INTSIKA YETHU MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2012

General Information

Country of origin and legal form	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No. 117 of 1998).
Nature of business and principal activities	Intsika Yethu Municipality is a local municipality performing the functions as set out in the Constitution (Act No. 108 of 1996).
Mayoral committee	
Mayor	K Vimbayo
Speaker	AZ Mbotoloshi
Chief WIP	S Myataza
Councillors	WN Mdwayingana - Executive councillor
	N Tshangana - Nkota - Executive councillor
	KF Mdleleni - Executive councillor
	J Cengani - Executive councillor
	K Ntsaluba - Executive councillor
	NE Stata - Executive councillor
	M Shasha - Chairperson of the MPAC
	MM Mbebe
	ML Papiyana
	Z Qayiya
	D Kapsile
	HM Hewu
	P Nqandela
	M Mahali
	NS Mafanya
	FN Dangazele
	M Yamile
	VG Matomela
	B Mboniswa (Resigned)
	N Magaga
	S Tame
	N Ntloko
	ZS Matshikiza
	N Bani
	N Jada
	NH Mgodeli
	NA Somdyala
	M Zulu
	HM Nobongoza
	NP Gadeni
	MA Mbothsane
	MI Bititsha
	Z Mxi
	S Mkunyana
	M Gulubela
	AN Rotyi
	N Mto
	NV Hexana
	NG Futiso (Deceased July 2012)

General Information

Grading of local authority	Grade 3
Chief Finance Officer (CFO)	Mr M Dyushu
Accounting Officer	Mr Zamuxolo Shasha
Business address	Building No. 201 Main Street Cofimvaba 5380
Postal address	Private Bag X 1251 Cofimvaba 5380
Bankers	First National Bank
Auditors	Office of the Auditor General (EC)

Index

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

Abbreviations

IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MSIG	Municipal Systems Improvement Grant
FMG	Financial management grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
LG SETA	Local Government - Sector Education and Training Authority
CHDM	Chris Hani District Municipality
NHC	National Heritage Council

Approval of the Annual Financial Statements

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2012, which are set out on pages 5 to 47 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

I acknowledge that I am ultimately responsible for the system of internal financial control and that the system of internal control provides reasonable assurance that the financial records can be relied on.

I have reviewed the Municipality's cash flow forecast for the year to 30 June 2013 and is satisfied that the Municipality can continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Municipality's financial statements.

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr Zamuxolo Shasha
Municipal Manager

Cofimvaba

31 August 2012

Statement of Financial Position

Figures in Rand	Notes	2012	2011
Assets			
Current Assets			
Cash and cash equivalents	2	15,703,599	11,419,474
Inventories	3	212,049	-
Other receivables from non-exchange transactions	4	9,002,492	9,972,119
Trade receivables from exchange transactions	5	1,854,849	910,219
VAT receivable	6	3,411,355	1,483,844
		30,184,344	**23,785,656**
Non-Current Assets			
Property, plant and equipment	7	512,566,608	525,948,610
Intangible assets	8	355,473	110,640
		512,922,081	**526,059,250**
Total Assets		**543,106,425**	**549,844,906**
Liabilities			
Current Liabilities			
Non-current borrowings short term portion	9	367,233	349,092
Payables from exchange transactions	10	12,109,518	4,938,950
Current Provisions	11	7,146,960	4,571,168
		19,623,711	**9,859,210**
Non-Current Liabilities			
Non-current borrowings	9	8,781,383	9,343,428
Total Liabilities		**28,405,094**	**19,202,638**
Net Assets		**514,701,331**	**530,642,268**
Reserves			
Revaluation reserve		22,831,223	-
Other NDR		450,545,168	485,937,394
Accumulated surplus		41,324,940	44,704,874
Total Net Assets		**514,701,331**	**530,642,268**

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue from Exchange transactions			
Sewerage services		1,773,244	-
Service charges	13	498,454	370,803
Water services		627,690	-
Rental of facilities and equipment		647,405	461,707
Licences and permits		1,320,384	1,260,933
Receipts		-	9,720,473
Other income	14	5,737,584	2,063,100
Gains on disposal of assets		1,579	-
Revenue from Non-exchange transactions			
Government grants & subsidies	15	138,430,580	103,540,537
Fines		250,712	113,025
Property rates	16	3,712,661	3,233,468
Interest - outstanding receivables		372,557	513,893
Interest - external investments		859,576	691,075
Total Revenue		**154,232,426**	**121,969,014**
Expenditure			
Personnel	17	(62,083,039)	(44,102,099)
Remuneration of councillors	18	(8,594,996)	(10,877,367)
Depreciation and amortisation		(36,545,148)	(35,252,806)
Finance costs	19	(525,035)	(4,197)
Bad debts	20	(1,738,311)	(10,308,623)
Repairs and maintenance		(6,595,611)	(8,119,206)
Bulk purchases	21	(2,870,538)	(629,860)
Contracted services	22	(430,490)	(228,383)
Loss on disposal of assets		-	(65,982)
General Expenses	23	(78,612,972)	(33,355,941)
Total Expenditure		**(197,996,140)**	**(142,944,464)**
Deficit for the year		**(43,763,714)**	**(20,975,450)**

Statement of Changes in Net Assets

Figures in Rand	Notes	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported		-	-	-	66,984,376	66,984,376
Adjustments						
Prior year adjustments	37	-	-	-	(1,304,052)	(1,304,052)
Balance at 01 July 2010 as restated		**-**	**-**	**-**	**65,680,324**	**65,680,324**
Changes in net assets						
Deficit for the year		-	-	-	(20,975,450)	(20,975,450)
Asset revaluation		-	485,937,394	485,937,394	-	485,937,394
Total changes		-	485,937,394	485,937,394	(20,975,450)	464,961,944
Balance at 01 July 2011		**-**	**485,937,394**	**485,937,394**	**85,088,654**	**571,026,048**
Changes in net assets						
Deficit for the year		-	-	-	(43,763,714)	(43,763,714)
Asset revaluation		-	(35,392,226)	(35,392,226)	-	(35,392,226)
Properties revalued	7	22,831,223	-	22,831,223	-	22,831,223
Total changes		22,831,223	(35,392,226)	(12,561,003)	(43,763,714)	(56,324,717)
Balance at 30 June 2012		**22,831,223**	**450,545,168**	**473,376,391**	**41,324,940**	**514,701,331**

Note(s)

Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Other		14,369,770	6,639,712
Grants		138,430,580	103,540,537
Interest income		1,232,133	1,204,968
		154,032,483	111,385,217
Payments			
Employee costs		(70,678,035)	(54,979,466)
Cash paid to suppliers		(47,244,165)	(36,389,339)
Finance costs		(525,035)	(4,197)
		(118,447,235)	(91,373,002)
Net cash flows from operating activities	25	**35,585,248**	**20,012,215**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(30,459,690)	(38,981,547)
Loss / Proceeds from sale of property, plant and equipment	7	37,804	23,233
Purchase of intangible assets	8	(335,333)	(110,925)
Purchase of an asset		-	(43,846)
Net cash flows from investing activities		**(30,757,219)**	**(39,113,085)**
Cash flows from financing activities			
Repayment of non-current borrowings		(543,904)	349,092
Repayment of Borrowings		-	5,735,611
Net cash flows from financing activities		**(543,904)**	**6,084,703**
Net increase/(decrease) in cash and cash equivalents		**4,284,125**	**(13,016,167)**
Cash and cash equivalents at the beginning of the year		11,419,474	24,435,641
Cash and cash equivalents at the end of the year	2	**15,703,599**	**11,419,474**

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 historical cost convention unless specified otherwise.

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

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements (as revised in 2010)
GRAP 2	Cash Flow Statements (as revised in 2010)
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4	The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions (as revised in 2010)
GRAP 10	Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11	Construction Contracts (as revised in 2010)
GRAP 12	Inventories (as revised in 2010)
GRAP 13	Leases (as revised in 2010)
GRAP 14	Events After the Reporting Date (as revised in 2010)
GRAP 16	Investment Property (as revised in 2010)
GRAP 17	Property, Plant and Equipment (as revised in 2010)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosures
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IAS 12 (AC 102)	Income Taxes
SIC – 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC – 25 (AC 425)	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC – 29 (AC 429)	Service Concession Arrangements – Disclosures
IFRIC 12 (AC 445)	Service Concession Arrangements
IPSAS 21	Impairment of non-cash generating assets
IFRS 7	Financial Instrument: Disclosure
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 GRAP, including any interpretations and directives issed 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 Presentation of currency

These annual financial statements are presented in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

1.2 Going concern assumption

These annual financial statements have been prepared on a going concern basis.

Accounting Policies

1.3 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed.

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

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

GRAP 21	Impairment of non-cash generating assets - issued March 2009
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24	Presentation of budget information in financial statements
GRAP 26	Impairment of cash generating assets - issued March 2009
GRAP 103	Heritage Assets - issued July 2008

Application of all the above GRAP standards will be effective from the date to be announced by the Minister of Finance and no standards have been early edopted. For the standards that have been approved, but an effective date has not been determined by the Minister of Finance at the reporting date, certain elements may have been used to formulate an accounting policy.

The Municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not yet effective:

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

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8. 10 and 11 of GRAP 3.

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

GRAP 18	Segment Reporting

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

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

In terms of Directive 7: “The Application of Deemed Cost on the Adoption of Standards of GRAP” issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or an intangible asset, an entity may estimate such fair value using depreciated replacement cost.The following GRAP standards have been issued but are not yet effective at the reporting date and have not been early adopted by the municipality:

The impact of the standards not yet effective on future financial statements is not expected to be significant.

Management has considered all the above-mentioned GRAP standards issued but not yet effective 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.

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty

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

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.

1.6 Investment property

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

Investment Property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

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

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

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

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Depreciation

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

Item	Useful life
Land	Indefinite
Other	Indefinite

Accounting Policies

1.6 Investment property (continued)

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

The assumptions for determining the fair value of the Investment property is set out in the relevant Note of the Annual Financial Statements.

Impairment
The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

An impairment is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

An Investment Property is derecognised when there is a disposal or no future economic benefits are to be derived and all gains or losses are recognised in the Statement of Financial Performance.

Accounting Policies

1.7 Property, plant and equipment

Initial recognition
Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

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

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

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

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

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

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

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

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

Item	Average useful life
Infrastructure	
• Roads and Paving	3 - 50 years
Community	
• Buildings	25 - 50 years
• Recreational facilities	25 - 30 years
• Halls	25 - 50 years
• Libraries	25 - 30 years
• Other assets	25 - 30 years

Accounting Policies

1.7 Property, plant and equipment (continued)

Others	
• Buildings	30 - 50 years
• Mobile offices	10 years
• Specialised vehicles	6 years
• Other vehicles	5 years
• Office equipment	5 years
• Furniture and fittings	6 years
• Specialised plant and equipment	10 years
• Other items of plant and equipment	5 years
• Landfill sites	30 - 55 years
• Emergency equipment	3 - 10 years
• Computer equipment	3 years
• Intangible assets (software)	3 years
Finance lease assets	10
• Office equipment	5 - 7 years
• Other assets	3 - 6 years
Heritage assets	
• Memorials & Statues	Indefinite life
• Heritage sites	Indefinite life
• Museums	Indefinite life
• Art Works	Indefinite life

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for certain Machinery and Equipment and Transport assets with significant carrying values. For Machinery and Equipment and Transport (Above R5,000) the residual value and the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance. Minor assets (Below R5,000) are recognised and depreciated annually down to R1 and is included in the asset register mainly for completeness and monitoring purposes.

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

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives, as reflected in the table above.

Derecognition
Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Intangible assets

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

Accounting Policies

1.8 Intangible assets (continued)

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

Intangible assets are initially recognised at cost.

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

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

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

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

Item	Useful life
Computer software	3 years

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

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

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

Accounting Policies

1.9 Leases

Operating leases - lessor

Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

Operating leases - lessee

Operating leases rentals are accrued on a straight-line basis over the term of the relevant lease.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.10 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present legal or constructive 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.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

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

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

1.12 Revenue from exchange transactions

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

Services charges relating to water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on the previous three months average usage.

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

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

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

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

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

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:
• The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Measurement

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

Interest and dividends

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

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

1.13 Revenue from non-exchange transactions

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

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

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

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

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

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Recognition

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

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

Measurement

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

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

Grants, Transfers and Donations

Grants, transferes and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.15 Fruitless and wasteful expenditure

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

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

1.16 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), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.17 Impairment of 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.

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

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

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

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

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

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

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

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

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

1.18 Financial instruments

Initial recognition and measurement

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

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

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

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

Regular way purchases of financial assets are accounted for at .

Accounting Policies

1.18 Financial instruments (continued)

Subsequent measurement

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

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

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

Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

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

1.18 Financial instruments (continued)

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

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

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

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.19 Tax

Value Added Tax

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Accounting Policies

1.20 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:
• Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
• Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
• Key management personnel, and close members of the family of key management personnel; and
• Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:
• All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
• Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer an all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.21 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

1.22 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

Figures in Rand	2012	2011

2. Cash and cash equivalents

Cash and cash equivalents consist of:

Primary bank account	7,100,163	2,023,181
Bank balances	6,944,357	6,986,735
Call investment deposits	1,599,376	2,405,299
Cash on hand	59,703	4,259
	15,703,599	**11,419,474**

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value. Outstanding cheques forms part of the balances of Cash and Cash Equivalents.

Call investment deposits

Call investment deposits consist of the following accounts:

FNB 62022329438 - CMIP	88	88
FNB 94865858	289,797	214,627
ABSA 961149096	605,063	585,025
FNB 62026740549 - Municipal Rank	10,463	1,380,583
FNB 62027099234	241,956	-
FNB 62027101245	242,508	118,291
Standard Bank 088795101	76,105	32,209
FNB 62160167500 - DBSA Loan	133,761	20,782
FNB 74026742946 - Testing station	(365)	53,693
	1,599,376	**2,405,298**

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2012	Cash book balances 30 June 2012
FNB 62022331003 - Primary bank account	4,104,787	3,981,268
FNB 62101651398 - MIG	1,305,410	1,305,410
FNB 62022332316	58,120	58,120
FNB 62090678320	21,723	723,550
FNB 62240443820	1,004,089	876,009
Total	**6,494,129**	**6,944,357**

3. Inventories

Water	212,049	-

4. Other receivables from non-exchange transactions

Other receivables	6,291,213	8,949,679
Prepayments	5,420	-
Rates	2,705,859	1,022,440
	9,002,492	**9,972,119**

Reconciliation of provision for impairment of trade and other receivables

Rates - gross balance	2,705,859	-
Provision for impairment	(1,110,764)	-
	1,595,095	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Trade and Other Receivables from Exchange Transactions

Gross balances		
Water	3,384,552	-
Sewerage	2,117,977	-
Refuse	611,643	408,366
Housing rental	540,625	502,453
Other receivables	5,400	(600)
	6,660,197	**910,219**
Less: Provision for debt impairment		
Total	(4,805,348)	-
Net balance		
Water	3,384,552	-
Sewerage	2,117,977	-
Refuse	611,643	408,366
Housing rental	540,625	502,453
Other receivables	5,400	(600)
Provision for debt impairment	(4,805,348)	-
	1,854,849	**910,219**
Reconciliation of debt impairment provision		
Balance at beginning of the year	3,967,473	-
Contributions to provision	1,948,639	3,967,473
	5,916,112	**3,967,473**

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Concentrations of credit risk with respect to receivables are limited due to the Municipality's large number of customers. The Municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

6. VAT receivable

Value Added Tax	3,411,355	1,483,844

VAT is payable / receivable on the payments basis.

Notes to the Annual Financial Statements

7. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Municipal property	189,814,023	(6,325,422)	183,488,601	166,982,800	(4,216,948)	162,765,852
Buildings	16,821,608	(3,462,590)	13,359,018	16,623,293	(3,086,731)	13,536,562
Machinery and equipment	31,771,189	(10,562,847)	21,208,342	19,014,623	(8,789,327)	10,225,296
Transport assets	4,056,155	(1,172,120)	2,884,035	2,606,363	(711,530)	1,894,833
Furniture and office equipment	3,914,597	(1,259,137)	2,655,460	2,567,351	(738,085)	1,829,266
Computer equipment	1,584,476	(1,025,711)	558,765	1,057,462	(820,955)	236,507
Road transport	320,597,289	(80,215,103)	240,382,186	359,138,762	(59,442,536)	299,696,226
Community assets	8,416,161	(225,868)	8,190,293	5,879,376	(76,860)	5,802,516
Electricity	2,208,213	(298,110)	1,910,103	2,208,213	(198,740)	2,009,473
Parks and recreation	7,503,653	(742,950)	6,760,703	7,503,653	(495,300)	7,008,353
Solid waste	732,964	(220,323)	512,641	732,964	(146,882)	586,082
Work in progress	30,656,461	-	30,656,461	20,357,644	-	20,357,644
Total	**618,076,789**	**(105,510,181)**	**512,566,608**	**604,672,504**	**(78,723,894)**	**525,948,610**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Revaluations**	**Depreciation**	**Total**
Municipal property	162,765,852	-	-	-	22,831,223	(2,108,474)	183,488,60
Buildings	13,536,562	198,315	-	-	-	(375,859)	13,359,01
Machinery and equipment	10,225,296	12,756,566	-	-	-	(1,773,520)	21,208,34
Transport assets	1,894,833	1,449,792	-	-	-	(460,590)	2,884,03
Furniture and office equipment	1,829,266	1,377,186	(25,591)	-	-	(525,401)	2,655,46
Computer equipment	236,507	541,476	(10,634)	-	-	(208,584)	558,76
Road transport	299,696,226	1,300,753	-	(33,599,756)	-	(27,015,037)	240,382,18
Community assets	5,802,516	2,536,785	-	-	-	(149,008)	8,190,29
Electricity	2,009,473	-	-	-	-	(99,370)	1,910,10
Parks and recreation	7,008,353	-	-	-	-	(247,650)	6,760,70
Solid waste	586,082	-	-	-	-	(73,441)	512,64
Work in progress	20,357,644	10,298,817	-	-	-	-	30,656,46
	525,948,610	**30,459,690**	**(36,225)**	**(33,599,756)**	**22,831,223**	**(33,036,934)**	**512,566,60**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Municipal property	164,874,326	-	-	(2,108,474)	162,765,852
Buildings	13,534,389	349,760	-	(347,587)	13,536,562
Machinery and equipment	5,315,837	6,377,471	(18,333)	(1,449,679)	10,225,296
Transport assets	976,037	1,306,306	-	(387,510)	1,894,833
Furniture and office equipment	1,634,428	651,549	(70,820)	(385,891)	1,829,266
Computer equipment	128,949	256,310	(62)	(148,690)	236,507
Road transport	324,849,161	4,774,590	-	(29,927,525)	299,696,226
Community assets	967,196	4,907,917	-	(72,597)	5,802,516
Electricity	2,108,844	-	-	(99,371)	2,009,473
Parks and recreation	7,256,003	-	-	(247,650)	7,008,353
Solid waste	659,523	-	-	(73,441)	586,082
Work in progress	-	20,357,644	-	-	20,357,644
	522,304,693	**38,981,547**	**(89,215)**	**(35,248,415)**	**525,948,610**

Borrowing costs capitalised

	2012	2011
Infrastructure	-	120,256

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.

There are no assets fully depreciated which are still in use or any assets held for disposal or any temporary idle assets as at the date of financial position. There was no impairment identified for Property, plant and equipment.

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Other Assets and Infrastructure Assets the depreciated replacememnt cost method was used to establish the deemed cost as on 1 July 2007.

Proceeds from sale of property, plant and equipment for the year amounted to R37 804 (2011: R23 233).

8. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	450,848	(95,375)	355,473	115,515	(4,875)	110,640

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	110,640	335,333	(90,500)	355,473

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	4,107	110,925	(4,392)	110,640

Other information

No intangible assets were assessed as having an indefinite useful life. There are no internally generated intangible assets at reporting date. There are no intangible assets whose title is restricted and no intangible assets pledged as security for liabilities.

9. Non-current borrowings

	2012	2011
Held at amortised cost		
DBSA Loan	9,148,616	9,692,520

The loan period is 20 years at a fixed interest rate of 5%. The capital is repayable in 40 equal six-monthly instalments, commencing on the last day of the first half-year during which the first disbursement was advanced to the Borrower. Penalty interest shall be calculated with regard to actual period during which the amount payable remained unpaid, at fixed interest rate of the loan, 5 percent, PLUS 2 percent (per annum). Penalty interest shall be compounded six-monthly (01 April to 30 September, and/or, 01 October to 31 March during the next calender year), and payable on demand.

Furthermore, paragraph 10.1 of the agreement states: "The DBSA shall be entitled, after giving the Borrower thirty days written notice, to suspend drawdowns from the Loan OR terminate this Agreement and to claim from the Borrower immediate payment of all the outstanding amounts should the Borrower commit any breach of this Agreement."

	2012	2011
Non-current liabilities		
At amortised cost	8,781,383	9,343,428
Current liabilities		
At amortised cost	367,233	349,092
	9,148,616	**9,692,520**

	2012	2011
Present value of loan obligations		
Payable within one year	367,233	349,092
Payable within two to five years	10,949,962	10,844,431
Payable after five years	15,403,679	15,876,443
Less: Future finance obligations	(17,377,445)	(17,377,446)
	9,343,429	**9,692,520**

10. Payables from exchange transactions

	2012	2011
Trade payables	8,682,510	2,203,254
Accruals	3,427,008	2,735,696
	12,109,518	**4,938,950**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Payables from exchange transactions (continued)

Payables are being recognised net of any discounts.

The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of payables on initial recognition is not deemed necessary.

The carrying value of payables approximates its fair value.

11. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Movement	Total
Leave Provision	2,924,793	719,714	3,644,507
Landfill site	209,275	288,886	498,161
Bonus provision	1,437,100	1,567,192	3,004,292
	4,571,168	**2,575,792**	**7,146,960**

Reconciliation of provisions - 2011

	Opening Balance	Movement	Total
Leave provision	2,197,285	727,508	2,924,793
Landfill site	-	209,275	209,275
Bonus provision	-	209,275	1,437,100
	2,197,285	**1,146,058**	**4,571,168**

12. Revenue

	2012	2011
Sewerage services	1,773,244	-
Property rates	3,712,661	3,233,468
Service charges	498,454	370,803
Water services	627,690	-
Rental of facilities & equipment	647,405	461,707
Fines	250,712	113,025
Licences and permits	1,320,384	1,260,933
Government grants & subsidies	138,430,580	103,540,537
Receipts	-	9,720,473
Interest earned - outstanding debtors	372,557	513,893
Interest earned - external investments	859,576	691,075
Other income	7,441,734	2,063,100
Gains on disposals of assets	1,579	-
	155,936,576	**121,969,014**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sewerage services	1,773,244	-
Service charges	498,454	370,803
Water services	627,690	-
Rental of facilities & equipment	647,405	461,707
Licences and permits	1,320,384	1,260,933
Receipts	-	9,720,473
	4,867,177	**11,813,916**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Revenue (continued)

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

Taxation revenue		
Property rates	3,712,661	3,233,468
Fines	250,712	113,025
Transfer revenue		
Grants and Subsidies Received	138,430,580	103,540,537
Interest earned - outstanding receivables	372,557	513,893
Interest earned - external investments	859,576	691,075
	143,626,086	**108,091,998**

13. Service charges

Water	16,976	-
Sewerage and sanitation charges	28,701	-
Refuse removal	452,777	370,803
	498,454	**370,803**

14. Other income

Cemetry	9,124	6,842
Miscellaneous Income	-	1,443,127
Plan approval fees	35,906	14,255
Pound Fees	96,179	106,090
Pound Auction Charges	37,192	349,791
Toilet fees	57,909	39,157
Sports field	526	8,904
Tender receipts	71,264	74,549
Other income - Political Party	-	12,203
Funds received from CHDM	5,217,373	-
Vending and hawkers	107	-
VAT refund revenue	48,927	-
Rent of facilities and equipment	26,613	8,182
Administration fees	400	-
Refunds - telephone	31,663	-
Refunds - medical aid	24,451	-
Cell C - poles	79,950	-
	5,737,584	**2,063,100**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Government grants and subsidies

Equitable share	78,414,940	69,276,411
FMG	1,500,000	1,250,000
Local government grants - IEC Projects	-	1,630,000
MIG	25,935,000	17,564,000
LED Grants	-	2,703,228
Chris Hani DM Grants	-	10,212,821
MSIG	790,000	750,000
IDP/PMS CHDM	-	154,077
LG Seta	86,050	-
NHC	85,000	-
CHDM Water and Sanitation grant	31,619,590	-
	138,430,580	**103,540,537**

Equitable Share

Current-year receipts	78,414,940	69,276,411
No conditions as per DORA	(78,414,940)	(69,276,411)
	-	-

MIG Grant

Current-year receipts	25,935,000	17,564,000
Conditions met - transferred to revenue	(25,935,000)	(17,564,000)
	-	-

MSIG Grant

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	-

FMG Grant

Current-year receipts	1,500,000	1,250,000
Conditions met - transferred to revenue	(1,500,000)	(1,250,000)
	-	-

Local Government Grant (St Marks and IEC Grant)

Current-year receipts	-	1,630,000
Conditions met - transferred to revenue	-	(1,630,000)
	-	-

Chris Hani District Municipality Grant

Current-year receipts	5,217,373	10,212,821
Conditions met - transferred to revenue	(5,217,373)	(10,212,821)
	-	-

Local Economic Development (LED) Grant

Current-year receipts	-	2,703,228

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Government grants and subsidies (continued)

Conditions met - transferred to revenue	-	(2,703,228)
	-	-

IDP/PMS CHDM

Current-year receipts	-	154,077
Conditions met - transferred to revenue	-	(154,077)
	-	-

LG Seta

Current-year receipts	86,050	-
Conditions met - transferred to revenue	(86,050)	-
	-	-

NHC

Current-year receipts	85,000	-
Conditions met - transferred to revenue	(85,000)	-
	-	-

CHDM Water and Sanitation

Current-year receipts	31,619,590	-
Conditions met - transferred to revenue	(31,619,590)	-
	-	-

16. Property rates

Rates received

Property rates	3,712,661	3,233,468

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Employee related costs

Employee related costs - Salaries and Wages	41,830,671	27,543,839
Performance and other Bonuses	3,798,318	3,215,576
Employee related costs - Contributions for UIF, Pensions and Medical aids	2,351,855	2,399,219
UIF	-	22,487
Other payroll levies	6,660	69,650
Leave pay provision charge	1,098,223	1,203,819
Post-employment benefits - Pension - Defined contribution plan	4,980,266	3,526,128
Travel, motor car, accommodation, subsistence and other allowances	1,246,987	536,710
Overtime payments	1,539,941	967,863
Acting allowances	1,481,626	2,618,599
Car allowance	2,185,739	1,341,254
Housing benefits and allowances	126,068	24,468
Night shift allowance	920,299	322,097
Cell phone allowance	516,386	310,390
	62,083,039	**44,102,099**

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

Remuneration of municipal manager - Mr Z Shasha

Annual Remuneration	516,251	596,202
Performance Bonuses	52,168	68,687
Travel,motor car, accommodation, subsistence and other allowances	203,600	192,880
	772,019	**857,769**

Remuneration of Chief Finance Officer - Mr M Dyushu

Annual Remuneration	459,042	475,457
Performance Bonuses	67,089	43,283
Travel,motor car, accommodation, subsistence and other allowances	211,858	173,386
	737,989	**692,126**

Remuneration of Community Services Director - Ms Y Mniki

Annual Remuneration	459,042	536,714
Performance Bonus	46,962	43,283
Travel,motor car, accommodation, subsistence and other allowances	182,432	139,604
	688,436	**719,601**

Remuneration of Corporate Service Director - Ms N Mahlati

Annual Remuneration	459,042	536,714
Performance Bonuses	46,962	43,283
Travel,motor car, accommodation, subsistence and other allowances	182,432	146,868
	688,436	**726,865**

Remuneration of Technical Service Director - Mr S Koyo

Annual Remuneration	459,042	536,714
Performance Bonuses	46,962	43,283
Travel,motor car, accommodation, subsistence and other allowances	182,432	180,475
	688,436	**760,472**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Employee related costs (continued)

Remuneration for Local Economic Development Director - Mr K Maceba

Annual Remuneration	459,042	503,169
Performance Bonuses	46,962	45,541
Travel,motor car, accommodation, subsistence and other allowances	223,040	195,661
	729,044	**744,371**

18. Remuneration of councillors

Salaries	4,685,097	6,192,002
Travel and other allowances	3,871,177	4,659,414
Pension fund contributions	38,722	25,951
	8,594,996	**10,877,367**

19. Finance costs

Current borrowings	525,035	4,197

20. Debt impairment

Debt impairment	110,378	3,656,180
Debts impaired	1,627,933	6,652,443
	1,738,311	**10,308,623**

21. Bulk purchases

Electricity	1,747,139	629,860
Water	1,123,399	-
	2,870,538	**629,860**

22. Contracted services

Red Guard Security	430,490	228,383

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

23. General expenses

Advertising	1,295,957	415,753
Auditors remuneration	1,938,774	1,834,980
Bank charges	293,104	208,149
Cleaning	141,208	166,630
Computer expenses	1,009,983	334,624
Consulting and professional fees	5,211,618	5,060,526
Legal expenses	958,375	596,761
Conferences and delegations	1,391,491	681,939
Entertainment	1,272,078	8,708
Free electricity	36,408	3,222,207
Economic development	308,415	188,561
Insurance	394,580	723,929
Lease rentals on operating lease	954,333	182,876
Levies	76,039	617,798
Subscription and publication	121,651	53,618
Motor vehicle expenses	3,646,459	2,165,190
Transfer of assets to Engcobo	33,725,196	-
Postage and courier	1,242	3,537
Printing and stationery	1,260,880	433,387
Protective clothing	510,863	-
Staff welfare	113,295	147,134
Telephone and fax	1,963,217	1,493,051
Training	1,489,950	1,098,554
Travel - local	3,819,735	3,453,663
Uniforms and overalls	419,640	255,329
Membership fees	339,813	275,954
Other rentals	1,510,936	323,083
Stocks and material	2,564,963	35,692
Mayoral political fund	2,444,521	2,782,098
Project maintenance costs	7,193,479	5,428,893
Licences	319,820	238,658
Skills development levy	472,788	285,591
Other expenses	1,412,161	639,068
	78,612,972	**33,355,941**

24. Auditors' remuneration

Fees	1,938,774	1,834,980

25. Cash generated from operations

Deficit	(43,763,714)	(20,975,450)
Adjustments for:		
Depreciation and amortisation	36,545,148	35,252,806
Loss on sale of assets and liabilities	(1,579)	65,982
Debt impairment	1,738,311	10,308,623
Movements in provisions	2,575,792	2,373,883
Transfer of assets to Engcobo	33,723,617	-
Stale cheques prior period	1,704,150	-
Changes in working capital:		
Inventories	(212,049)	-
Other receivables from non-exchange transactions	969,627	(985,340)
Consumer debtors	(2,937,112)	(7,387,252)
Payables from exchange transactions	7,170,568	631,140
VAT	(1,927,511)	727,823
	35,585,248	**20,012,215**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Related parties

Relationships

Mr Z. Shasha - Municipal Manager	The following personnel share the same surname with the Municipal Manager: 1. Mr M. Shasha - Councilor 2. Mrs Shasha - Store controller
Ms K. Vimbayo - Mayor	Ms M Vimbayo - sister to the Mayor works as a security officer within the Municipality
Mr. T. Totongwana - Assistant Manager Supply Chain Manager	Mrs S. Totongwana, Assistant Supply Chain Manager's wife works as a SCM officer within the Municipality
Ms Bekebu - Office Manager for the Office of the Municipal Manager	Ms S. Bekebu daugter to Ms Bekebu works as an Intern for the Finance department at the Municipality
Mrs N Nkuhlu - Corporate Service Manager	Mr S Mahlati a son to Mrs Nkuhlu works within the Municipality

27. Unauthorised expenditure

	2012	2011
Add: Unauthorised Expenditure - current year	117,163,828	1,031,617
Less: Amounts condoned	(117,163,828)	(1,031,617)
	-	-

Details of unauthorised expenditure condoned

	2012	2011
Condoned by council (23 November 2012)	117,163,828	1,031,617

28. Fruitless and wasteful expenditure

	2012	2011
Interest paid on late submission of PAYE/UIF/SDL	620,333	-

29. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure	10,353,732	11,521,067
Approved but not yet contracted for		
• Infrastructure	-	7,819,700

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Operating leases - as lessor (income)

Operating Leases consists of the following:

Certain of the municipality's land and building are held to generate rental income. Lease agreements are non-cancellable and have terms of 5 years. There are no contigent rents receivable.

31. Contingencies

Contingent Liability

Claim for default	-	2,121,174

The Municipality is being sued by the Municipal Councilors Pension Fund for the default of contribution payment. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from Equitable share.

32. Risk management

Financial risk management

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

The information below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Later than one month and not later than one year (2012: R367 233) and Later than one year and not later than twenty years (2012: R8 976 196)

Later than one month and not later than one year (2011: R349 092) and Later than one year and not later than twenty years (2011: R9 343 428)

Interest rate risk

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, non-current investments and loan payables.

The Municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for cash and cash equivalents and non-current investments as the interest rate on loan payables are fixed.

The Municipality did not hedge against any interest rate risks during the current year.

Credit risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur a financial loss.

Credit risk arises mainly from cash and cash equivalents, instruments and deposits with banks and financial institutions, as well as credit exposures to consumer debtors.

Debtors are disclosed net after provisions are made for impairment and bad debts. Debtors comprise of a large number of consumers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these receivalbes. Credit risk pertaining to debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer receivables the Municipality effectively has the right to terminate services to customers, but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

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

Financial instrument	**2012**	**2011**
Call deposits	1,357,420	2,405,299
Development Bank of South Africa	9,343,429	9,692,520

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Risk management (continued)

Foreign exchange risk

The Municipality does not engage in foreign currency transactions.

Price risk

The Municipality is not exposed to price risk.

33. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2012	2011
Current year subscription / fee	76,039	617,798
Amount paid - current year	(76,039)	(617,798)
	-	-

PAYE and UIF

	2012	2011
Current year subscription / fee	-	2,222,905

The balance represents PAYE and UIF deducted from the June 2012 and June 2011 payroll. These amounts were paid during July 2012 and July 2011 respectively.

Pension and Medical Aid Deductions

	2012	2011
Current year subscription / fee	2,883,873	-

VAT

	2012	2011
VAT receivable	3,411,355	1,483,844

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Reconciliation between budget and statement of financial performance

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

	2012 Budget R	2012 Actual R	Variance R	%	Explanation of Significant variances greater than 10%
PERSONNEL COSTS					
EMPLOYEE COSTS - OFFICIALS	37,994,799	62,083,039	24,088,240	63%	During the year under review the Municipality had engaged into a job grading evaluation excercise and a number of our employees were pushed to higher levels as a result of that. The higher the grade the higher the salary.
EXCO & COUNCIL COSTS - SALARIES	12,614,594	8,594,996	(4,019,598)	-32%	Overbudgeted for Councillors.
EXPENDITURE					
MAYOR'S POLITICAL FUND	2,728,000	2,444,521	(283,479)	-10%	Inline with expectation
SPEAKER'S POLITICAL FUND	1,364,000	320,659	(1,043,341)	-76%	Although the municipality had more public participation, other programmes were funded by the district municipality.
REPAIRS AND MAINTANANCE - INFRASTRUCTURE	2,200,000	2,587,680	387,680	18%	Due to unexpected maintanance of roads.
FREE BASIC SERVICES	6,000,000	1,045,687	(4,954,313)	-83%	Paraffin which is another alternative energy was not provided by the Municipality during the year under review although it was budgetted for.
REVENUE					
EQUITABLE SHARE	78,404,000	78,414,940	10,940	0%	Inline with expectation
MIG	25,935,000	25,935,000	-	0%	Inline with expectation
FMG	1,500,000	1,500,000	-	0%	Inline with expectation
MSIG	790,000	790,000	-	0%	Inline with expectation
RATES RECEIPTS	3,276,132	2,705,859	(570,273)	-17%	The Municipality has collected less than what we anticipated
VAT REFUND - SARS	5,218,761	3,113,345	(2,105,416)	-40%	We have received less than what we anticipated

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Changes in accounting policy

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

The accoutning 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 an 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

Statement of financial position

	2012	2011
Property, plant and equipment		
Accumulated depreciation	-	(75,951,525)
Opening retained earnings		
Depreciation	-	40,999,952

Statement of Financial Performance

	2012	2011
Depreciation		
Adjustment	-	34,951,573

37. Irregular expenditure

	2012	2011
Add: Irregular Expenditure - current year	31,719,993	-
Less: Amounts condoned	(31,719,993)	-
	-	-

Details of irregular expenditure condoned

	2012	2011
Condoned by council (23 November 2012)	31,719,993	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Prior period errors

The correction of the error(s) results in adjustments as follows:

	2011
Repairs and maintenance	
During the previous years audit, the assets were identified in the repairs and maintenance account, these assets were then transferred to the asset account	
Amount as per the published financial statements	8,422,481
Correction of misallocation of assets in the incomestatement	(349,760)
Net effect on the financial statements	8,072,721
Trade Creditors	
During the previous audit, it was identified that the legal fees was erroneously allocated to the Trade Creditors. An adjustment was made in the current financial period to correct this	
Balance as per published AFS	11,517,964
Reversal of incorrect allocation of legal fees from trade creditors to the incomestatement	(455,505)
Net effect on the financial statements	11,062,459
Legal Fees	
Balance as disclosed in the AFS	1,106,239
Incorrect allocation, amount should have been allocated to trade creditors	(455,505)
Net Effect on the financial statements	650,734
Landfill site	
Balance as per AFS	3,134,068
Adjustment in terms of GRAP 17 fixed assets	(209,275)
Net effect on the financial statements	2,924,793
Long Service Bonus	
There was no inclusion of long service bonuses in the previous financial statements, in terms of GRAP 25 - employee costs it stands to reason, that when an employee works a certain period, amounts are accrued to the employee and as a result the amounts are to be accrued to the employee and added to the financial statements	
Balance as per the published AFS	-
Correction of error and implementation of GRAP 25	(176,251)
Net effect on the financial statements	(176,251)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Prior period errors (continued)

	2011
Long Service bonus in the income statement	
Balance as per published AFS	-
Correction of error and implementation of GRAP 25	(175,390)
Net effect on AFS	(175,390)
Long Term Leave Accrual	
Balance as per published AFS	-
Correction of error and implementation of GRAP 25	(489,049)
Correction of error and implementation of GRAP 25	194,429
Net effect on the financial statements	(294,620)
Long term leave in the income statement	
Balance as per published AFS	-
Correction of error as per GRAP 25	489,049
Correction of error as per GRAP 25	(194,429)
Net effect on the financial statements	294,620
Provison/ Performance accrual	
Opening Balance as per financial statement	-
Correction in terms of GRAP 25	(175,390)
Correction in terms of GRAP 25	(1,198,893)
Correction in terms of GRAP 25	696,445
Correction in terms of GRAP 25	175,390
Net effect on the financial statements	(502,449)
Bonus payment	
Balance as per published AFS	-
Correction in terms of GRAP 25	1,198,893
Correction in terms of GRAP 25	307,107
Net effect on the financial statements	1,506,000

Notes to the Annual Financial Statements

38. Prior period errors (continued)

	2011
Leave Provision Account	
Correction of misallocation in the prior year	209,275

Revenue from Rates	
Rates was erroneously charged to the municipalities own properties, therefore a correction of error is required.	
Balance as per published AFS	3,402,286
Correction of error of rates charged to own properties	97,274
Rates was charged to unidientified properties, therefore the amounts needed to be reversed	
Correction of error relating to rates	71,544
Net effect on the financial statements	3,571,104

Debtors from non-exchange transactions	
Rates was erroneously charged to the municipalities own properties, therefore a correction of error is required.	
Balance as per published AFS	11,506,873
Correction of error for amounts incorrectly charged to municipalities own properties	(114,328)
The municipality added charges on unidentified properties, therefore the amount is required to be reversed.	
Correction of error due to amounts charged to unidentified properties	(71,602)
Net effect on the financial statements	11,320,943

VAT	
Rates was erroneously charged to the municipalities own properties, therefore a correction of error is required.	
Balance as per published AFS	1,390,023
Correction of VAT portion charged to municipalities own properties	775
net effect on the financial statements	1,390,798

Revenue from services	
Balance as per published AFS	376,339
The municipality erroneously charged service fees to their own properties, this amount was reversed	
Correction of error of amounts charged to the municiplaitie own properties	5,535
Net effect on the financial statements	381,874

38. Prior period errors (continued)

	2011
Interest received from outstanding receiveables	
The municipality erroneously charged interest on their own properties, therefore this amount needs to be reversed	
Balance as per the published AFS	(522,832)
Correction of error	10,744
The muicipality charged rates to unidentified properties, therefore the following amounts needed to be reversed	
Correction of interst charged on outstanding debtors which the properties were unidentified	58
Net effect on the financial statements	(512,030)

Cash and Cash equivalents	
the fuel card and credit card had amounts wich were incorrectly allocated to cash and cash equivalents, This amount was then re-allocted in terms of correction of error to fuel in the incomestatement	
Balance as published in the AFS	9,934,517
Correction of error	920,342
Net effect on the financial statements	10,854,859
Current Liablilities	
Sundry creditors were misallocated in the previous year, the amounts were re-stated as follows:	
Balance as per the published AFS	(349,092)
Correction of error	3,176,555
Correction of error	4,507,772
Net effect on the AFS	7,335,235
Other Income	
Sundry creditors were misallocated in the previous year, the amounts were re-stated as follows:	
Balance as per the published AFS	635,602
Correction of error	3,176,555
Correction of error	1,744,936
Debtors from exchange transactions	
Unsubstantiated balances were writted off to the appropriate accounts as follows:	
Balance as per Published AFS	3,863,525
Correction of error	(1,744,936)
Net effect on the AFS	2,118,589

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Prior period errors (continued)

	2011
Government Grants and Subsidies	
Unsubstantited amounts were written off to their respective accounts	
Opening Balance as per published AFS	99,032,765
Correction of error	4,507,772
Net effect on AFS	103,540,537
Assets	
During the audit of the previous financial year, the following assets were identified as being misallocated. Therefore this is a correction of error.	349,760
Net effect on the financial statements	349,760
Employee costs	
Employee costs were not fully disclosed in the financial statements, and as a result had the following impact on accumulated surplus	(457,482)
Net Effect on the financial statements	(457,482)