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

General Information

Nature of business and principal activities	Service delivery
Accounting Officer	Thembeni Samuel
Chief Finance Officer (CFO)	Pieter Steyn
Registered office	15 Maclear Road Elliot 5460
Business address	15 Maclear Road Elliot 5460
Postal address	PO Box 21 Elliot 5460
Bankers	First National Bank
Auditors	Office of the Auditor General

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

Abbreviations

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

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

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

I am responsible for the annual financial statements set out on pages 4 to 53, in terms of section 126 (1) of the Municipal Finance Management Act and which have been prepared on the going concern basis. I certify that the salaries, allowances and benefits of Councillors and payments made to Councillors for loss of office as disclosed in the notes to the annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. The annual financial statements have been approved on behalf of the Municipality by the accounting officer and were signed on its behalf by:

Thembeni Samuel
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Other receivables from non-exchange transactions	8	6,134,053	13,374,094
VAT receivable	9	1,957,069	3,969,770
Trade & other receivables from exchange transactions	10	3,552,628	1,618,190
Cash and cash equivalents	11	11,743,281	9,967,338
		23,387,031	**28,929,392**
Non-Current Assets			
Investment property	4	33,515,500	33,515,500
Property, plant and equipment	5	97,759,387	91,664,353
		131,274,887	**125,179,853**
Total Assets		**154,661,918**	**154,109,245**
Liabilities			
Current Liabilities			
Finance lease obligation	12	2,202,687	2,156,294
Trade & other payables from exchange transactions	15	5,757,774	4,935,368
Consumer deposits	16	344,469	313,534
Employee benefit obligation	7	67,549	92,063
Unspent conditional grants and receipts	13	8,052,847	4,455,654
		16,425,326	**11,952,913**
Non-Current Liabilities			
Finance lease obligation	12	6,038,197	8,240,885
Employee benefit obligation	7	1,094,048	1,488,773
Provisions	14	2,323,200	2,323,200
		9,455,445	**12,052,858**
Total Liabilities		**25,880,771**	**24,005,771**
Net Assets		**128,781,147**	**130,103,474**
Net Assets			
Accumulated surplus		128,781,147	130,103,474

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue	18	70,517,079	55,229,108
Other income		13,441,265	3,295,762
Operating expenses		(84,602,872)	(57,237,021)
Operating (deficit) surplus		**(644,528)**	**1,287,849**
Investment revenue	28	661,566	835,634
Finance costs	31	(1,339,367)	(1,179,791)
(Deficit) surplus for the year		**(1,322,329)**	**943,692**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	86,336,493	86,336,493
Adjustments		
Prior year adjustments	42,823,289	42,823,289
Balance at 01 July, 2010 as restated	**129,159,782**	**129,159,782**
Changes in net assets		
Surplus for the year	943,692	943,692
Total changes	943,692	943,692
Opening balance as previously reported	87,280,185	87,280,185
Adjustments		
Prior year adjustments	42,823,291	42,823,291
Balance at 01 July, 2011 as restated	**130,103,476**	**130,103,476**
Changes in net assets		
Surplus for the year	(1,322,329)	(1,322,329)
Total changes	(1,322,329)	(1,322,329)
Balance at 30 June, 2012	**128,781,147**	**128,781,147**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		15,647,938	4,533,560
Grants		54,301,822	47,608,069
Other receipts		20,712,243	6,617,270
		90,662,003	58,758,899
Payments			
Employee costs		(32,448,695)	(23,112,979)
Suppliers		(16,988,299)	(9,603,972)
Other payments		(26,985,733)	(21,110,953)
Prior year non-cash journal		-	(3,626,402)
		(76,422,727)	(57,454,306)
Net cash flows from operating activities	35	**14,239,276**	**1,304,593**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(13,872,012)	(16,616,806)
Cash flows from financing activities			
Finance lease payments		(2,156,295)	9,781,509
Other cash item		-	(30,716)
Interest income		4,904,341	2,546,571
Finance costs		(1,339,367)	(1,179,791)
Net cash flows from financing activities		**1,408,679**	**11,117,573**
Net increase/(decrease) in cash and cash equivalents		**1,775,943**	**(4,194,640)**
Cash and cash equivalents at the beginning of the year		9,967,338	14,161,978
Cash and cash equivalents at the end of the year	11	**11,743,281**	**9,967,338**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Investment property

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

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

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

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

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

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

Fair value

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

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

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

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

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

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

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

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

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings wich is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity with a maximum period of four years such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

Item	**Average useful life (years)**
Buildings	30
Plant and machinery	5 - 10
Furniture and fixtures	5 - 7
Motor vehicles	5
Office equipment	5 - 7
IT equipment	5 - 7
Infrastructure	
• Roads and paving	25 - 50
• Pedestrian Malls	30
• Electricity	15 - 50
Community	
• Improvements	30
• Recreational facilities	20-30
• Security	5
Investment property	30

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Landfill Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of landfill site. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of landfill site includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Accounting Policies

1.4 Intangible assets (continued)

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

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

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

1.5 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.5 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.5 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured 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. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.5 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - Recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

1.5 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease or the bank prime interest rate..

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

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

Operating leases - lessee

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

Accounting Policies

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.9 Share capital / contributed capital

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

1.10 Employee benefits

Short-term employee benefits

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

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

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

1.10 Employee benefits (continued)

Defined contribution plans

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

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

Defined benefit plans

The municipality provides post-retirement healthcare benefits to its retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. An actuarial study was undertaken to determine the municipality's obligations. For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

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

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

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

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

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

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

1.11 Provisions and contingencies (continued)

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

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

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

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

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

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

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Accounting Policies

1.14 Borrowing costs

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

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

1.15 Comparative figures

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

1.16 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.

1.17 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.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Accounting Policies

1.18 Irregular expenditure (continued)

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.

1.19 Presentation of currency

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

1.20 Offsetting

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

1.21 Conditional grants and receipts

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

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements 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 aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June, 2011 is as follows:

Statement of financial position

Management do not have sufficient records relating to interest capitalised on plant and equipment to enable retrospective expensing of borrowing cost. For this reason the change in accounting policy is applied prospectively.

[If retrospective application is impracticable for a particular prior period, or for periods before those presented, disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.]

The municipality has not applied the new [name the standard or interpretation] issued, and effective for periods commencing . [Describe the new required treatment and the current treatment.] The estimated impact of the implementation of the new standard on the 2012 annual financial statements is as follows:

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	01 April, 2011	
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	01 April, 2011	
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	01 April, 2011	
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	01 April, 2011	
• IGRAP 6: Loyalty Programmes	01 April, 2011	
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April, 2011	
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	01 April, 2011	
• IGRAP 9: Distributions of Non-cash Assets to Owners	01 April, 2011	
• IGRAP 10: Assets Received from Customers	01 April, 2011	
• IGRAP 13: Operating Leases – Incentives	01 April, 2011	
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	01 April, 2011	
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	01 April, 2011	
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April, 2011	
• GRAP 2 (as revised 2010): Cash Flow Statements	01 April, 2011	
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April, 2011	
• GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates	01 April, 2011	

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April, 2011
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	01 April, 2011
• GRAP 11 (as revised 2010): Construction Contracts	01 April, 2011
• GRAP 12 (as revised 2010): Inventories	01 April, 2011
• GRAP 13 (as revised 2010): Leases	01 April, 2011
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April, 2011
• GRAP 16 (as revised 2010): Investment Property	01 April, 2011
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April, 2011
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April, 2011
• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	01 April, 2011

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July, 2012 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 18: Segment Reporting	01 April, 2013	
• GRAP 23: Revenue from Non-exchange Transactions	01 April, 2012	
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April, 2012	
• GRAP 103: Heritage Assets	01 April, 2012	
• GRAP 21: Impairment of non-cash-generating assets	01 April, 2012	
• GRAP 26: Impairment of cash-generating assets	01 April, 2012	
• GRAP 25: Employee benefits	01 April, 2013	
• GRAP 104: Financial Instruments	01 April, 2012	
• GRAP 105: Transfers of functions between entities under common control	01 April, 2014	
• GRAP 106: Transfers of functions between entities not under common control	01 April, 2014	
• GRAP 107: Mergers	01 April, 2014	
• GRAP 20: Related parties	01 April, 2013	
• IGRAP 11: Consolidation – Special purpose entities	01 April, 2014	
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April, 2014	
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April, 2014	
• GRAP 7 (as revised 2010): Investments in Associates	01 April, 2014	
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April, 2014	
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April, 2013	
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April, 2013	
• GRAP 7 (as revised 2012): Investments in Associates	01 April, 2013	
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April, 2013	
• GRAP 12 (as revised 2012): Inventories	01 April, 2013	
• GRAP 13 (as revised 2012): Leases	01 April, 2013	
• GRAP 16 (as revised 2012): Investment Property	01 April, 2013	
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April, 2013	
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April, 2013	

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April, 2013
• IGRAP16: Intangible assets website costs	01 April, 2013

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	33,515,500	-	33,515,500	33,515,500	-	33,515,500

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	33,515,500	33,515,500

Reconciliation of investment property - 2011

	Opening balance	**Other changes, movements**	**Total**
Investment property	-	33,515,500	33,515,500

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 fair value for the Investment property was determined in 2009 through an independent property valuation by a valuer who at the time had a recognised qualification.

5. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	883,000	-	883,000	883,000	-	883,000
Buildings	8,747,359	(277,849)	8,469,510	8,335,501	-	8,335,501
Landfill Sites	2,055,175	(730,488)	1,324,687	2,055,175	(486,992)	1,568,183
Plant and machinery	17,851,388	(7,129,156)	10,722,232	17,403,688	(4,533,078)	12,870,610
Furniture and fixtures	2,116,875	(981,166)	1,135,709	1,530,830	(291,175)	1,239,655
Motor vehicles	2,886,149	(1,745,374)	1,140,775	1,119,376	(238,415)	880,961
Office equipment	400,014	(168,448)	231,566	355,332	(138,310)	217,022
IT equipment	1,519,155	(872,478)	646,677	1,429,332	(677,205)	752,127
Emergency equipment	55,372	(40,927)	14,445	55,372	(36,254)	19,118
Infrastructure	66,220,134	(8,149,343)	58,070,791	65,463,299	(4,065,337)	61,397,962
Community	2,561,623	(85,388)	2,476,235	2,468,464	-	2,468,464
Work in Progress	12,643,760	-	12,643,760	1,031,750	-	1,031,750
Total	**117,940,004**	**(20,180,617)**	**97,759,387**	**102,131,119**	**(10,466,766)**	**91,664,353**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance (Carrying value)	Additions	Transfers	Depreciation & other adjustments	Impairment loss	Total (Carrying value)
Land	883,000	-	-	-	-	883,000
Buildings	8,335,501	411,858	-	(277,849)	-	8,469,510
IT equipment	752,127	89,822	-	(167,560)	(27,712)	646,677
Furniture and fixtures	1,239,655	74,242	-	(178,188)	-	1,135,709
Office equipment	217,022	44,682	-	(30,138)	-	231,566
Emergency Equipment	19,118	-	-	(4,673)	-	14,445
Motor vehicles	880,961	369,415	-	(109,601)	-	1,140,775
Plant and machinery	12,870,610	447,700	-	(2,596,078)	-	10,722,232
Infrastructure	61,397,962	756,834	-	(4,084,005)	-	58,070,791
Community	2,468,464	93,159	-	(85,388)	-	2,476,235
Landfill Sites	1,568,183	-	-	(243,496)	-	1,324,687
Work in Progress	1,031,750	12,468,932	(856,922)	-	-	12,643,760
	91,664,353	**14,756,644**	**(856,922)**	**(7,776,976)**	**(27,712)**	**97,759,387**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance (Carrying value)	Additions	WIP	Depreciation & other adjustments	Total (Carrying value)
Land	883,000	-	-	-	883,000
Buildings	8,290,500	45,001	-	-	8,335,501
IT equipment	765,095	189,848	-	(202,816)	752,127
Furniture and fixtures	598,118	740,954	-	(99,417)	1,239,655
Office equipment	113,850	127,926	-	(24,754)	217,022
Emergency equipment	23,791	-	-	(4,673)	19,118
Motor vehicles	1,119,376	-	-	(238,415)	880,961
Plant and machinery	732,294	14,230,056	-	(2,091,740)	12,870,610
Infrastructure	58,859,364	3,306,506	-	(767,908)	61,397,962
Community	1,866,581	601,883	-	-	2,468,464
Landfill Sites	1,811,679	-	-	(243,496)	1,568,183
Work in Progress (WIP)	-	-	1,031,750	-	1,031,750
	75,063,648	**19,242,174**	**1,031,750**	**(3,673,219)**	**91,664,353**

Assets subject to finance lease (Net carrying amount)

Plant and machinery	9,819,637	12,381,047

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.

6. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial assets amortised	Non-financial assets	Total
Other receivables from non-exchange transactions	3,810,853	2,323,200	6,134,053
VAT	-	1,957,069	1,957,069
Trade & other receivables from exchange transactions	3,552,628	-	3,552,628
Cash & cash equivalents	11,743,281	-	11,743,281
PPE	-	131,274,887	131,274,887
	19,106,762	**135,555,156**	**154,661,918**

2011

	Financial assets amortised	Non-financial assets	Total
Other receivables from non-exchange transactions	2,717,165	4,139,077	6,856,242
VAT	-	3,969,770	3,969,770
Trade & other receivables from exchange transactions	1,618,190	-	1,618,190
Cash & cash equivalents	9,967,338	-	9,967,338
PPE	-	91,397,212	91,397,212
	14,302,693	**99,506,059**	**113,808,752**

7. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical aid defined benefit medical plan. The last valuation was performed by Deloitte & Touch Actuarial & Insurance Solutions using the Projected Unit Credit Method.

The value of the PRMA (Post-retirement medical assistance) liability is respect of all eligible Sakhisizwe Municipality employees who belong to one of the following medical schemes: Hosmed, Kei Health, LA Health, Bonitas and SAMWUMED.

Sakhisizwe Municipality will contribute 70% of the total premium payable, subject to a maximum of R2 850.80 (2011: R2 850.80.) The municipality only subsidises the employee, spouse or life partner, biological children, and legally adopted children, up to the age of 21 years. An assumption is therefore made that should a child dependant turn 21 years of age, he/she is no longer eligible for subsidy benefits.

Post retirement defined benefit medical aid plan

Membership profile:

- The calculation is based on 2 members (2011: 4) with an average age of 67.8 (2011: 66.1), and 1.5 average dependants 2011: 0.75) and an average monthly contribution of R2 751 (R1 871)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Employee benefit obligations (continued)

The average age of pensioners increased by 1.2 years while, the average number of dependants increased from 0.75 to 1.50 from the previous valuation. These changes were as a result of 2 pensioners (Takane and Coetzer) leaving their medical scheme.

The large change in average monthly employer contribution is due to the following:
- An increase in the medical scheme contribution rates. The principal member contributions increased from R 1,563 to R 1,696 (9%) for LA Active and from R 2,687 to R 2,916 (9%) for LA Core.
- However, the biggest contributor to this increase was the departure of Mrs Coetzer and Mrs Takane which led to the average number of dependants increasing and hence increasing the average monthly contributions of the municipality.

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

	2012	2011
Present value of the defined benefit medical aid obligation		
Present value of the defined benefit medical aid obligation	(1,161,597)	(1,580,836)
Non-current liabilities	(1,094,048)	(1,488,773)
Current liabilities	(67,549)	(92,063)
	(1,161,597)	**(1,580,836)**

There are no plan assets held by the municipality.

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

	2012	2011
Opening balance	(1,580,836)	(1,714,738)
Interest cost	(93,724)	(115,854)
Benefit payments	92,063	95,689
Actuarial gain	420,900	154,067
	(1,161,597)	**(1,580,836)**

Key assumptions used

7. Employee benefit obligations (continued)

Assumptions used at the reporting date:
Valuation assumptions

We used realistic assumptions in the central basis.

In this section, we discuss the central basis, on which the main results are based. We also performed sensitivity tests in a separate section below where we changed the central basis to allow for other factors and examined the effects on the results. These adjusted bases are discussed below where the results of the sensitivity tests are shown.
Investment returns
There is general agreement amongst the actuarial profession that IAS 19 (AC 116) requires the valuation discount rate to be equal to actual long bond yields at the date of the valuation (par. 78-82 of IAS 19 (AC 116)). The statement stipulates that:

The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

We have used the entire zero-coupon South African Bond Yield curve as at 29 June 2012 in the PRMA valuation of Sakhisizwe Municipality. Therefore, a single assumption for the discount rate is not shown. The full yield curve used in this valuation is given in Appendix A.
Medical inflation
Since the discount rates were described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation was assumed to be 1% lower than the valuation discount rate at each term to maturity. This assumption is consistent with the previous valuation.

It is not the actual levels of the assumptions that are important, but rather the differences or gaps between them (particularly between medical inflation and the discount rate). We believe that a long-term gap of 1% between medical inflation and the valuation discount rate is reasonable for long term valuation purposes. We refer to the difference between medical inflation and the discount rate as the ‘gap” or the real discount rate.

Consumer Price Index
We have assumed CPI to be 2.75% lower than the discount rate at each term to maturity. This is different to the assumption used in the previous valuation of 3.00% lower than the discount rate at each term to maturity.

A gap of 2.75% between CPI and the discount rate is believed to be more reflective view of future CPI rates due to the following two factors:

1. The current gap between CPI and the ZAR zero-coupon bond yield is below 3.00%.

StatsSA released their latest May 2012 CPI rate in June 2012. The May 2012 CPI rate is 5.7% year-on-year. In comparison, the ZAR zero-coupon bond annual effective yield is currently at 5.41%. The actual gap between CPI and the ZAR zero-coupon bond yield as at June 2012 is therefore 0.29%. The actual gap is therefore below 3.00%.

2. More importantly, over the long-term, the average gap between the ZAR zero-coupon bond yield curve and forecasted CPI is expected to be lower than 3.00%.

Therefore, we have reduced the CPI Gap assumption to 2.75% for the current valuation as this assumption provides a better reflection of expected future CPI rates in comparison to the previous assumption of 3.00%. We believe that a long-term gap of approximately 2.75% between CPI and the valuation discount rate is reasonable for long term valuation purposes.
Salary inflation
The maximum subsidy amount payable by Sakhisizwe Municipality of R 2,850.80 at 30 June 2012 is expected to increase from time to time. The rate of increase is assumed to be equivalent to salary inflation. This implies that salary inflation will have an impact on the liability. For the current valuation we have assumed salary inflation to be 1% above CPI in the long run. This is consistent with the previous valuation.

Based on this assumption, salary inflation is assumed to be at a rate of 3.82% in the valuation model as at 30 June 2012

Figures in Rand	2012	2011

7. Employee benefit obligations (continued)

(compared to an expected salary inflation of 4.02% in the 2011 valuation). This implies that the maximum subsidy amount is expected to increase to R 2,959.81 in the following year.
The real discount rate (or the 'gap')
This is the variable having the greatest effect on the liability. Small changes in this assumption will lead to large changes in the liability result. As discussed above, we have assumed a gap of 1%. The effect of changes in the real discount rate is shown under the sensitivity analysis in a separate section below.
Normal retirement age
The normal retirement age of the Sakhisizwe Municipality employees is 65 years for males and 60 years for females.
Mortality
The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.
Marital Status/Number of Dependants/ Spouse Age Difference
The actual numbers of adult and child dependants was used when valuing the pensioners. The actual age difference between spouses was used as per the data received for the 2011/2012 financial year.

8. Other receivables from non-exchange transactions

Rates (net of impairment)	3,810,853	2,717,165
Debtor for the Rehabilitation of Landfill Sites	2,323,200	2,323,200
Chris Hani District Municipality Agency Account	-	8,333,729
	6,134,053	**13,374,094**

A revised agreement was signed with the Chris Hani District Municipality whereby from 1 July 2011, all water & sanitation services were transferred back to Sakhisizwe Municipality.

9. VAT receivable

VAT Receivable	1,957,069	3,969,770

10. Trade and other receivables from exchange transactions

Gross balances		
Electricity	2,136,946	1,701,569
Refuse	14,977,561	13,977,489
Other Trade Debtors	34,485	33,436
Water	20,871,217	-
Sewerage	11,164,321	-
Irregular expenditure: Refundable	30,587	40,350
Other receivables	50,999	46,818
	49,266,116	**15,799,662**

Less: Provision for debt impairment		
Electricity	(697,379)	(573,698)
Refuse	(14,625,403)	(13,603,038)
Other Trade Debtors	(3,875)	(4,736)
Other receivables	-	-
Water	(19,695,580)	-
Sewerage	(10,691,251)	-
	(45,713,488)	**(14,181,472)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

Net balance		
Electricity	1,439,567	1,127,871
Refuse	352,158	374,451
Other Trade Debtors	30,610	28,700
Water	1,175,637	-
Sewerage	473,070	-
Irregular Expenditure: Refundable	30,587	40,350
Other receivables	50,999	46,818
	3,552,628	**1,618,190**

Electricity		
Current (0 -30 days)	763,330	564,214
31 - 60 days	158,489	165,968
61 - 90 days	107,506	89,455
91 - 120 days	59,069	67,931
121 - 365 days	351,173	240,303
	1,439,567	**1,127,871**

Water		
Current (0 -30 days)	269,938	-
31 - 60 days	52,874	-
61 - 90 days	40,815	-
91 - 120 days	30,115	-
121 - 365 days	781,895	-
	1,175,637	**-**

Sewerage		
Current (0 -30 days)	168,956	-
31 - 60 days	19,238	-
61 - 90 days	10,906	-
91 - 120 days	5,339	-
121 - 365 days	268,631	-
	473,070	**-**

Refuse		
Current (0 -30 days)	213,631	261,334
31 - 60 days	13,473	16,691
61 - 90 days	7,499	9,609
91 - 120 days	3,065	3,988
121 - 365 days	114,490	82,829
	352,158	**374,451**

Irregular expenditure		
Current (0 -30 days)	30,587	40,350

Other receivables		
Current (0 -30 days)	50,999	46,818

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

Other Trade Debtors		
Current (0 -30 days)	7,540	8,129
31 - 60 days	1,170	521
61 - 90 days	251	240
91 - 120 days	251	235
121 - 365 days	21,398	19,575
	30,610	**28,700**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(14,181,472)	(11,921,857)
Contributions to provision	(9,532,874)	(2,259,615)
Water & Sanitation reallocated from agency account	(21,999,142)	-
	(45,713,488)	**(14,181,472)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	601,857	648,056
Short-term deposits	11,141,424	9,319,282
	11,743,281	**9,967,338**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2012	30 June, 2011	30 June, 2010	30 June, 2012	30 June, 2011	30 June, 2010
First National Bank - Current Account - 6207-652-3135	949,789	871,244	504,350	601,857	648,056	32,648
MSP - 6207-652-2294	42,702	43,377	44,052	42,702	43,378	44,052
MIG - 6207-657-7091	5,625,897	185,655	25,885	5,625,897	185,656	25,886
Disaster fund - 6207-659-5902	-	-	75,346	-	-	75,347
Elliot Housing - 6207-745-0056	1,109	1,109	1,109	1,110	1,110	1,109
Survey Account - 6207-659-0621	8,648	9,367	10,087	8,648	9,368	10,088
Extension 13&14 -6207-745-1278	1,000	1,000	1,000	1,000	1,000	1,000
Extension 15 - 6207-740-8203	2,213	2,213	2,213	2,213	2,213	2,213
FMG - 6216 - 538 - 9464	10,000	24,789	32,490	10,000	24,789	32,490
General Valuation - 6207-745-0832	1,000	1,000	1,000	1,000	1,000	1,000
IDP plan - 6207-744-9603	53,618	109,452	226,761	53,618	109,452	226,761
MSIG - 6216-538-9555	10,000	13,065	585,617	10,000	13,066	585,617
PMF review account - 6216-534-1993	172,764	172,764	172,764	172,764	172,764	172,764
DME - 6220-960-0776	2,045,152	3,713,115	10,535	2,045,152	3,713,115	10,535
IEC - 6221-824-3418	47,422	47,422	47,422	47,423	47,423	47,423
Skills Development - 6217-582-8189	31,319	31,319	31,319	31,320	31,320	31,320
FNB Operating Call - 6216-534-1943	3,088,577	4,963,627	12,861,725	3,088,577	4,963,628	12,861,725
Total	**12,091,210**	**10,190,518**	**14,633,675**	**11,743,281**	**9,967,338**	**14,161,978**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Finance lease obligation

Minimum lease payments due		
- within one year	3,155,490	3,398,375
- in second to fifth year inclusive	6,970,944	10,126,434
	10,126,434	13,524,809
less: future finance charges	(1,885,549)	(3,127,630)
Present value of minimum lease payments	**8,240,885**	**10,397,179**

Present value of minimum lease payments due		
- within one year	2,202,687	2,156,294
- in second to fifth year inclusive	6,038,198	8,240,885
	8,240,885	**10,397,179**

Non-current liabilities	6,038,197	8,240,885
Current liabilities	2,202,687	2,156,294
	8,240,884	**10,397,179**

The municipality has plant & equipment assets to the value of R9 819 637 (2011: R12 381 047) subject to a finance lease.

IIt is the municipalities policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The average lease term was 5 years and the average effective borrowing rate was prime.

No security has been offered by the municipality for the leased assets. Bells Equipment stand security for the plant & equipment.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
National conditional grants	7,691,049	4,036,626
Other conditional grants	361,798	419,028
	8,052,847	**4,455,654**

Movement during the year

Balance at the beginning of the year	4,455,654	1,267,836
Additions during the year	20,083,111	17,809,785
Income recognition during the year	(16,485,918)	(14,621,967)
	8,052,847	**4,455,654**

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

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding is expected over the next three financial years.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Total
Environmental rehabilitation of Landfill Sites	2,323,200	2,323,200

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation of landfill sites	2,112,000	211,200	2,323,200

15. Trade & other payables from exchange transactions

	2012	2011
Trade payables	1,630,695	2,318,978
Accrual for leave	2,551,467	1,452,841
Accrued expenses: Provision 13th cheque	510,743	476,829
Accrued expenses: Workmens compensation	309,264	309,264
Deposits received: Dam & Hall deposits	13,321	6,084
Other creditors: Debtors in credit balance	742,284	371,372
	5,757,774	**4,935,368**

The accrued expense for Workmens Compensation in 2010 relates to an assessment received for the 2005 financial year, for which the municipality has not yet submitted an assessment to the Department of Labour ito compensation for Health & Safety. The municipality is currently in the process of negotiating settlement terms for the debt.

The fair value of trade and other payables approximates their carrying amounts.

16. Consumer deposits

	2012	2011
Electricity	344,469	313,534

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Finance lease obligation	-	8,240,884	8,240,884
Trade & other payables from exchange	2,695,564	3,062,210	5,757,774
Consumer deposits	-	344,469	344,469
Retiremant benefit obligation	-	1,161,597	1,161,597
Unspent conditional grants and receipts	8,052,847	-	8,052,847
Provisions	-	2,323,200	2,323,200
	10,748,411	**15,132,360**	**25,880,771**

2011

	Financial liabilities at amortised cost	Non-financial liabilities	Total
Finance lease obligation	-	10,397,179	10,397,179
Trade & other payables from exchange	3,005,698	1,929,670	4,935,368
Trade & other payables non-exchange	-	215,019	215,019
Consumer deposits	-	313,534	313,534
Retiremant benefit obligation	-	1,580,836	1,580,836
Unspent conditional grants and receipts	4,455,654	-	4,455,654
Provisions	-	2,323,200	2,323,200
	7,461,352	**16,759,438**	**24,220,790**

18. Revenue

	2012	2011
Interest on arrears	4,242,775	1,845,310
Property rates	3,916,441	2,608,692
Service charges	11,653,234	6,489,228
Government grants & subsidies	50,704,629	44,285,878
	70,517,079	**55,229,108**

	2012	2011
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	11,653,234	6,489,228

	2012	2011
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	3,916,441	2,608,692
Interest	4,242,775	1,845,310
Transfer revenue		
Government grants & subsidies	50,704,629	44,285,878
	58,863,845	**48,739,880**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Property rates

Rates received

Property rates received	3,916,441	2,608,692

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009.

A general rate of 0.005169 cents - (2011: - 0.004876 cents) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis for agricultural properties and monthly for all other properties with the final date for payment being 31 August. Interest is charged at prime plus 1% per annum (2011: prime plus 1% .)

20. Service charges

Sale of electricity	5,927,974	4,841,693
Refuse removal	2,120,071	1,647,535
Sale of water	1,891,953	-
Sewerage and sanitation charges	1,713,236	-
	11,653,234	**6,489,228**

The Sale of Electricity comprises of electricity in terms of monthly meter readings and pre-paid electricity sales.

A revised agreement was signed with the Chris Hani District Municipality whereby from 1 July 2011, all water & sanitation services were transferred back to Sakhisizwe Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Government grants and subsidies: Revenue

Equitable share	33,088,000	27,217,243
Municipal Improvement Grant (MIG)	7,996,441	7,596,230
MSIG Grant	793,066	1,362,389
Finance Management Grant (FMG)	1,514,789	3,007,701
DME Grant	5,767,963	2,313,653
Other government grants	1,544,370	2,788,662
	50,704,629	**44,285,878**

Equitable Share

In terms of the Constitution, equitable share is an unconditional grant from National Treasury. A portion of the grant is used to subsidise the provision of basic services to indigent community members.

National conditional grants

Balance unspent at beginning of year	4,036,626	654,528
Current-year receipts	20,071,558	17,506,000
Conditions met - transferred to revenue	(16,417,135)	(14,123,902)
	7,691,049	**4,036,626**

The funds will remain a liability as long as the conditions are still to be met. (see note 13)

Other conditional grants

Balance unspent at beginning of year	419,028	613,308
Current-year receipts	11,553	303,785
Conditions met - transferred to revenue	(68,783)	(498,065)
	361,798	**419,028**

The funds will remain a liability as long as the conditions are still to be met. (see note 13)

22. Other revenue

Rental income	137,915	90,215
Traffic department income	2,269,263	2,522,873
Sundry income (detailed in note on Sundry Income below)	11,034,087	682,674
	13,441,265	**3,295,762**

23. Sundry income

Electricity re-connection fee	34,342	29,780
Commission on collection	31,866	24,357
Building plan & inspection fees	13,289	17,817
Registration data base	3,912	6,404
Other income	523,492	273,634
Rates clearance certificates	5,666	2,856
Site payments	63,147	68,317
Trading licences	9,357	9,753
Defined Benefit Medical Aid actuarial gain	512,963	249,756
Water income	7,024,390	-
Sanitation income	2,811,663	-
	11,034,087	**682,674**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. General expenses

Advertising	108,134	42,867
Auditors remuneration	2,415,494	1,660,958
Bank charges	138,752	157,977
Consulting and professional fees	276,686	17,544
Consumables	157,401	250,628
Catering & Entertainment	190,399	88,503
Insurance	447,853	271,663
IT expenses	129,812	361,507
Rent: office equipment	53,856	90,486
Mayors fund	61,634	444,532
Promotions and sponsorships	452,143	68,742
Magazines, books and periodicals	-	3,802
Fuel and oil	2,269,539	983,801
Printing and stationery	403,027	338,098
Protective clothing	283,343	59,631
Security services	438,280	332,707
Licence fees	344,686	553,075
Subscriptions and membership fees	236,096	114,663
Telephone, postage and fax	1,232,267	540,160
Training	266,338	94,191
Travel expenses	1,968,988	1,750,286
Electricity purchases	101,041	155,496
Refuse bags	4,600	15,480
Free Basic Services	2,353,799	341,824
Disaster support	-	74,574
Pound expenditure	24,243	15,279
Tools & accessories: non-capital	378,821	108,983
Remuneration Ward Committee	709,000	325,000
Water week expenditure	48,650	-
VIP Suckage	49,880	-
Plant Hire	34,898	-
Council inauguration	170,793	-
Water cartage	64,891	-
Team building	107,542	-
Assets expensed: Water (refundable)	332,638	-
Water purification	438,213	-
Valuation Roll	1,116,968	-
	17,810,705	**9,262,457**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Employee related costs

Basic	16,355,744	11,633,987
Allowances	-	18,759
Bonus	979,634	676,467
Medical aid - company contributions	1,033,086	693,963
UIF	137,599	96,152
SDL	228,853	173,125
Leave pay provision charge	1,113,605	604,502
Post-employment benefits - Pension - Defined contribution plan	1,660,649	1,298,445
Overtime payments	1,686,813	978,241
Long-service awards	7,999	-
Transitional & other allowances	24,988	23,430
Telephone allowances	9,600	2,400
Contribution Bargaining Council	7,438	5,117
Acting allowances	6,672	3,696
	23,252,680	**16,208,284**

Remuneration of Municipal Manager

Annual Remuneration	603,337	556,494
Car Allowance	84,000	84,000
Performance & other bonuses	45,789	38,422
Contributions to UIF, Medical and Pension Funds	140,615	137,061
Housing & telephone allowances	81,708	81,708
Subsistence & Other allowances	22,599	46,764
	978,048	**944,449**

Remuneration of Chief Finance Officer

Annual Remuneration	534,996	507,698
Car Allowance	60,000	60,000
Performance & other bonuses	-	1,983
Contributions to UIF, Medical and Pension Funds	143,885	138,486
Subsistence & Other allowances	19,699	65,640
	758,580	**773,807**

Remuneration of Community Services Manager

Annual Remuneration	283,555	-
Car Allowance	9,256	-
Contributions to UIF, Medical and Pension Funds	770	-
	293,581	**-**

Remuneration of Corporate Services Manager

Annual Remuneration	552,779	521,759
Car Allowance	108,000	108,000
Performance & other bonuses	-	39,632
Contributions to UIF, Medical and Pension Funds	31,935	29,500
Subsistence & Other allowances	43,437	17,926
	736,151	**716,817**

Remuneration of IPED Manager

Annual Remuneration	568,813	531,640

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Employee related costs (continued)

Car Allowance	108,000	108,000
Performance & other bonuses	47,445	44,670
Contributions to UIF, Medical and Pension Funds	14,623	13,599
Subsistence & Other allowances	22,484	39,953
	761,365	**737,862**

Remuneration of Technical Services Manager

Annual Remuneration	575,521	513,818
Car Allowance	108,000	108,000
Performance & other bonuses	48,414	41,930
Contributions to UIF, Medical and Pension Funds	6,947	32,381
Subsistence & Other allowances	50,955	17,586
	789,837	**713,715**

26. Remuneration of councillors

Remuneration: Executive Major	749,906	528,093
Remuneration: Councillors	2,636,523	1,627,772
Medical, travel & other allowances	1,072,785	630,539
Pension contributions	-	97,739
	4,459,214	**2,884,143**

27. Debt impairment expenditure

Debt impairment	14,252,998	4,122,072

28. Investment revenue

Interest revenue

Interest received on investment accounts	661,566	835,634

29. Depreciation and amortisation

Property, plant and equipment	7,776,978	3,673,334

30. Impairment of assets

Impairments

Property, plant and equipment	27,713	-

The impairment of assets occured where the condition of an asset was noted during the physical asset count as being significantly less than the carrying value of the asset per the fixed asset register.

31. Finance costs

Finance leases	1,245,643	1,063,937
Other interest paid	93,724	115,854
	1,339,367	**1,179,791**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Auditors' remuneration (expenditure)

Auditor General fees	1,888,814	1,335,711
Internal Audit expenditure	526,680	325,247
	2,415,494	**1,660,958**

33. Expenditure through Grants and subsidies

Other subsidies		
Fund: Finance Management Grant (FMG)	1,504,482	3,098,162
Fund: MSIG expenditure	914,475	641,764
Fund: LED	50,163	-
Fund: Repairs & maintenance roads	224,826	1,753,157
Fund: Repairs & maintenance: pounds	5,700	387
Fund: Repairs & maintenance: street lights	15,253	24,476
Fund: Land audit & other	-	452,968
Fund: Dedea	154,850	477,461
Fund: IDP	162,631	368,847
	3,032,380	**6,817,222**

34. Bulk purchases

Electricity	7,090,874	5,113,861

35. Cash generated from operations

(Deficit) surplus	(1,322,329)	943,692
Adjustments for:		
Depreciation and amortisation	7,776,978	3,673,334
Interest income	1,339,367	(2,546,571)
Finance costs	(4,904,341)	1,179,791
Movements in retirement benefit assets and liabilities	(419,239)	(133,902)
Movements in provisions	-	211,200
Non-cashflow journals: 2011	-	(3,626,402)
Changes in working capital:		
Trade and other receivables from exchange transactions (reallocated to note 11)	(1,934,436)	(4,689)
Other receivables from non-exchange transactions	7,240,041	3,315,078
Trade & other payables from exchange transactions	822,406	(341,515)
VAT	2,012,701	(4,559,671)
Unspent conditional grants and receipts	3,597,193	3,187,818
Consumer deposits	30,935	6,430
	14,239,276	**1,304,593**

36. Commitments

Authorised capital expenditure

Already contracted for but not completed		
• Property, plant and equipment	15,722,948	-

This committed expenditure relates to Infrastructure and will be financed by National subsidies and retained surpluses.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

37. Contingencies

Workmans Compensation:

2011: The municipality has not yet submitted the required assessments to the Department of Labour relationg to Compensation for Occupational Health and Safety for the 2005, 2006, 2007, 2008, 2009 and 2010 financial years. At the time that the financial statements were compiled, an amount of R309 264 had been claimed from the municipality by the Department of Labour for the 2005 financial year. The municipality is currently in the process of negotiating payment terms, however it was not possible to quantify the amount owed for the 2006 to 2010 financial years, nor was it possible to quantify the amount that will be due by the municipality for penalties and interest. As at 30 June 2012 the amount payable to the Department of Labout for Workmans Compensation amounted to R363 534.14. The final payment had not been agreed upon at the time of submitting the financial statements, therefore no creditor had been raised in the municipalities accounting system.

2011: A contract was entered into between MTN Cellular Service Provider and Sakhisizwe Municipality whereby the Municipality stands as surety for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not concluded and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones and subsequently the municipality is disputing their liability of the claim by the service provider for an outstanding balance of R513 446.37. The amount owing was paid in the 2012 financial year.

38. Prior period errors

Property, Plant and Equipment was adjusted for assets not located and noted as a prior year error, assets located but not traced to the FAR and assets noted as duplications to the value of R267 143.

The Chris Hani agency account was unbundled in terms of a new agreement and the excess of prior year revenue over expenditure not netted off against prior year refunds from Chris Hanie were written off as prior year adjustments to the value of R8 825 630.

The Housing Fund agency account to the value of R215 019carried forward from 2010 as a Trade payable from non-exchange transactions was written off.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Risk management

Liquidity risk

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

Cash flow and available borrowing facilities are monitored.

Interest rate risk

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Customers cannot be refused basic services and this constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but the risk is largely dependent on the political will for execution to control the credit risk

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2012**	**2011**
Short term deposits	11,743,281	9,967,338
Trade and other receivables	9,686,681	8,474,432

40. Going concern

We draw attention to the fact that at 30 June, 2012, the municipality had accumulated surplus of R 128,781,147 and that the municipality's total assets exceed its liabilities by R 128,781,147.

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.

41. Unauthorised expenditure

Opening balance	4,001,515	13,435,017
Unauthorised expenditure: current year	1,605,148	4,001,515
Expenditure condoned	-	(13,435,017)
	5,606,663	**4,001,515**

Unauthorised expenditure in 2011 for R4 001 515 (2010: R13 435 017) was due to the overspending on the budget.

42. Fruitless and wasteful expenditure

Opening balance	62,284	136,070
Duplicate payment: Eskom	-	39,146
Overpayment of expenditure refunded	(39,146)	(112,932)
	23,138	**62,284**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

42. Fruitless and wasteful expenditure (continued)

2011: Licencing & service fees totalling R23 138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2012.

2011: An amount of R112 932 was overpaid to Mars Technology during the 2010 financial year where a duplicate payment was made by the municipality. An agreement has been reached whereby Mars Technology will refund the overpayment to the municipality in the 2011 financial year. No criminal or disciplinary steps were considered necessary in relation to the overpayment. The payment was refunded in the 2011 financial year.

2011: A duplicate payment was incorrectly made to Eskom on the 26 August 2010 R39 146.05. The payment was refunded during the 2012 financial year.

43. Irregular expenditure

	2012	2011
Opening balance	13,321,328	5,284,247
Add: Irregular Expenditure - current year	8,755,693	13,321,328
Less: Amounts condoned	-	(5,284,247)
	22,077,021	**13,321,328**

2011: During the 2011 financial year it was noted that under banking to the amount of R 14 807 (2010: R21 712.81) occured at the Cala Receipting office. No explanation could be provided and no authorisation was given for the under banking of the cash receipts.

Expenditure to the value of R8 755 693 (2011: R13 306 521) was incurred during the current financial year, for which the minimum required documentation was not available in order to comply with the required procurement procedures. As a result, the expenditure is considered irregular and it will be investigated further.

44. Reconciliation between budget and statement of financial performance

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

	2012	2011
Net (deficit) surplus per the statement of financial performance	(1,322,329)	943,692
Adjusted for:		
Rental of facilities & equipment: Incorrect allocation of actual vs budget income accounts	-	917,485
Rental of facilities and equipment: saving on budget	873,452	-
Interest earned: outstanding debtors: Inclusion of water & sewerage function	(2,112,775)	-
Fines: appointment of traffic officers resulted in increase in collection of fines	(24,286)	-
Income for agency services: Inclution of water & sanitation function	(5,460,705)	-
Other income: Inclution of water & sanitation function	17,216,560	-
Bad debts: inclution of water & sanitation function	9,276,878	-
Depreciation: under budgeted	2,678,778	-
Interest on outstanding debtors: Budgeted for cash receipts only	-	(1,765,310)
Income from agency services: actual income allocated to subsidies received	-	485,000
Repairs & maintenance: more repairs carried out after purchase of plant	(2,455,516)	3,834,998
Interest paid: additional interest on plant purchased	-	337,311
Contracted services: overspending	119,280	71,865
Revenue over/ (under) budgeted for	5,638,497	9,009,207
Expenditure (under)/ over budgeted	(8,014,273)	(242,659)
Net surplus per approved budget	**16,413,561**	**13,591,589**

45. Additional disclosure in terms of Municipal Finance Management Act

Material losses through criminal conduct

Under banking of current Cala Municipal Office Cashier: R nil (2011: R 14 807)

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

Under banking of Elliot Traffic Department Cashiers: R nil (2011: R 90 689.04 (2010: R161 729.41) (Total balance: 252 418.45)

(refer to details in note on irregular expenditure above)

Audit fees (Liability)

	2012	2011
Current year subscription / fee	2,415,494	2,069,616
Amount paid - current year	(2,415,494)	(2,069,616)
	-	-

VAT

	2012	2011
VAT receivable	1,957,069	3,969,770

VAT output payables and VAT input receivables are shown in their respective notes .

2011: Not all VAT returns were submitted to SARS by the due date due to delays experienced in the registration of Sakhisizwe Municipality for VAT e-filing. During the 2012 financial year all VAT returns were submitted timeously.

Councillors' arrear consumer accounts

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

30 June, 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
SP Ntakana	3,346	393	3,739
TT Doda	646	18,404	19,050
	3,992	**18,797**	**22,789**

30 June, 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
SP Ntakana	1,416	1,179	2,595
TT Doda	591	15,721	16,312
	2,007	**16,900**	**18,907**

46. Water & electricity losses

Water losses: At the time of the submission of the financial statements, the municipality was unable to determine water losses as no bulk meters were in place. The instalation of bulk water meters is in its planning stage.

Electricity losses: At the time of the submission of the financial statements, the municipality was unable to determine electricity losses as no bulk meters were in place. The instalation of bulk electricity meters is in its planning stage.

Detailed Income statement

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	19	3,916,441	2,608,692
Service Charges	20	11,653,234	6,489,228
Government grants and subsidies received	21	50,704,629	44,285,878
Rental income		137,915	90,215
Motor vehicles licenses & permits		2,269,263	2,522,873
Sundry income	23	11,034,087	682,674
Interest received - arrears		4,242,775	1,845,310
Interest received - investment	28	661,566	835,634
Total Revenue		**84,619,910**	**59,360,504**
Expenditure			
Employee related costs	25	(27,570,242)	(20,094,934)
Remuneration of councillors	26	(4,459,214)	(2,884,143)
Depreciation and amortisation	29	(7,776,978)	(3,673,334)
Impairment loss: Chris Hani Agency account	30	(27,713)	-
Finance costs	31	(1,339,367)	(1,179,791)
Debt impairment	27	(14,252,998)	(4,122,072)
Repairs and maintenance		(2,581,768)	(5,268,998)
Bulk purchases	34	(7,090,874)	(5,113,861)
Expenditure through grants & subsidies	33	(3,032,380)	(6,817,222)
General Expenses	24	(17,810,705)	(9,262,457)
Total Expenditure		**(85,942,239)**	**(58,416,812)**
(Deficit) surplus for the year		**(1,322,329)**	**943,692**

The supplementary information presented does not form part of the annual financial statements and is unaudited