payable	-	364,250
	2,933,785	**364,250**

VAT payable and VAT receivable are shown in note 19 and 12 respectively.

All VAT returns have been submitted throughout the year.

Councillors' arrear consumer accounts

Arrear rates and service charges owed by counicllors and were outstanding for more than 90 days at 30 June 2012 - R3,048 (2011: R13,726)

30 June 2012		**Outstanding more than 90 days R**	**Total R**
Cllr B Jama	-	296	296
Cllr T Welem	-	2,752	2,752
		3,048	**3,048**

30 June 2011	**Outstanding more than 90 days R**	**Total R**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

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

Cllr Mhlahleki	-	6,866	6,866
Cllr Wellem	-	6,860	6,860
	-	**13,726**	**13,726**

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. No expenses were incurred that were not condoned in terms of section 36 of the Municipal Supply Chain Management Regulations.