Planning by	Reviewed	Performed by	Final review

Client details
Client name: Gariep Municipality
Year end: 30 June 2012

File details
Ver No: 2012.10.01
File name: Gariep trial 1
Doc name: Gariep trial 1FSNG0000ZAFS.cvw
File path C:\USERS\B-MOLETSANE\DESKTOP\GARIEP\CASEWARE BACK UPS\BACKUP OF GARIEP TRIAL 1 (02-08-2012 12-35-00)\
Last update: 32
Builder mode has been entered

Balance Check Controlling entity

			2012	2011
	Statement of financial position balances			
	Cash flow statement balances			
	Net Surplus per the Statement of Financial Performance does not agree with the NETINC account	Diff	-	4
	Opening Accumulated Surplus (deficit) does not match the closing balance for the prior year	Diff	-	8,832,124

Print details
Printed by sup
Date printed 2012/08/31 23:08

Gariep Municipality
(Registration number EC 144)
Annual Financial Statements
for the year ended 30 June 2012

General Information

Nature of business and principal activities	Gariep municipality provides municipal services within the Gariep area which includes the towns of Burgersdorp, Venterstad and Steynsburg
Mayoral committee	
Executive Mayor	NW Ngoqo
Councillors	NW Ngoqo
	SB Kolase
	E Brien
	MK Mnyombolo
	TZ Notyeke
	N Mabunu
	B Kweyiya
	P Kayster
	AM Van Zyl
	NTT Kula
Chief Finance Officer (CFO)	M.L. Mosala
Accounting Officer	Thembinkosi Mawonga
Business address	1 Jan Greyling Street Burgersdorp 9744 9744
Postal address	P O Box 13 Burgersdorp 9744
Bankers	ABSA
Auditors	Office of the Auditor General of South Africa

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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)
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant
IFRS	International Financial Reporting Standards

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year ended 30 June 2012 and, in the light of this review and the current financial position,he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 43, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on 31 August 2012 by:

Accounting Officer
Thembinkosi Mawonga

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2012.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet x times per annum as per its approved terms of reference. During the current year x number of meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the of the municipality during the year under review. It was however noted that suspense accounts were not cleared on a monthly basis.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the unaudited annual financial statements to be included in the annual report, with the Auditor-General and the ;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Chairperson of the Audit Committee

Date: ______________________

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011 Restated
Assets			
Current Assets			
Inventories	6	67,271	-
Other receivables from non-exchange transactions	7	6,249,250	5,415,750
VAT receivable	8	4,925,007	1,063,732
Consumer debtors	9	12,423,703	7,145,670
Cash and cash equivalents	10	2,537,816	418,744
		26,203,047	**14,043,896**
Non-Current Assets			
Investment property	3	5,119,719	5,119,719
Property, plant and equipment	4	80,696,657	86,116,066
		85,816,376	**91,235,785**
Total Assets		**112,019,423**	**105,279,681**
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	63,219,007	42,030,728
Unspent conditional grants and receipts	11	11,564,043	8,149,649
Short term portion of long term loan	13	749,612	573,552
Bank overdraft	10	5,896,505	7,415,267
		81,429,167	**58,169,196**
Non-Current Liabilities			
Retirement benefit obligation	5	12,191,000	11,955,000
Provisions	12	2,460,000	112,490
Long-term loan	13	1,769,669	2,140,377
		16,420,669	**14,207,867**
Total Liabilities		**97,849,836**	**72,377,063**
Net Assets		**14,169,587**	**32,902,618**
Net Assets			
Accumulated surplus		14,169,587	32,902,618

Gariep Municipality
(Registration number EC 144)
Annual Financial Statements for the year ended 30 June 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011 Restated
Revenue			
Rendering of services		178,564	339,052
Property rates	16	10,381,589	9,083,450
Service charges	17	44,050,798	21,755,320
Rental of facilities and equipment		223,507	191,906
Interest received (trading)		7,046,111	3,775,991
Fines		40,474	113,344
Licences and permits		1,054,839	953,683
Government grants & subsidies	18	37,253,826	46,385,867
DPLG Grant		-	2,015,089
Miscellaneous other revenue		11,265,218	6,853,325
Interest received - investment	23	90,072	27,818
Total Revenue		**111,584,998**	**91,494,845**
Expenditure			
Personnel	20	(32,349,811)	(31,023,168)
Remuneration of councillors	21	(2,569,923)	(1,850,077)
Administration		(8,981)	-
Depreciation and amortisation		(9,498,781)	-
Finance costs	25	(707,332)	(919,079)
Debt impairment	22	(53,321,699)	(8,262,338)
Repairs and maintenance		(1,706,009)	(1,329,168)
Bulk purchases	28	(20,378,208)	(6,804,714)
Grants and subsidies paid		(10,533,602)	(1,416,413)
Post retirement medical aid	5	(645,000)	(3,415,000)
General Expenses	19	(20,286,103)	(18,173,222)
Total Expenditure		**(152,005,449)**	**(73,193,179)**
Fair value adjustments	24	270,303	5,213,011
(Deficit) surplus for the year		**(40,150,148)**	**23,514,677**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	44,060,889	44,060,889
Adjustments		
Prior period adjustments	(35,228,765)	(35,228,765)
Balance at 01 July 2010 as restated	**8,832,124**	**8,832,124**
Changes in net assets		
Deficit for the year	23,514,677	23,514,677
Restatement of MIG	555,817	555,817
Total changes	24,070,494	24,070,494
Opening balance as previously reported	46,496,632	46,496,632
Adjustments		
Prior year adjustments	(14,149,835)	(14,149,835)
Balance at 01 July 2011 as restated	**32,346,797**	**32,346,797**
Changes in net assets		
Adjustments directly in equity	21,972,938	21,972,938
Net income (losses) recognised directly in net assets	21,972,938	21,972,938
Surplus for the year	(40,150,148)	(40,150,148)
Total recognised income and expenses for the year	(18,177,210)	(18,177,210)
Total changes	(18,177,210)	(18,177,210)
Balance at 30 June 2012	**14,169,587**	**14,169,587**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011 Restated
Cash flows from operating activities			
Receipts			
Grants received		34,108,000	26,426,000
Sale of goods and services		34,328,035	32,256,513
Interest income		90,072	27,818
		68,526,107	58,710,331
Payments			
Employee costs		(31,806,603)	(31,023,168)
Suppliers		(28,100,318)	(17,376,340)
Finance costs		(707,332)	(919,079)
		(60,614,253)	(49,318,587)
Net cash flows from operating activities	29	**7,911,854**	**9,391,744**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(4,079,372)	-
Post retirement benefit expense		(645,000)	(3,321,708)
Non-cash item (post retirement benefit expense)		645,000	3,415,000
Purchase of other asset		-	(10,669,800)
Net cash flows from investing activities		**(4,079,372)**	**(10,576,508)**
Cash flows from financing activities			
Adjustment to opening balance of DBSA loan		270,303	-
Movement in long-term loan		(194,648)	(517,973)
Non-cash item - adjustment to DBSA opening balance		(270,303)	-
Net cash flows from financing activities		**(194,648)**	**(517,973)**
Net increase/(decrease) in cash and cash equivalents		**3,637,834**	**(1,702,737)**
Cash and cash equivalents at the beginning of the year		(6,996,523)	(5,293,786)
Cash and cash equivalents at the end of the year	10	**(3,358,689)**	**(6,996,523)**

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.

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

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Investment property

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

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

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

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

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

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

Fair value

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

The fair value of investment property reflects market conditions at the reporting date. This is usually the values reflected in the municipality's valuation roll and this is determined with each valuation cycle.

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.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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 revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

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

Item	Average useful life
Land	Indefinate
Buildings	30
Plant and machinery	
• Graders	10-15
• Lawnmowers	2
• Tractors	10-15
• Compressors	5
Furniture and fixtures	22
• Chairs	7-10
• Tables and desks	7-10
• Cabinets and cupboards	7-10

Accounting Policies

1.3 Property, plant and equipment (continued)

Motor vehicles	2
• Ambulances	5-10
• Fire engines	20
• Buses	15
• Trucks and light delivery vehicles	5-7
• Ordinary motor vehicles	5-7
• Motor cycles	3
Office equipment	2
• Computer hardware	5
• Computer software	3-5
• Office machines	3-5
• Air conditioners	5-7
Electricity	
• Power stations	30
• Transformer kiosks	30
• Supply and reticulation networks	20
• Mains	20
Community	2
Roads	
• Motorways	15
• Other roads	10
• Traffic islands	10
• Street lights	25
• Overhead bridges	30
• Stormwater drains	20
• Bridges, subways and culverts	30
• Car parks	20
• Bus terminals	20
Pedestrian malls	
• Footways	20
• Kerbing	20
• Paving	20
Security measures	
• Access control systems	5
• Security systems	5
• Security fencing	3
Community assets	
• Buildings	30
• Recreation facilities	20
Bins and containers	
• Household refuse bins	5
• Bulk refuse containers	10

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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment 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.

If the related asset is measured using the revaluation model:

(a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
- a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
- an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

(b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
(c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.5 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.

Accounting Policies

1.5 Intangible assets (continued)

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.

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

Item	Useful life
Licenses and franchises	Licence period
Computer software	3-5

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through surplus or deficit - held for trading
- Financial assets at fair value through surplus or deficit - designated
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

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

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:
- in rare circumstances
- if the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Accounting Policies

1.6 Financial instruments (continued)

Initial recognition and measurement

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

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

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

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

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Accounting Policies

1.6 Financial instruments (continued)

Payables from exchange transactions

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Held to maturity

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

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

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

Financial liabilities and equity instruments

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

Gains and losses

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

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.7 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.

Accounting Policies

1.7 Leases (continued)

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 .

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.8 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.

1.8 Inventories (continued)

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.

1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

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.

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.

Other post retirement obligations

The entity provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

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.

Accounting Policies

1.11 Provisions and contingencies (continued)

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.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

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 .

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.

1.12 Revenue from exchange transactions (continued)

Measurement

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

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 .

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.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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.

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Government grants

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

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

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

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.14 Investment income

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

1.15 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.

1.16 Comparative figures

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

1.17 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.

Accounting Policies

1.18 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.

1.19 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.

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.

1.20 Use of estimates

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

1.21 Presentation of currency

These annual financial statements are presented in South African Rand.

Accounting Policies

1.22 Offsetting

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

1.23 Conditional grants and receipts

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

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

During the current financial year, there were no related party transactions which took place.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	None
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012	No significant change
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012	Impact on presentation of statement of financial performance with budget information
• GRAP 103: Heritage Assets	01 April 2012	None
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012	None
• GRAP 26: Impairment of cash-generating assets	01 April 2012	None
• GRAP 25: Employee benefits	01 April 2013	
• GRAP 104: Financial Instruments	01 April 2012	
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	01 April 2013	
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	
• GRAP 107: Mergers	01 April 2014	None
• GRAP 20: Related parties	01 April 2013	

3. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	5,119,719	-	5,119,719	5,119,719	-	5,119,719

Investment property was not accounted for separately from other assets in terms of GRAP 16 Investment property. This does not constitute a change in accounting policy as it was from prior year the municipality's policy to account for investment property in terms of GRAP 16. A prior period error is shown in note 30 A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality relied on the valuation performed by an independent valuer in order to obtain the correct values (which is the initial cost) of the investment property. The investment property is subsequently be carried at fair which will be determined during the compilation of the municipality's valuation roll which takes place every 5 years.

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	44,830,539	(18,113,226)	26,717,313	44,830,539	(14,468,720)	30,361,819
Infrastructure	71,736,170	(22,935,895)	48,800,275	71,736,170	(17,724,008)	54,012,162
Other property, plant and equipment	7,456,884	(6,357,187)	1,099,697	7,456,884	(5,714,799)	1,742,085
Work in progress - infrastructure	4,079,372	-	4,079,372	-	-	-
Total	**128,102,965**	**(47,406,308)**	**80,696,657**	**124,023,593**	**(37,907,527)**	**86,116,066**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Depreciation**	**Total**
Buildings	30,361,819	-	(3,644,506)	26,717,313
Infrastructure	54,012,162	-	(5,211,887)	48,800,275
Other property, plant and equipment	1,742,085	-	(642,388)	1,099,697
Work in progress - infrastructure	-	4,079,372	-	4,079,372
	86,116,066	**4,079,372**	**(9,498,781)**	**80,696,657**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Depreciation**	**Total**
Buildings	44,830,539	(14,468,720)	30,361,819
Infrastructure	71,736,169	(17,724,007)	54,012,162
Other property, plant and equipment	7,456,884	(5,714,799)	1,742,085
	124,023,592	**(37,907,526)**	**86,116,066**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Property, plant and equipment (continued)

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.

5. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

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

Opening balance	11,955,000	8,540,000
Expected benefit payments	(409,000)	-
Net expense recognised in the statement of financial performance	645,000	3,415,000
	12,191,000	**11,955,000**

Net expense recognised in the statement of financial performance

Current service cost	515,000	266,000
Interest cost	1,079,000	804,000
Actuarial (gains) losses	(949,000)	2,759,000
Curtailment or settlement	-	(414,000)
	645,000	**3,415,000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.25 %	9.00 %
Health care cost inflation	6.75 %	7.70 %
Net discount rate	1.41 %	1.21 %
Proportion of employees opting for early retirement	- %	90.00 %

The municipality appointed actuaries to value the defined benefit plan for both years presented.This valuation was performed as at 30 June 2012. A full valuation report is availble for inspection at the registered office of the municipality.

6. Inventories

Consumable stores	67,271	-

7. Other receivables from non-exchange transactions

Government grants and subsidies	6,249,250	5,415,750

8. VAT receivable

VAT	4,925,007	1,063,732

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Consumer debtors

Gross balances		
Rates	14,781,778	20,447,469
Electricity	4,582,781	-
Water	44,228,725	-
Sewerage	12,384,655	-
Refuse	12,165,169	-
All other services combined	-	59,156,591
Miscalleneous & Interest	20,956,551	1,315,947
	109,099,659	**80,920,007**

Less: Provision for debt impairment		
Rates	(11,207,856)	-
Electricity	(2,551,608)	-
Water	(41,398,948)	-
Refuse	(10,965,988)	-
Sewerage	(10,911,381)	-
All services combines	-	(73,774,337)
Miscalleneous & Interest	(19,885,912)	-
	(96,921,693)	**(73,774,337)**

Net balance		
Rates	3,573,922	-
Electricity	2,031,173	-
Water	2,829,777	-
Sewerage	1,473,274	-
Refuse	1,199,181	-
All services combined	-	7,145,670
Miscalleneous & Interest	1,316,376	-
	12,423,703	**7,145,670**

Rates		
Current (0 -30 days)	2,342,449	-
31 - 60 days	529,784	-
91 - 120 days	701,689	-
	3,573,922	**-**

Electricity		
Current (0 -30 days)	579,778	(14,617,746)
31 - 60 days	230,274	-
61 - 90 days	178,438	-
91 - 120 days	796,943	-
	1,785,433	**(14,617,746)**

Water		
Current (0 -30 days)	1,487,233	-
31 - 60 days	1,342,544	-
	2,829,777	**-**

All services combined		
Current (0 -30 days)	-	7,415,670

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	1,010,911	-
121 - 365 days	11,373,744	-
	12,384,655	**-**

Refuse		
Current (0 -30 days)	1,199,181	-

Sewerage impairment		
Current (0 -30 days)	(10,911,381)	-

Miscelleneous & Interest		
Current (0 -30 days)	1,070,639	1,315,947

Reconciliation of debt impairment provision		
Balance at beginning of the year	(73,774,337)	(65,293,304)
Contributions to provision	(53,321,697)	(8,481,033)
Reversal of provision	30,174,341	-
	(96,921,693)	**(73,774,337)**

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,400	4,400
Short-term deposits	2,532,416	414,344
Bank overdraft	(5,896,505)	(7,415,267)
	(3,358,689)	**(6,996,523)**

Current assets	2,537,816	418,744
Current liabilities	(5,896,505)	(7,415,267)
	(3,358,689)	**(6,996,523)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
Primary Bank account - ABSA - 18-00-0022-0161	603,576	(914,331)	(194,439)	(5,896,505)	(7,415,267)	(194,439)
ABSA - Town treasurer account - 5064344937	1,911	-	1,829	-	-	58
Call Investment - ABSA - Premier's fund account - 9059967363	79,407	79,327	78,988	79,327	79,327	78,988
Call investment - ABSA - Electrification fund 2069462077	-	-	169,204	-	-	169,204
ABSA Investment account - 2067401932	367,116	335,017	310,661	335,017	335,017	310,661
ABSA - Nosizwe account - 9064489631	6,220	-	5,936	-	-	5,748
ABSA - Call investment - 9272831416	2,077,762	-	-	-	-	-
Total	**3,135,992**	**(499,987)**	**372,179**	**(5,482,161)**	**(7,000,923)**	**370,220**

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
INEPG	2,653,565	4,763,241
FMG	245,812	166,083
JL DE BRUIN DAM GRANT	193,973	193,973
MIG	8,864,262	3,015,635
MSIG	(393,569)	10,717
	11,564,043	**8,149,649**

See note 18 for reconciliation of grants from National/Provincial Government.

12. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Long-service bonus	112,490	2,319,175	140,825	(112,490)	2,460,000

The provision for long service bonus was done with the assistance of actuarie for the first time in the current year going foward. Sufficient information was not available to restate comparative figures using the same basis.

13. Long-term loan

The municipality acquired two loans from the Development Bank of South Africa. The loans are payable monthly and half yearly at rate of 15,1% and 5% respectively. The loans are redeemed at 31 July 2012 and 30 September 2018. The loans are unsecured. Further details of the loans are included in Appendix A to the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Payables from exchange transactions

Trade payables	35,322,381	21,703,571
3rd party payments	19,752,914	16,634,114
Employees pension	4,701,563	-
Accrued leave pay	2,652,794	2,989,746
Deposits received	789,355	703,297
	63,219,007	**42,030,728**

15. Revenue

Rendering of services	178,564	339,052
Property rates	10,381,589	9,083,450
Service charges	44,050,798	21,755,320
Rental of facilities & equipment	223,507	191,906
Interest received – trading	7,046,111	3,775,991
Fines	40,474	113,344
Licences and permits	1,054,839	953,683
Government grants & subsidies	37,253,826	46,385,867
DPLG Grant	-	2,015,089
Miscellaneous other revenue	11,265,218	6,853,325
	111,494,926	**91,467,027**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	178,564	339,052
Service charges	44,050,798	21,755,320
Rental of facilities & equipment	223,507	191,906
Interest received – trading	7,046,111	3,775,991
Licences and permits	1,054,839	953,683
Miscellaneous other revenue	11,265,218	6,853,325
	63,819,037	**33,869,277**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	10,381,589	9,083,450
Fines	40,474	113,344
Transfer revenue		
Levies	37,253,826	46,385,867
DPLG Grant	-	2,015,089
	47,675,889	**57,597,750**

16. Property rates

Rates received

	3,621,157	-
Commercial	1,284,348	-
State	1,353,302	-
Municipal	512,584	-
Small holdings and farms	3,610,198	-
Property rates - all	-	9,083,450
	10,381,589	**9,083,450**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Service charges

Sale of electricity	10,610,028	12,929,493
Sale of water	24,332,103	4,038,267
Solid waste	84	2,249,430
Sewerage and sanitation charges	127,413	2,538,130
Refuse removal	8,981,170	-
	44,050,798	**21,755,320**

Figures in Rand	2012	2011

18. Government grants and subsidies

Equitable share	28,416,309	24,636,750
INEPG	2,109,676	9,702,171
Financial Management Grant	1,370,279	1,033,917
JL De Bruin	-	568,646
OTHER GRANTS	83,904	(1,128,133)
Other Government grant	-	1,488,296
UMSOBOMVU	-	971,818
MIG - Acces Road Steynsburg	-	867,743
MIG	4,079,372	7,344,973
DPLG	-	115,000
MSIG	1,194,286	784,686
	37,253,826	**46,385,867**

Equitable Share

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

INEPG

Balance unspent at beginning of year	4,763,241	6,465,412
Current-year receipts	-	8,000,000
Conditions met - transferred to revenue	(2,109,676)	(9,702,171)
	2,653,565	**4,763,241**

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

FMG

Balance unspent at beginning of year	166,083	-
Current-year receipts	1,450,008	1,200,000
Conditions met - transferred to revenue	(1,370,279)	(1,033,917)
	245,812	**166,083**

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

JL DE BRUIN DAM GRANT

Balance unspent at beginning of year	193,973	762,619
Other	-	(568,646)
	193,973	**193,973**

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

MIG

Balance unspent at beginning of year	3,015,635	5,105,607
Current-year receipts	9,928,000	5,255,000
Conditions met - transferred to revenue	(4,079,373)	(7,344,972)
	8,864,262	**3,015,635**

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

MSIG

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Government grants and subsidies (continued)

Balance unspent at beginning of year	10,717	45,403
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(1,194,286)	(784,686)
	(393,569)	**10,717**

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

Provide explanations of conditions still to be met and other relevant information.

19. General expenses

Advertising	198,857	81,214
Auditors remuneration	2,179,897	1,610,686
Bank charges	158,793	117,384
Cleaning	191,962	177,904
Commission paid	23,183	-
Computer expenses	412,127	-
Consulting and professional fees	643,010	2,101,459
Consumables	27,748	-
Entertainment	55,172	48,508
Insurance	582,403	461,393
Lease rentals on operating lease	3,170,999	1,733,603
Marketing	159,748	143,210
Motor vehicle expenses	543,014	477,016
Fuel and oil	1,787,150	1,332,840
Postage and courier	110,499	121,128
Printing and stationery	584,944	889,633
Protective clothing	574	-
Royalties and license fees	359	-
Staff welfare	67,534	102,108
Subscriptions and membership fees	33,486	620,605
Telephone and fax	1,610,246	474,407
Training	62,028	108,203
Travel - local	1,476,720	1,649,883
Title deed search fees	4,306	-
Electricity	1,600,222	5,851,737
Sewerage and waste disposal	52,467	32,717
Water	138,716	76,627
Refuse	31,616	42,319
Grants & subsidies	4,378,323	(81,724)
Chemicals	-	362
	20,286,103	**18,173,222**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Employee related costs

Basic	21,566,254	21,365,893
Bonus	428,907	127,421
Medical aid - company contributions	1,190,175	1,202,106
UIF	208,131	186,445
WCA	-	214,925
SDL	44,705	281,265
Other payroll levies	11,472	11,931
Post-employment benefits - Pension - Defined contribution plan	3,516,939	3,602,414
Travel, motor car, accommodation, subsistence and other allowances	1,416,787	958,340
Overtime payments	951,757	866,334
Long-service awards	839,001	-
13th Cheques	1,731,430	1,716,865
Housing benefits and allowances	51,747	56,698
Telephone allowance	160,196	160,046
Standby allowance	156,046	177,800
Protective clothing allowance	76,264	94,685
	32,349,811	**31,023,168**

Remuneration of municipal manager

Annual Remuneration	763,828	718,773
Car Allowance	262,034	247,009
Performance Bonuses	-	114,800
UIF	1,498	1,498
Medical	20,700	20,707
Bargaining Council	49	49
	1,048,109	**1,102,836**

Remuneration of chief finance officer

Annual Remuneration	428,022	400,538
Car Allowance	178,367	168,144
Performance Bonuses	-	73,165
UIF	1,497	1,497
Medical	-	1,725
Bargaining Council	49	49
13th Cheque	35,537	28,526
Pension fund	69,996	72,097
	713,468	**745,741**

Remuneration of corporate service manager

Annual Remuneration	523,976	481,800
13th cheque	42,550	40,150
Performance Bonuses	-	36,582
UIF	1,497	1,497
Pension Funds	97,095	100,124
Bargaining Council	49	49
Cellphone allowance	9,600	-
	674,767	**660,202**

Remuneration of technical services manager

Annual Remuneration	303,930	357,890

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Employee related costs (continued)

Car Allowance	112,572	134,245
Cellphone allowance	7,440	-
UIF	1,248	1,497
Medical	9,021	13,471
Bargaining Council	41	49
Service bonus	-	29,824
13th cheque	31,729	-
	465,981	**536,976**

Remuneration of community services manager

Annual Remuneration	427,810	394,674
Car Allowance	176,309	166,204
Medical	64,290	69,502
13th cheque	35,281	32,889
UIF	1,497	1,497
Bargaining Council levies	49	49
	705,236	**664,815**

21. Remuneration of councillors

Councillors	2,518,189	1,850,552
Other benefit	51,734	(475)
	2,569,923	**1,850,077**

22. Debt impairment

Debts impaired	53,321,699	8,262,338

23. Investment revenue

Interest revenue		
Interest - Call accounts	90,072	27,818

24. Fair value adjustments

Investment property (Fair value model)	-	5,119,719
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	93,292
• Adjustment to leave provision	270,303	-
	270,303	**5,213,011**

25. Finance costs

Non-current borrowings	103,299	192,069
Trade and other payables	604,250	-
Bank	(217)	185,362
Other interest paid	-	541,648
	707,332	**919,079**

26. Auditors' remuneration

Fees	2,179,897	1,610,686

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Rental of facilities and equipment

Premises		
Premises	78,815	70,745
Venue hire	85,757	121,161
	164,572	**191,906**
Facilities and equipment		
Rental of facilities	40,305	-
Rental of equipment	18,630	-
	58,935	**-**
	223,507	**191,906**

28. Bulk purchases

Electricity	18,038,664	6,531,416
Water	2,338,305	252,566
Sewer purification	1,239	20,732
	20,378,208	**6,804,714**

29. Cash generated from operations

(Deficit) surplus	(40,150,148)	23,514,677
Adjustments for:		
Depreciation and amortisation	9,498,781	-
Gain on sale of assets and liabilities	645,000	3,415,000
Fair value adjustments	(270,303)	(5,213,011)
Debt impairment	53,321,699	8,262,338
Movements in retirement benefit assets and liabilities	(645,000)	(3,415,000)
Movements in provisions	2,347,510	247,417
Grants and subsidies paid (Free Basic Services)	10,533,602	-
Interest received trading	(7,046,111)	(3,775,991)
Other non-cash items	18,190,194	(4,000,293)
Changes in working capital:		
Inventories	(67,271)	-
Receivables from exchange transactions	-	(1,852,041)
Other receivables from non-exchange transactions	(833,500)	(5,415,750)
Consumer debtors	(58,353,995)	(6,008,521)
Payables from exchange transactions	21,188,277	7,447,104
VAT	(3,861,275)	1,668
Unspent conditional grants and receipts	3,414,394	(3,815,853)
	7,911,854	**9,391,744**

30. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	15,221,000	20,457,757
• Other assets	-	1,976,287
	15,221,000	**22,434,044**

This committed expenditure relates to property and will be financed by the municipal infrastructure grant..

31. Prior period errors

1. The municipality's VAT input and output suspense votes were materially misstated in the previous year. An adjustment has been made to previous year VAT account balances with a net effect of R 8,307,268.56.

2. The municipality did not recognise revenue from equitable share when the conditions (which there are none) were met which is when the DORA became promulgated. Revenue from grants in prior year has been increased with R 5,415,750 and receivables from non-exchange transactions increased with the same amount.

3. The municipality did not recognise Investment property in terms of GRAP 16 which was already adopted in the previous year. This constitutes an error and investment property has been recognised in the comparative year at an amount of R 5,119,719.

4. Property plant and equipment has been restated to reflect figures as per the asset register. The adjustment made results in the value of PPE being increased by R 62,003,806 from the previous financial year annual financial statements. Please note that backlog accumulated depreciation has been taken into account in this regard.

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

	2012	2011
Statement of financial position		
VAT	-	8,307,269
Receivables - impairment	-	5,415,750
Property, plant & Equipment	-	62,003,806
Statement of Financial Performance		
Depreciation expense	-	5,415,750

32. Comparative figures

Certain comparative figures have been reclassified.

1. Certain payables with debit balances have been re-classified as receivables.

2. Certain receivables with credit balances have been re-classified as payables.

In addition, some comparitive figures have been restated:

3. Unspent conditional grants have been restated based on correct reporting according to national treasury requirrements. The impact of the adjustment is that unspent grants are reduced by R 2,004,046 in the previous financial year.

4. Investment property totalling R 5,119,719 which represents non-depreciable assets was brought into books for the first time. Investment property is carried at fair and will be valued at the same interval as all other municipal properties upon compilation of the municipal valuation roll.

The effect of the restatements is as follows:

	2012	2011
Statement of financial position		
Unspent conditional grants	-	2,004,046
Investment property	-	5,119,719

33. Risk management

Financial 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.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

33. Risk management (continued)

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

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. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

34. Unauthorised expenditure

Unauthorised expenditure	55,383,172	15,513,061
Condoned by Council	(55,383,172)	(15,513,061)
	-	-

Unauthorised expenditure was the municipality exceeding budgeted expenditure. This was due to non-cash items which were not budgeted for correctly which are depreciation (under budgeted by R 9 million), impairment / write-down losses(under budgeted by R 38 million and transfers were under budgeted by R 10 million. Refer to Appendix E 1 for detailed comparison between budget and actual expenditure.

35. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - balance	2,585,029	2,398,111
Current year	1,572,222	186,918
Condoned by Council	(4,157,251)	(186,918)
	-	**2,398,111**

Interest, penalties and legal costs which were fruitless were incurred by the municipality. These were as a result of the difficult cash flow position of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Irregular expenditure

	2012	2011
Opening balance	-	2,431,840
Add: Irregular Expenditure - current year	6,478,693	1,209,013
Less: Amounts condoned	(6,478,693)	(3,640,853)
	-	-

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Non-compliance with SCM regulations	Municipal Council	6,839,893

37. Additional disclosure in terms of Municipal Finance Management Act

Electricity Distribution losses

	2012	2011
Current year loss	4,713,554	-

The municipality monitors on a monthly basis losses incurred on the distriution of electricity. These losses are investigated and remedial action taken, which included in the current year the disconnection of illegal electricity connections within the municipal area and obtaining assistance from the District Municipality to curb electricity losses. Prior year figures are not available.

VAT

	2012	2011
VAT receivable	4,925,007	1,063,732

VAT output payables and VAT input receivables are shown in note 8.

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

Councillors' arrear consumer accounts

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Kolase	169	61	230
Councillor Mnyombolo	1,390	3,814	5,204
Councillor Notyeke	275	4,538	4,813
Councillor Kula	931	15,389	16,320
Councillor Brien	796	3,956	4,752
Councillor Mabunu	1,942	4,723	6,665
Councillor Ngoqo	660	1,107	1,767
Councillor Kayster	987	16,174	17,161
	7,150	**49,762**	**56,912**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned. The register of deviations from SCM regulations is available for inspection at the municipality's registered office.

Incident	2012	2011
General expenditure incurred	6,839,894	-

Notes to the Annual Financial Statements

38. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix D for the comparison of actual operating expenditure versus budgeted expenditure.

39. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

40. Deviation from supply chain management regulations

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

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

General expenditure was incurred during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the municipal council who considered them and subsequently approved the deviation from the normal supply chain management regulations.

A register of all these deviations is available for inspection at the registered office of the municipality.

Appendix A

Schedule of external loans as at 30 June 2010

	Loan Number	Redeemable	Balance at 30 June 2011 Rand	Interest charge Rand	Redeemed written off during the period Rand	Balance at 30 June 2012 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
Loan at 15,1%			415,929	35,223	282,455	168,697	-	-
Loan at 5%			2,413,362	120,649	198,124	2,335,887	-	-
			2,829,291	**155,872**	**480,579**	**2,504,584**	**-**	**-**
Total external loans			**2,829,291**	**155,872**	**480,579**	**2,504,584**	**-**	**-**

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2010 Act. Bal. Rand	Current year 2010 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rendering of services	178,564	-	178,564	-	
Property rates	10,381,588	5,258,000	5,123,588	97.4	
Service charges	44,050,798	32,311,000	11,739,798	36.3	
Rental of facilities and equipment	223,507	156,000	67,507	43.3	
Interest received (trading)	7,046,111	1,097,000	5,949,111	542.3	
Fines	40,475	957,000	(916,525)	(95.8)	
Licences and permits	1,054,839	629,000	425,839	67.7	
Government grants & subsidies	37,253,826	24,764,000	12,489,826	50.4	
Municipal Revenue UD1	-	8,421,000	(8,421,000)	(100.0)	
Revenue 2	-	-	-	-	
Miscellaneous other revenue	11,265,218	20,827,000	(9,561,782)	(45.9)	
Interest received - investment	90,072	-	90,072	-	
	111,584,998	94,420,000	17,164,998	18.2	
Expenses					
Personnel	(32,349,810)	(29,508,000)	(2,841,810)	9.6	
Remuneration of councillors	(2,569,923)	(2,515,000)	(54,923)	2.2	
Administration	(8,981)	-	(8,981)	-	
Depreciation	(9,498,781)	(272,000)	(9,226,781)	3,392.2	Depreciation was not budgeted based on the fixed asset register
Finance costs	(707,332)	-	(707,332)	-	
Debt impairment	(53,321,699)	(3,549,000)	(49,772,699)	1,402.4	Debt impairment not budgeted for
Repairs and maintenance - General	(1,706,009)	-	(1,706,009)	-	
Bulk purchases	(20,378,208)	(12,836,000)	(7,542,208)	58.8	
Grants and subsidies paid	(10,533,602)	-	(10,533,602)	-	Transfeers paid were not correctly budgeted for
General Expenses	(20,286,104)	(35,932,000)	15,645,896	(43.5)	
	(151,360,449)	(84,612,000)	(66,748,449)	78.9	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	(645,000)	-	(645,000)	-	
Fair value adjustments	270,303	-	270,303	-	
	(374,697)	-	(374,697)	-	
Net surplus/ (deficit) for the year	(40,150,148)	9,808,000	(49,958,148)	(509.4)	