

# **SAKHISIZWE**

## **MUNICIPALITY**



[These financial statements have been audited]

## **FINANCIAL STATEMENTS**

**30 JUNE 2013**

# SAKHISIZWE LOCAL MUNICIPALITY

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# SAKHISIZWE LOCAL MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

## GENERAL INFORMATION

### NATURE OF BUSINESS

SAKHISIZWE Municipality is a grade 1 local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

### COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

### JURISDICTION

The SAKHISIZWE Municipality includes the following areas:

*Elliot  
Cala*

### MUNICIPAL MANAGER

*Mr T Samuel*

### CHIEF FINANCIAL OFFICER

*Mr P Steyn*

### REGISTERED OFFICE

*Erf 458, Umthatha Road, Cala, 5460*

### AUDITORS

*Office of the Auditor General (EC)*

### PRINCIPLE BANKERS

*First National Bank, Elliot*

### RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)  
Division of Revenue Act  
The Income Tax Act  
Value Added Tax Act  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no 32 of 2000)  
Municipal Planning and Performance Management Regulations  
Water Services Act (Act no 108 of 1997)  
Housing Act (Act no 107 of 1997)  
Municipal Property Rates Act (Act no 6 of 2004)  
Electricity Act (Act no 41 of 1987)  
Skills Development Levies Act (Act no 9 of 1999)  
Employment Equity Act (Act no 55 of 1998)  
Unemployment Insurance Act (Act no 30 of 1966)  
Basic Conditions of Employment Act (Act no 75 of 1997)  
Supply Chain Management Regulations, 2005  
Collective Agreements  
Infrastructure Grants  
SALBC Leave Regulations

# SAKHISIZWE LOCAL MUNICIPALITY

## MEMBERS OF THE SAKHISIZWE LOCAL MUNICIPALITY

### COUNCILLORS

Clr M. S. Jentile	Mayor / Exco member
Clr N. P. Mananga	Speaker
Clr M. Mxhonywa	Exco member
Clr S. P. Ntakana	Exco member
Clr N. Stofile	Exco member
Clr S. Bavuma	PR ( COPE)
Clr Z. D. Dyonase	PR ( APC)
Clr M. J. Andrews	PR ( DA)
Clr S. Suka	African National Congress
Clr T. T. Doda	African National Congress
Clr T. Hoza	African National Congress
Clr B. E. Ponoshe	African National Congress
Clr Z. A. Mose	African National Congress
Clr T. Jamjam	African National Congress
Clr N. M. Mahlombe	African National Congress
Clr N. F. Ngondo	African National Congress
Clr M. M. Tshona	African National Congress
Chief S. Z. Stokwe	EmaQwatini Traditional Council
S/Headman Z. H. Gungqa	EMaQwatini Traditional Council
S/Headman M. W. Maawu	IQolombeni Traditional Council

### APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2013, which are set out on pages 1 to 68 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

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

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

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

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

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**T. Samuel**  
**Municipal Manager**

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30 August 2013  
**Date**

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013**

	Notes	2013 R (Actual)	2012 R (Restated)
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>134 162 775</b>	<b>124 410 870</b>
Accumulated Surplus		134 162 775	124 410 870
<b>Non-Current Liabilities</b>		<b>8 364 523</b>	<b>10 729 418</b>
Long-term Liabilities	2	3 549 861	6 038 197
Employee benefits	3	2 259 142	2 368 021
Non-Current Provisions	5	2 555 520	2 323 200
<b>Current Liabilities</b>		<b>17 134 383</b>	<b>17 290 370</b>
Consumer Deposits	6	358 823	344 469
Current Employee benefits	7	391 406	247 280
Provisions	8	1 659 935	-
Payables from exchange transactions	9	8 013 939	6 117 988
Unspent Conditional Government Grants and Receipts	10	2 646 604	8 377 946
Taxes	11.1	1 575 338	-
Current Portion of Long-term Liabilities	2	2 488 338	2 202 687
<b>Total Net Assets and Liabilities</b>		<b>159 661 681</b>	<b>152 430 658</b>
<b>ASSETS</b>			
<b>Non-Current Assets</b>		<b>134 924 447</b>	<b>129 273 476</b>
Property, Plant and Equipment	12	100 334 773	94 494 440
Investment Property	13	34 589 674	34 779 036
<b>Current Assets</b>		<b>24 737 234</b>	<b>23 157 182</b>
Inventory	14	32 603	21 749
Receivables from exchange transactions	15	5 639 525	3 373 805
Receivables from non-exchange transactions	16	6 068 256	5 949 474
Taxes	11.1	-	2 068 873
Cash and Cash Equivalents	17	12 996 850	11 743 281
<b>Total Assets</b>		<b>159 661 681</b>	<b>152 430 658</b>

**SAKHISIZWE LOCAL MUNICIPALITY**

**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**

	Notes	2013 (Actual) R	2012 (Restated) R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>		<b>63 653 385</b>	<b>53 199 288</b>
<b>Taxation Revenue</b>		<b>3 683 699</b>	<b>2 867 068</b>
Property taxes	18	3 683 699	2 867 068
<b>Transfer Revenue</b>		<b>59 969 686</b>	<b>50 332 220</b>
Government Grants and Subsidies - Capital	19	26 942 686	17 244 220
Government Grants and Subsidies - Operating	19	33 027 000	33 088 000
<b>Revenue from Exchange Transactions</b>		<b>29 204 714</b>	<b>31 191 428</b>
Service Charges	20	11 934 152	9 832 604
Interest Earned - external investments		530 330	661 566
Interest Earned - outstanding debtors		4 238 688	4 242 775
Other Income	21	12 501 544	16 454 483
<b>Total Revenue</b>		<b><u>92 858 099</u></b>	<b><u>84 390 716</u></b>
<b>EXPENDITURE</b>			
Employee related costs	22	33 569 255	27 716 623
Remuneration of Councillors	23	4 893 102	4 459 214
Debt Impairment	24	6 804 411	5 739 832
Depreciation and Amortisation	25	9 450 626	9 103 618
Repairs and Maintenance		2 084 173	2 581 768
Actuarial losses	3	127 908	-
Finance Charges	27	1 161 033	1 393 637
Bulk Purchases	28	6 038 685	7 090 874
Grants and Subsidies	29	2 959 222	3 032 380
General Expenses	30	16 017 779	15 454 513
Loss on disposal of Property, Plant and Equipment		-	12 743
<b>Total Expenditure</b>		<b><u>83 106 194</u></b>	<b><u>76 585 202</u></b>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<b><u>9 751 905</u></b>	<b><u>7 805 514</u></b>

**SAKHISIZWE LOCAL MUNICIPALITY**

**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2013**

	<b>Accumulated Surplus/ (Deficit)</b>	<b>Total</b>
<b>Note</b>	<b>R</b>	<b>R</b>
<b>Balance at 1 JULY 2011:</b> as previously reported	<b>120 206 706</b>	<b>120 206 706</b>
<b>Adjustments:</b>		
Change in accounting policy		-
VAT prior year adjustment	(2 239 645)	(2 239 645)
PAYE penalties prior year adjustment	70 250	70 250
Correction of prior period errors	(1 431 955)	(1 431 955)
<b>Restated Balance at 1 JULY 2011</b>	<b>116 605 356</b>	<b>116 605 356</b>
Net Surplus for the year	7 805 514	7 805 514
<b>Balance at 30 JUNE 2012</b>	<b>124 410 870</b>	<b>124 410 870</b>
Net Surplus for the year	9 751 905	9 751 905
<b>Balance at 30 JUNE 2013</b>	<b>134 162 775</b>	<b>134 162 775</b>

**SAKHISIZWE LOCAL MUNICIPALITY**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013**

	Notes	30 JUNE 2013 R	30 JUNE 2012 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>		87 870 490	88 123 123
Ratepayers and other		16 996 342	14 752 628
Government		54 238 344	54 254 512
Interest		4 238 688	4 242 775
Other receipts		12 397 116	14 873 208
Prior year adjustments		-	-
<b>Payments</b>		(68 890 829)	(67 418 012)
Employee costs		(38 636 003)	(31 289 366)
Suppliers costs		(13 923 789)	(14 132 905)
Finance charges	27	(208 893)	(147 994)
Other payments		(16 122 144)	(18 246 397)
Prior year adjustments		-	(3 601 350)
<b>Cash generated by operations</b>	33	18 979 661	20 705 111
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	12	(15 101 597)	(16 188 796)
Purchase of Investment property			-
Proceeds on Disposal of Fixed Assets			-
Purchase of Intangible Assets			-
Increase in Long-term Receivables	*		-
Decrease/(Increase) in Non-current Investments	*		-
<b>Net Cash from Investing Activities</b>		(15 101 597)	(16 188 796)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Loans repaid			
Finance lease payments		(2 202 685)	(2 156 295)
Interest income		530 330	661 566
Finance costs		(952 140)	(1 245 643)
New loans raised			
Increase in Consumer Deposits			
<b>Net Cash from Financing Activities</b>		(2 624 495)	(2 740 372)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1 253 569</b>	<b>1 775 943</b>
Cash and Cash Equivalents at the beginning of the year		11 743 281	9 967 338
Cash and Cash Equivalents at the end of the year	34	12 996 850	11 743 281
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1 253 569</b>	<b>1 775 943</b>



**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
<b>ASSETS</b>				
<b>Current assets</b>				
Cash		-	-	
Call investment deposits	12 996 850	5 270 000	7 726 850	
Consumer debtors		2 588 000	(2 588 000)	
Other Receivables		-	-	
Current portion of long-term receivables		1 796 000	(1 796 000)	
Inventory	32 603	-	32 603	
<b>Total current assets</b>	<b>13 029 453</b>	<b>9 654 000</b>	<b>3 375 453</b>	
<b>Non current assets</b>				
Long-term receivables	11 707 781	-	11 707 781	
Investments		-	-	
Investment property	34 589 674	-	34 589 674	
Property, plant and equipment	100 334 773	101 438 000	(1 103 227)	
Biological Assets		-	-	
Intangible Assets		-	-	
Heritage Assets		-	-	
<b>Total non current assets</b>	<b>146 632 228</b>	<b>101 438 000</b>	<b>45 194 228</b>	
<b>TOTAL ASSETS</b>	<b>159 661 681</b>	<b>111 092 000</b>	<b>48 569 681</b>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft		-	-	
Borrowing	3 549 861	8 000 000	(4 450 139)	
Consumer deposits	358 823	341 000	17 823	
Trade and other payables	12 235 881	10 423 000	1 812 881	
Provisions and Employee Benefits	4 606 861	1 001 000	3 605 861	
<b>Total current liabilities</b>	<b>20 751 426</b>	<b>19 765 000</b>	<b>986 426</b>	
<b>Non current liabilities</b>				
Borrowing	2 488 338	-	2 488 338	
Provisions and Employee Benefits	2 259 142	4 231 000	(1 971 858)	
<b>Total non current liabilities</b>	<b>4 747 480</b>	<b>4 231 000</b>	<b>516 480</b>	
<b>TOTAL LIABILITIES</b>	<b>25 498 906</b>	<b>23 996 000</b>	<b>1 502 906</b>	
<b>NET ASSETS</b>	<b>134 162 775</b>	<b>87 096 000</b>	<b>47 066 775</b>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	134 162 775	95 822 000	38 340 775	
Reserves		-	-	
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>134 162 775</b>	<b>95 822 000</b>	<b>38 340 775</b>	

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2013 R	2013 R	2013 R	
	(Approved Budget)	(Adjustments)	(Final Budget)	Explanations for material adjustments
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	-	-	-	
Call investment deposits	5 270 000	-	5 270 000	
Consumer debtors	2 588 000	-	2 588 000	
Other Receivables	-	-	-	
Current portion of long-term receivables	1 796 000	-	1 796 000	
Inventory	-	-	-	
<b>Total current assets</b>	<b>9 654 000</b>	<b>-</b>	<b>9 654 000</b>	
<b>Non current assets</b>				
Long-term receivables	-	-	-	
Investments	-	-	-	
Investment property	-	-	-	
Property, plant and equipment	101 438 000	-	101 438 000	
Biological Assets	-	-	-	
Intangible Assets	-	-	-	
Heritage Assets	-	-	-	
<b>Total non current assets</b>	<b>101 438 000</b>	<b>-</b>	<b>101 438 000</b>	
<b>TOTAL ASSETS</b>	<b>111 092 000</b>	<b>-</b>	<b>111 092 000</b>	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Bank overdraft	-	-	-	
Borrowing	8 000 000	-	8 000 000	
Consumer deposits	341 000	-	341 000	
Trade and other payables	10 423 000	-	10 423 000	
Provisions and Employee Benefits	1 001 000	-	1 001 000	
<b>Total current liabilities</b>	<b>19 765 000</b>	<b>-</b>	<b>19 765 000</b>	
<b>Non current liabilities</b>				
Borrowing	-	-	-	
Provisions and Employee Benefits	4 231 000	-	4 231 000	
<b>Total non current liabilities</b>	<b>4 231 000</b>	<b>-</b>	<b>4 231 000</b>	
<b>TOTAL LIABILITIES</b>	<b>23 996 000</b>	<b>-</b>	<b>23 996 000</b>	
<b>NET ASSETS</b>	<b>87 096 000</b>	<b>-</b>	<b>87 096 000</b>	
<b>COMMUNITY WEALTH</b>				
Accumulated Surplus/(Deficit)	95 822 000	-	95 822 000	
Reserves	-	-	-	
<b>TOTAL COMMUNITY WEALTH/EQUITY</b>	<b>95 822 000</b>	<b>-</b>	<b>95 822 000</b>	

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
<b>REVENUE BY SOURCE</b>				
Property rates	3 683 699	3 785 000	(101 301)	
Property rates - penalties & collection charges				
Service charges	11 934 152	14 640 000	(2 705 848)	
Rental of facilities and equipment	-	1 028 000	(1 028 000)	
Interest earned - external investments	530 330	636 000	(105 670)	
Interest earned - outstanding debtors	4 238 688	2 130 000	2 108 688	
Dividends received	-	-	-	
Fines	-	30 000	(30 000)	
Licences and permits	-	-	-	
Agency services	-	4 071 000	(4 071 000)	
Government Grants and Subsidies - Operating	59 969 686	66 730 000	(6 760 314)	
Other revenue	12 501 544	18 483 000	(5 981 456)	
Gains on disposal of PPE	-	-	-	
<b>Total Operating Revenue</b>	<b>92 858 099</b>	<b>111 533 000</b>	<b>(18 674 901)</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	33 569 255	27 468 000	6 101 255	
Remuneration of councillors	4 893 102	5 000 000	(106 898)	
Debt impairment	6 804 411	4 976 000	1 828 411	
Depreciation & asset impairment	9 450 626	4 604 000	4 846 626	
Actuarial losses	127 908	-	127 908	
Finance charges	1 161 033	1 178 000	(16 967)	
Bulk purchases	6 038 685	8 900 000	(2 861 315)	
Other materials	2 084 173	6 354 000	(4 269 827)	
Contracted services	-	255 000	(255 000)	
Grants and subsidies paid	2 959 222	3 501 000	(541 778)	
Other expenditure	16 017 779	23 996 000	(7 978 221)	
Loss on disposal of PPE	-	-	-	
<b>Total Operating Expenditure</b>	<b>83 106 194</b>	<b>86 232 000</b>	<b>(3 125 806)</b>	
<b>Operating Surplus for the year</b>	<b>9 751 905</b>	<b>25 301 000</b>	<b>(15 549 095)</b>	
Government Grants and Subsidies - Capital	-	-	-	
<b>Net Surplus for the year</b>	<b>9 751 905</b>	<b>25 301 000</b>	<b>(15 549 095)</b>	

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2013 R	2013 R	2013 R	
	(Approved Budget)	(Adjustments)	(Final Budget)	Reasons for material adjustments
<b>REVENUE BY SOURCE</b>				
Property rates	3 785 000	-	3 785 000	
Property rates - penalties & collection charges	-	-	-	
Service charges	14 580 000	60 000	14 640 000	
Rental of facilities and equipment	1 009 000	19 000	1 028 000	
Interest earned - external investments	630 000	6 000	636 000	
Interest earned - outstanding debtors	2 130 000	-	2 130 000	
Dividends received	-	-	-	
Fines	60 000	(30 000)	30 000	
Licences and permits	-	-	-	
Agency services	3 982 000	89 000	4 071 000	
Government Grants and Subsidies - Operating	62 541 000	4 189 000	66 730 000	
Other revenue	19 163 000	(680 000)	18 483 000	
Gains on disposal of PPE	-	-	-	
<b>Total Operating Revenue</b>	<b>107 880 000</b>	<b>3 653 000</b>	<b>111 533 000</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	26 796 000	672 000	27 468 000	
Remuneration of councillors	4 780 000	220 000	5 000 000	
Debt impairment	4 976 000	-	4 976 000	
Depreciation & asset impairment	5 098 000	(494 000)	4 604 000	
Finance charges	1 168 000	10 000	1 178 000	
Bulk purchases	8 900 000	-	8 900 000	
Other materials	5 974 000	380 000	6 354 000	
Contracted services	319 000	(64 000)	255 000	
Grants and subsidies paid	3 892 000	(391 000)	3 501 000	
Other expenditure	25 907 000	(1 911 000)	23 996 000	
Loss on disposal of PPE	-	-	-	
<b>Total Operating Expenditure</b>	<b>87 810 000</b>	<b>-1 578 000</b>	<b>86 232 000</b>	
<b>Operating Surplus for the year</b>	<b>20 070 000</b>	<b>5 231 000</b>	<b>25 301 000</b>	
Government Grants and Subsidies - Capital	-	-	-	
<b>Net Surplus for the year</b>	<b>20 070 000</b>	<b>5 231 000</b>	<b>25 301 000</b>	

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013**  
**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Ratepayers and other	16 996 342	9 557 000	7 439 342	
Government - operating	54 238 344	66 730 000	(12 491 656)	
Government - capital	-	-	-	
Interest	4 238 688	7 344 000	(3 105 312)	
Dividends	-	-	-	
Other Receipts	12 397 116	-	12 397 116	
<b>Payments</b>				
Suppliers and Employees	(52 559 792)	(25 652 000)	(26 907 792)	
Finance charges	(208 893)	(10 659 000)	10 450 107	
Transfers and Grants	(16 122 144)	(27 455 000)	11 332 856	
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>18 979 661</b>	<b>19 865 000</b>	<b>(885 339)</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of Assets	-	-	-	
Decrease/(increase) in non-current receivables	-	-	-	
Decrease/(increase) in non-current investments	-	-	-	
<b>Payments</b>				
Capital assets	(15 101 597)	(18 442 000)	3 340 403	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>-15 101 597</b>	<b>(18 442 000)</b>	<b>3 340 403</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
Borrowing	530 330	-	530 330	
Increase/(decrease) in consumer deposits	-	(1 343 000)	1 343 000	
<b>Payments</b>				
Repayment of borrowing	(3 154 825)	10 856 000	-	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>-2 624 495</b>	<b>9 513 000</b>	<b>1 873 330</b>	
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>1 253 569</b>	<b>10 936 000</b>	<b>4 328 394</b>	
Cash and Cash Equivalents at the beginning of the year	11 743 281	(1 253 000)	12 996 281	
Cash and Cash Equivalents at the end of the year	12 996 850	9 683 000	3 313 850	

**SAKHISIZWE LOCAL MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013**  
**ADJUSTMENTS TO APPROVED BUDGET**

	2013 R	2013 R	2013 R	Reasons for material adjustments
	(Approved Budget)	(Adjustments)	(Final Budget)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>				
<b>Receipts</b>				
Ratepayers and other	9 557 000	-	9 557 000	
Government - operating	62 541 000	4 189 000	66 730 000	
Government - capital	-	-	-	
Interest	7 344 000	-	7 344 000	
Dividends	-	-	-	
<b>Payments</b>				
Suppliers and Employees	(25 652 000)	-	(25 652 000)	
Finance charges	(10 659 000)	-	(10 659 000)	
Transfers and Grants	(27 455 000)	-	(27 455 000)	
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>15 676 000</b>	<b>4 189 000</b>	<b>19 865 000</b>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
<b>Receipts</b>				
Proceeds on disposal of Assets	-	-	-	
Decrease/(increase) in non-current receivables	-	-	-	
Decrease/(increase) in non-current investments	-	-	-	
<b>Payments</b>				
Capital assets	(18 442 000)	-	(18 442 000)	
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(18 442 000)</b>	<b>-</b>	<b>(18 442 000)</b>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
<b>Receipts</b>				
Borrowing	-	-	-	
Increase/(decrease) in consumer deposits	(1 343 000)	-	(1 343 000)	
<b>Payments</b>				
Repayment of borrowing	10 856 000	-	10 856 000	
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>9 513 000</b>	<b>-</b>	<b>9 513 000</b>	
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>	<b>6 747 000</b>	<b>4 189 000</b>	<b>10 936 000</b>	
Cash and Cash Equivalents at the beginning of the year	(1 253 000)	-	(1 253 000)	
Cash and Cash Equivalents at the end of the year	5 494 000	4 189 000	9 683 000	

**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

**1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS**

**1.1. BASIS OF PREPARATION**

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

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

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
GRAP 1 (Revised – Mar 2012)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised – Mar 2012)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised – Mar 2012)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised – Mar 2012)	Inventories	1 April 2013
GRAP 13 (Revised – Mar 2012)	Leases	1 April 2013
GRAP 16 (Revised – Mar 2012)	Investment Property	1 April 2013
GRAP 17 (Revised – Mar 2012)	Property, Plant and Equipment	1 April 2013
GRAP 25 (Original – Nov 2009)	Employee Benefits	1 April 2013
GRAP 27 (Revised – Mar 2012)	Agriculture	1 April 2013
GRAP 31 (Revised – Mar 2012)	Intangible Assets	1 April 2013
IGRAP 16 (Issued – Mar 2012)	Intangible Assets – Website Costs	1 April 2013

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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

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

*SAKHISIZWE MUNICIPALITY*

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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

**1.2. PRESENTATION CURRENCY**

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

**1.3. GOING CONCERN ASSUMPTION**

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

**1.4. COMPARATIVE INFORMATION**

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

**1.5. AMENDED DISCLOSURE POLICY**

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

**1.6. MATERIALITY**

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.



**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.7. PRESENTATION OF BUDGET INFORMATION**

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2012 to 30 June 2013. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24. No amendments or disclosure requirements in terms of GRAP 3 (Revised – March 2012) has been made.

**1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
<b>GRAP 6 (Revised – Nov 2010)</b>	<b>Consolidated and Separate Financial Statements</b>  The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity.  No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	<b>Unknown</b>

**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

<b>Standard</b>	<b>Description</b>	<b>Effective Date</b>
<b>GRAP 7 (Revised – Mar 2012)</b>	<p><b>Investments in Associate</b></p> <p>This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the Municipality does have any interest in associates.</p>	<b>1 April 2013</b>
<b>GRAP 8 (Revised – Nov 2010)</b>	<p><b>Interest in Joint Ventures</b></p> <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the Municipality is not involved in any joint ventures.</p>	<b>Unknown</b>
<b>GRAP 18 (Original – Feb 2011)</b>	<p><b>Segment Reporting</b></p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.</p>	<b>Unknown</b>
<b>GRAP 20 (Original – June 2011)</b>	<p><b>Related Party Disclosure</b></p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	<b>Unknown</b>

**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

<p><b>GRAP 105</b> <b>(Original – Nov 2010)</b></p>	<p><b>Transfer of Functions Between Entities Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>Unknown</b></p>
<p><b>Standard</b></p>	<p><b>Description</b></p>	<p><b>Effective Date</b></p>
<p><b>GRAP 106</b> <b>(Original – Nov 2010)</b></p>	<p><b>Transfer of Functions Between Entities Not Under Common Control</b></p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>Unknown</b></p>
<p><b>GRAP 107</b> <b>(Original – Nov 2010)</b></p>	<p><b>Mergers</b></p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p><b>Unknown</b></p>
<p><b>IGRAP 11</b></p>	<p><b>Consolidation - Special Purpose Entities (SPE)</b></p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<p><b>Unknown</b></p>
<p><b>IGRAP 12</b></p>	<p><b>Jointly Controlled Entities non-monetary contributions</b></p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality</p>	<p><b>Unknown</b></p>

**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

	does not have any JCE's at this stage.	
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These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

**1.9. LEASES**

**1.9.1 Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

**1.9.2 Municipality as Lessor**

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments

*SAKHISIZWE MUNICIPALITY*

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

**1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

**1.11. PROVISIONS**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

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

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

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented.
- (b) The Municipality 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.

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

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

**1.12. EMPLOYEE BENEFITS**

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

**1.12.1 Post Retirement Medical Obligations**

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split

*SAKHISIZWE MUNICIPALITY*

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

**1.12.2 Long Service Awards**

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

**1.12.3 Provision for Staff Leave**

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

**1.12.4 Staff Bonuses Accrued**

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

**1.12.5 Provision for Performance Bonuses**

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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employment contract stipulations as well as previous performance bonus payment trends.

**1.13. PROPERTY, PLANT AND EQUIPMENT**

**1.13.1 Initial Recognition**

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

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

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

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

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

**1.13.2 Subsequent Measurement – Cost Model**

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

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



**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.13.3 Depreciation and Impairment**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	<b>Years</b>		<b>Years</b>
<b><u>Infrastructure</u></b>		<b><u>Other</u></b>	
Roads and paving	25 - 50	Buildings	30
Pedestrian Malls	30	Plant and machinery	5 – 10
Electricity	15 – 50	Motor vehicles	5
		IT Equipment	5 - 7
		Office equipment	5 - 7
		Furniture and fittings	5 - 7
<b><u>Community</u></b>			
Improvements	30		
Recreational Facilities	20 - 30		
Security	5		
Investment property	30		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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

**1.13.4 De-recognition**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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**1.14. INTANGIBLE ASSETS**

**1.14.1 Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Municipality intends to do so; or
- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

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

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project;
- it is probable that the municipality will receive future economic benefits or service potential; and
- the Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

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

**1.14.2 Subsequent Measurement – Cost Model**

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

**1.14.3 Amortisation and Impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins

**SAKHISIZWE MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<b><u>Intangible Assets</u></b>	<b>Years</b>
Computer Software	5-10

**1.14.4 De-recognition**

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as

the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.15. INVESTMENT PROPERTY**

**1.15.1 Initial Recognition**

Investment property is recognised as an asset when, and only 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 includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

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

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

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.15.2 Subsequent Measurement – Cost Model**

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

<b><u>Investment property</u></b>	<b>Years</b>
Property - land	Indefinite
Property - buildings	30 years

**1.15.3 De-recognition**

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**1.16. IMPAIRMENT OF NON-FINANCIAL ASSETS**

**1.16.1 Cash-generating assets**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
  - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
  - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
  - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
  
- (b) Internal sources of information
  - Evidence is available of obsolescence or physical damage of an asset.
  - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount

that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

#### **1.16.2 Non-cash-generating assets**

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information

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- Cessation, or near cessation, of the demand or need for services provided by the asset.
  - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.
- (b) Internal sources of information
- Evidence is available of physical damage of an asset.
  - Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
  - A decision to halt the construction of the asset before it is complete or in a usable condition.
  - Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset

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before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

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

**1.17. INVENTORIES**

**1.17.1 Initial Recognition**

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.

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

**1.17.2 Subsequent Measurement**

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in

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net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

The basis of allocating cost to inventory items is 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.

**1.18. FINANCIAL INSTRUMENTS**

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

**1.18.1 Initial Recognition**

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

**1.18.2 Subsequent Measurement**

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

**1.18.2.1 Receivables**

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics



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and collectively assesses them 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.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

*1.18.2.2 Payables and Annuity Loans*

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

*1.18.2.3 Cash and Cash Equivalents*

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

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

*1.18.2.4 Non-Current Investments*

Investments which include fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

**1.18.3 De-recognition of Financial Instruments**

**1.18.3.1 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 when:

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

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new 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.

When 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.

**1.18.3.2 Financial Liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When 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 de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.18.4 Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

**1.19. REVENUE**

**1.19.1 Revenue from Non-Exchange Transactions**

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

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

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

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

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

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

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Revenue is measured at the fair value of the consideration received or receivable.

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

**1.19.2 Revenue from Exchange Transactions**

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

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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. . The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

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Interest revenue is recognised using the effective interest rate method.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

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

Revenue is measured at the fair value of the consideration received or receivable.

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

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

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

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

**1.20. RELATED PARTIES**

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

- (a) A person or a close member of that person's family is related to the Municipality if that person:
  - has control or joint control over the Municipality.
  - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Municipality.
  - is a member of the management of the Municipality or its controlling entity.
- (b) An entity is related to the Municipality if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
  - both entities are joint ventures of the same third party.
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - the entity is a post-employment benefit plan for the benefit of employees of either the Municipality or an entity related to the Municipality. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
  - the entity is controlled or jointly controlled by a person identified in (a).
  - a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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Management personnel include:

- (a) All directors or members of the governing body of the Municipality, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- (b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Municipality being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

#### **1.21. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.22. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.23. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

**1.24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

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

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

Management judgement is required when recognising and measuring contingent liabilities.

**1.25. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

**1.25.1 *Post retirement medical obligations and Long service awards***

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

**1.25.2 *Impairment of Receivables***

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

**1.25.3 *Property, Plant and Equipment***

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.



**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

**1.25.4 Intangible Assets**

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

**1.25.5 Investment Property**

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

**1.25.6 Provisions and Contingent Liabilities**

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.25.7 Revenue Recognition**

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.), specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

**1.25.8 Provision for Landfill Sites**

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

**1.25.9 Provision for Staff leave**

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

**1.25.10 Provision for Performance bonuses**

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

**1.25.11 Pre-paid electricity estimation**

Pre-paid electricity is recognised as income when the electricity is sold.

**1.25.12 Componentisation of Infrastructure assets**

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

*SAKHISIZWE MUNICIPALITY*

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013**

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**1.26. TAXES – VALUE ADDED TAX**

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

**1.27. CAPITAL COMMITMENTS**

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

**1.28. EVENTS AFTER REPORTING DATE**

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

		2013 R	2012 R
2	<b>LONG-TERM LIABILITIES</b>		
	Capitalised Lease Liability - At amortised cost	6 038 199	8 240 884
		<u>6 038 199</u>	<u>8 240 884</u>
	Current Portion transferred to Current Liabilities	2 488 338	2 202 687
	Capitalised Lease Liability - At amortised cost	<u>2 488 338</u>	<u>2 202 687</u>
		<u>3 549 861</u>	<u>6 038 197</u>
	<b>Total Long-term Liabilities - At amortised cost using the effective interest rate method</b>	<u><u>3 549 861</u></u>	<u><u>6 038 197</u></u>
	The obligations under finance leases are scheduled below:		
		<b>Minimum lease payments</b>	
	Amounts payable under finance leases:		
	Payable within one year	3 125 398	3 155 490
	Payable within two to five years	3 845 546	6 970 943
	Payable after five years	-	-
		<u>6 970 944</u>	<u>10 126 433</u>
	<b>Less:</b> Future finance obligations	<u>(932 745)</u>	<u>(1 885 549)</u>
	<b>Present value of lease obligations</b>	<u><u>6 038 199</u></u>	<u><u>8 240 884</u></u>

There are no leases secured by property, plant and equipment - Note 12

The municipality has plant & equipment assets with a carrying value of R7,258,227 (2012: R9,819,637) subject to a finance lease.

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

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid for the current year is R952,140 (2012: R1,245,643)

		2013	2012
		R	R
<b>3</b>	<b>EMPLOYEE BENEFITS</b>		
	Post Retirement Defined Benefit Plan - Refer to Note 4.1	859 034	1 094 048
	Long Service Awards - Refer to Note 4.2	1 400 108	1 273 973
	<b>Total Non-current Employee Benefit Liabilities</b>	<b>2 259 142</b>	<b>2 368 021</b>
	<b><u>Post Retirement Defined Benefit Benefits Plan</u></b>		
	Balance 1 July	1 161 597	1 580 836
	Contribution for the year	-	-
	Interest Cost	63 791	93 724
	Expenditure for the year	(67 549)	(92 063)
	Actuarial Gain	(234 005)	(420 900)
	<b>Total post retirement benefits 30 June</b>	<b>923 834</b>	<b>1 161 597</b>
	<b>Less:</b> Transfer of Current Portion - Note 7	(64 800)	(67 549)
	<b>Balance 30 June</b>	<b>859 034</b>	<b>1 094 048</b>
	<b><u>Long Service Awards</u></b>		
	Balance 1 July	1 453 704	1 228 998
	Contribution for the year	232 771	166 700
	Interest Cost	92 062	90 447
	Expenditure for the year	(179 731)	(204 128)
	Actuarial Loss	127 908	171 687
	<b>Total long service 30 June</b>	<b>1 726 714</b>	<b>1 453 704</b>
	<b>Less:</b> Transfer of Current Portion - Note 7	(326 606)	(179 731)
	<b>Balance 30 June</b>	<b>1 400 108</b>	<b>1 273 973</b>
	<b><u>TOTAL NON-CURRENT EMPLOYEE BENEFITS</u></b>		
	Balance 1 July	2 615 301	2 809 834
	Contribution for the year	232 771	166 700
	Interest cost	155 853	184 171
	Expenditure for the year	(247 280)	(296 191)
	Actuarial Loss/(Gain)	(106 097)	(249 213)
	<b>Total employee benefits 30 June</b>	<b>2 650 548</b>	<b>2 615 301</b>
	<b>Less:</b> Transfer of Current Portion - Note 7	(391 406)	(247 280)
	<b>Balance 30 June</b>	<b>2 259 142</b>	<b>2 368 021</b>

**4 EMPLOYEE BENEFITS (CONTINUE)**

**4.1 Post Retirement Defined Benefits Medical Aid Plan**

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

	2	2
Continuation members (e.g. Retirees, widows, orphans)	2	2
<b>Total Members</b>	<b>2</b>	<b>2</b>

The liability in respect of past service has been estimated to be as follows:

	923 834	1 161 597
Continuation members	923 834	1 161 597
<b>Total Liability</b>	<b>923 834</b>	<b>1 161 597</b>

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

	2011	2010	2009
	R	R	R
Continuation members	1 580 836	1 714 738	1 809 261
<b>Total Liability</b>	<b>1 580 836</b>	<b>1 714 738</b>	<b>1 809 261</b>

The municipality performed their first actuarial valuation on 30 June 2008.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Hosmed  
Kei Health  
LA Health  
Bonitas  
SAMWUMED

Key actuarial assumptions used:	2013 %	2012 %
<b>i) Rate of interest</b>		
Discount rate	7.65%	Zero-coupon SA Bond yield curve
Health Care Cost Inflation Rate	7.21%	1% lower than discount rate
Net Effective Discount Rate	0.41%	1.00%

The discount rate used in 2013 is a composite of all government bonds and is calculated using a technique is known as "bootstrapping"

**ii) Mortality rates**

The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.

**iii) Normal retirement age**

It has been assumed that the normal retirement age of the Sakhisizwe Municipality employees is 60 years for males and 60 years for females.

The amounts recognised in the Statement of Financial Position are as follows:	2013 R	2012 R
Present value of fund obligations	859 034	1 094 048
<b>Total Liability</b>	<b>859 034</b>	<b>1 094 048</b>

The fund is wholly unfunded.

The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).

**Reconciliation of present value of fund obligation:**

Present value of fund obligation at the beginning of the year	1 161 597	1 580 836
Total expenses	(3 758)	1 661
Current service cost	-	-
Interest Cost	63 791	93 724
Benefits Paid	(67 549)	(92 063)
Actuarial gains	(234 005)	(420 900)
Present value of fund obligation at the end of the year	923 834	1 161 597
<b>Less:</b> Transfer of Current Portion - Note 7	(64 800)	(67 549)
<b>Balance 30 June</b>	<b>859 034</b>	<b>1 094 048</b>

**Sensitivity Analysis on the Accrued Liability**

Assumption	in-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions		0.924		

The effect of movements in the assumptions are as follows:

Assumption	Change	in-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Health care inflation	1%		1.014		10%
Health care inflation	-1%		0.845		-9%
Post-retirement mortality	-1 yr		0.965		4%
Average retirement age					
Withdrawal Rate					

Assumption	Change	Current-service Cost (R)	Interest Cost (R)	Total (R)	% change
<b>Central Assumption</b>			63 791		
Health care inflation	1%		66 653		4%
Health care inflation	-1%		60 851		-5%
Post-retirement mortality			71 400		

Sakhisizwe Municipality will contribute 70% of the total premium payable, subject to a maximum of R3,158 (2012: R2,851). The municipality only subsidises the employee, spouse or life partner, biological children, and legally adopted children, up to the age of 21 years. An assumption is therefore made that should a child dependant turn 21 years of age, he/she is no longer eligible for subsidy benefits.

**Membership profile:**

The calculation is based on 2 members (2012: 2) with an average age of 68.8 (2012: 67.8), and 0.5 average dependants 2012: 1.5) and an average monthly contribution of R2,700 (R2,751)

**Assumptions used at the reporting date: Valuation assumptions**

We used realistic assumptions in the central basis.

In this section, we discuss the central basis, on which the main results are based. We also performed sensitivity tests in a separate section below where we changed the central basis to allow for other factors and examined the effects on the results. These adjusted bases are discussed below where the results of the sensitivity tests are shown.

**Investment returns**

There is general agreement amongst the actuarial profession that IAS 19 (AC 116) requires the valuation discount rate to be equal to actual long bond yields at the date of the valuation (par. 78-82 of IAS 19 (AC 116)). The statement stipulates that:

The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the postemployment benefit obligations. We have used the entire zero-coupon South African Bond Yield curve as at 29 June 2013 in the PRMA valuation of Sakhisizwe Municipality. Therefore, a single assumption for the discount rate is not shown. The full yield curve used in this valuation is given in Appendix A.

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.65% per annum has been used. The corresponding index-linked yield at this term is 1.36%. These rates do not reflect any adjustment for taxation.

This rate was deduced from the JSE Zero Coupon bond yield after the market close on 28 June 2013.

The rate is calculated by using the yields of the liability. Yields were determined by looking at the average term of the liability and finding the fixed-interest and index-linked yields at the relevant duration of JSE (Best Decency) Zero Coupon bond yield curve.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.21% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.71%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.41% which derives from  $(7.65\% - 7.21\%) / 1.0721$ .

The expected inflation assumption of 5.71% was obtained from the differential between market yields on index-linked bonds and bonds consistent with the estimated term of the liabilities (1.36%) and those of nominal bonds (7.65%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $(7.65\% - 0.50\% - 1.36\%) / 1.0136$ .

The next contribution increase was assumed to occur with effect from 1 January 2014.

Demographic assumptions are required to estimate the changing profile of retirees who are eligible for post-employment benefits.

**Post-retirement Mortality**

PA(90) ultimate table.

**Family Profile (retirees)**

For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

	2013	2012	
<b>4.2 Long Service Bonuses</b>			
The Long Service Bonus plans are defined benefit plans.			
As at year end, the following number of employees were eligible for Long Service Bonuses.	196	196	
	<u>2013</u>	<u>2012</u>	
Key actuarial assumptions used:	%	%	
<b>i) Rate of interest</b>			
Discount rate	7.00%	7.00%	
General Salary Inflation (long-term)	6.70%	6.70%	
Net Effective Discount Rate applied to salary-related Long Service Bonuses	0.28%	0.28%	
	<u>2013</u>	<u>2012</u>	
	R	R	
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>			
Present value of fund obligations	1 400 108	1 273 973	
<b>Net liability</b>	<u>1 400 108</u>	<u>1 273 973</u>	
<b>Reconciliation of present value of fund obligation:</b>			
Present value of fund obligation at the beginning of the year	1 453 704	1 228 998	
Total expenses	145 102	53 019	
Current service cost	232 771	166 700	
Interest Cost	92 062	90 447	
Benefits Paid	(179 731)	(204 128)	
Actuarial losses	127 908	171 687	
Present value of fund obligation at the end of the year	1 726 714	1 453 704	
<b>Less:</b> Transfer of Current Portion - Note 7	(326 606)	(179 731)	
<b>Balance 30 June</b>	<u>1 400 108</u>	<u>1 273 973</u>	
<b>Sensitivity Analysis on the Unfunded Accrued Liability</b>			
<b>Assumption</b>	<b>Change</b>	<b>Liability (R)</b>	<b>% change</b>
Central assumptions		1.727	
General salary inflation	1%	1.822	6%
General salary inflation	-1%	1.630	-5%
Average retirement age	- 2 years	1.561	-10%
Average retirement age	+ 2 years	1.983	15%
Withdrawal rates	-50%	1.967	14%
		<u>2013</u>	<u>2012</u>
		R	R
<b>5 NON-CURRENT PROVISIONS</b>			
Provision for Rehabilitation of Landfill-sites	2 555 520	2 323 200	
<b>Landfill Sites</b>			
Balance 1 July	2 323 200	2 112 000	
Balance previously reported	2 323 200	2 112 000	
Unwinding of discounted interest	232 320	211 200	
Balance previously reported	232 320	211 200	
<b>Balance 30 June</b>	<u>2 555 520</u>	<u>2 323 200</u>	

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

The legislation does not dictate the time frame in which the rehabilitation must be undertaken. Allowance has been made for all landfill sites that are required to be closed in terms of Department of Water Affairs minimum requirements to be closed. The area where the landfill operations complete must be closed and capped. Although the classification has been advised as being "C" - Communal, The minimum Requirements for Waste Disposal by landfill states that where the Minimum Rate of Deposition (MRD) is borderline, the higher class must be used.

For the purpose of this document, the conservative approach will be followed, as no formal study has been made of the sites of the current or projected MRD, or of the significance of the Climate Water Balance (B). The closure design will be based on "S" - Small sites, with a significant Climate Water Balance (B+), and it is accepted that the design may be reduced if the study indicates the site is indeed Communal, or if the Climate Water Balance (B) is sporadic rather than significant.

In calculating the provision for rehabilitation, the following four items have been included:

1. Direct Contract Cost
2. Indirect Professional Fees
3. Indirect disbursements
4. Escalation

The costs in the construction industry have escalated at approximately 10% to 12% per annum. The estimate for the closure of the landfill sites was compiled by Munitech, who have specialist experience closure of landfill sites.



6	<b>CONSUMER DEPOSITS</b>		
	Electricity	358 823	344 469
	<b>Total Consumer Deposits</b>	<b>358 823</b>	<b>344 469</b>
	<b>Guarantees held in lieu of Electricity Deposits</b>	<b>-</b>	<b>-</b>

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

7	<b>CURRENT EMPLOYEE BENEFITS</b>		
	Current Portion of Post Retirement Benefits - Note 3	64 800	67 549
	Current Portion of Long-Service Provisions - Note 3	326 606	179 731
	<b>Total Current Employee Benefits</b>	<b>391 406</b>	<b>247 280</b>

8	<b>PROVISIONS</b>		
	Employee costs: Performance Bonus	1 659 935	-
	<b>Total Provisions</b>	<b>1 659 935</b>	<b>-</b>

9	<b>PAYABLES FROM EXCHANGE TRANSACTIONS</b>	<b>2013</b>	<b>2012</b>
		<b>R</b>	<b>R</b>
	Trade Payables	2 068 480	1 936 639
	Accrual for Leave	2 551 467	2 551 467
	Accrued expenses: Provision 13th cheque	621 097	510 743
	Accrued expenses: Provision 14th cheque	1 124 721	-
	Accrued expenses: Workmens compensation	891 861	363 534
	Payments received in advance: Debtors in credit balance	733 362	742 284
	Sundry Deposits received: Dam & Hall Deposits	22 951	13 321
	<b>Total Trade Payables</b>	<b>8 013 939</b>	<b>6 117 988</b>

Payables are being recognised net of any discounts.

An immaterial amount of payables were not paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

Sundry deposits include dam and hall deposits.

10	<b>UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS</b>		
	<b>Unspent Grants</b>	2 646 604	8 377 946
	National Government Grants	1 547 523	7 691 049
	Provincial Government Grants	900 000	-
	Other Grant Providers	199 081	686 897
	<b>Total Conditional Grants and Receipts</b>	<b>2 646 604</b>	<b>8 377 946</b>

See appendix "E" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

The funds will remain a liability as long as the conditions are still to be met. Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

11	<b>TAXES</b>		
11.1	<b>NET VAT RECEIVABLE/(PAYABLE)</b>	<b>(1 575 338)</b>	<b>2 068 873</b>

VAT is receivable/payable on the cash basis.

12	<b>PROPERTY, PLANT AND EQUIPMENT</b>		
	<u>See attached sheet</u>		
		<b>2013</b>	<b>2012</b>
		<b>R</b>	<b>R</b>

12	<b>Assets pledged as security:</b>		
	There were no assets pledged as security.	-	-

13	INVESTMENT PROPERTY	2013 R	2012 R
	<b>Net Carrying amount at 1 July</b>	<b>34 779 036</b>	<b>34 968 398</b>
	Cost	35 157 760	35 157 760
	Accumulated Depreciation	(378 724)	(189 362)
	Depreciation for the year	(189 362)	(189 362)
	<b>Net Carrying amount at 30 June</b>	<b>34 589 674</b>	<b>34 779 036</b>
	Cost	35 157 760	35 157 760
	Accumulated Depreciation	(568 086)	(378 724)

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

There was no revenue derived from the rental of investment properties.



14	<b>INVENTORY</b>		
	Water – at cost	32 603	21 749
	<b>Total Inventory</b>	<b>32 603</b>	<b>21 749</b>
15	<b>RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
	Electricity	3 048 090	2 128 786
	Water	21 481 299	20 702 678
	Refuse	16 881 959	14 976 897
	Sewerage	12 653 883	11 162 861
	Other Trade Debtors	39 075	34 485
	Other Receivables	1 123 238	50 999
	Irregular expenditure: Refundable	115 337	30 587
	<b>Total Receivables from Exchange Transactions</b>	<b>55 342 881</b>	<b>49 087 293</b>
	Less: Allowance for Doubtful Debts	<b>49 703 356</b>	<b>45 713 488</b>
	Electricity	1 936 042	697 379
	Water	20 575 482	19 695 580
	Refuse	16 149 154	14 625 403
	Sewerage	12 083 346	10 691 251
	Other Trade Debtors	(1 040 668)	3 875
	Other Receivables	-	-
	<b>Total Net Receivables from Exchange Transactions</b>	<b>5 639 525</b>	<b>3 373 805</b>
	Electricity	1 112 048	1 431 407
	Water	905 817	1 007 098
	Refuse	732 805	351 494
	Sewerage	570 537	471 610
	Other Trade Debtors	1 079 743	30 610
	Other Receivables	1 123 238	50 999
	Irregular expenditure: Refundable	115 337	30 587

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

Ageing of Receivables from Exchange Transactions:

**(Electricity): Ageing**

Current (0 - 30 days)	445 274	763 330
31 - 60 Days	157 293	158 489
61 - 90 Days	31 147	107 506
+ 90 Days	489 854	402 082
<b>Total</b>	<b>1 123 568</b>	<b>1 431 407</b>

**(Water): Ageing**

Current (0 - 30 days)	748 860	269 938
31 - 60 Days	45 114	52 874
61 - 90 Days	21 488	40 815
+ 90 Days	916 223	643 471
<b>Total</b>	<b>1 731 685</b>	<b>1 007 098</b>

**(Refuse): Ageing**

Current (0 - 30 days)	33 111	213 631
31 - 60 Days	11 362	13 473
61 - 90 Days	2 965	7 499
+ 90 Days	400 439	116 891
<b>Total</b>	<b>447 877</b>	<b>351 494</b>

**(Sewerage): Ageing**

Current (0 - 30 days)	29 514	168 956
31 - 60 Days	10 812	19 238
61 - 90 Days	3 133	10 906
+ 90 Days	440 398	272 510
<b>Total</b>	<b>483 857</b>	<b>471 610</b>

**(Other Receivables): Ageing**

Current (0 - 30 days)	1 123 238	50 999
<b>Total</b>	<b>1 123 238</b>	<b>50 999</b>

**(Irregular expenditure: Refundable): Ageing**

Current (0 - 30 days)	115 337	30 587
<b>Total</b>	<b>115 337</b>	<b>30 587</b>

**(Other Trade Debtors): Ageing**

Current (0 - 30 days)	1 079 743	7 540
31 - 60 Days	-	1 170
61 - 90 Days	-	251
+ 90 Days	-	21 649
<b>Total</b>	<b>1 079 743</b>	<b>30 610</b>

**(Total): Ageing**

Current (0 - 30 days)	3 575 077	1 504 981
31 - 60 Days	224 581	245 244
61 - 90 Days	58 733	166 977
+ 90 Days	2 246 914	1 456 603
<b>Total</b>	<b>6 105 305</b>	<b>3 373 805</b>

**Reconciliation of Provision for Bad Debts**

Balance at beginning of year	45 713 488	14 181 472
Contribution to provision	3 989 868	1 150 101
Water & Sanitation reallocation from agency account	-	30 381 915
Bad Debts Written Off	-	-
<b>Balance at end of year</b>	<b>49 703 356</b>	<b>45 713 488</b>

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

**16 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2013 R	2012 R
Rates	16 777 421	13 963 352
Chris Hani Debtor: Water	1 865 501	2 497 963
<b>Total Receivables from Non-Exchange Transactions</b>	<b>18 642 922</b>	<b>16 461 315</b>
Less: Allowance for Doubtful Debts	<b>(12 574 666)</b>	<b>(10 511 841)</b>
Rates	<b>(12 574 666)</b>	<b>(10 511 841)</b>
<b>Total Net Receivables from Non-Exchange Transactions</b>	<b>6 068 256</b>	<b>5 949 474</b>

Rates debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of rates debtors are not performed in terms of GRAP 104 on initial recognition.

The entire provision for bad debts relates to the outstanding rates balance.

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

**17 CASH AND CASH EQUIVALENTS**

**Assets**

Bank Accounts	837 684	601 857
Short-term deposits	12 159 166	11 141 424
<b>Total Cash and Cash Equivalents - Assets</b>	<b>12 996 850</b>	<b>11 743 281</b>

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.

The municipality has the following bank account:

**Current Accounts**

First National Bank - Current Account - 6207-652-3135 (Primary Bank Account):	837 684	601 857
	<b>837 684</b>	<b>601 857</b>

**First National Bank - Current Account - 6207-652-3135 (Primary Bank Account):**

Cash book balance at beginning of year	601 857	648 056
Cash book balance at end of year	837 684	601 857

Bank statement balance at beginning of year	949 789	871 244
Bank statement balance at end of year	774 314	949 789

**Short-term Investment Deposits**

The Municipality had the following Short-term Investment Accounts

	2013	2012	2013	2012
	Bank Statement Balance	Bank Statement Balance	Cash Book Balance	Cash Book Balance
MSP - 6207-652-2294 (FNB Investment Account)	40 873	42 702	40 873	42 702
MIG - 6207-657-7091 (FNB Investment Account)	1 526 523	5 625 897	1 526 523	5 625 897
Disaster fund - 6207-659-5902 (FNB Investment Account)	-	-	-	-
Elliot Housing - 6207-745-0056 (FNB Investment Account)	1 110	1 109	1 110	1 110
Survey Account - 6207-659-621 (FNB Investment Account)	7 884	8 648	7 884	8 648
Extension 15 - 6207-740-8203 (FNB Investment Account)	1 000	1 000	1 000	1 000
Extension 13&14 - 6207-745-1278 (FNB Investment Account)	2 213	2 213	2 213	2 213
FMG - 6216 - 538 - 9464 (FNB Investment Account)	10 000	10 000	10 000	10 000
Invest: Valuation - 6207-745-083 (FNB Investment Account)	1 010	1 000	1 000	1 000
IDP plan - 6207-744-9603 (FNB Investment Account)	53 618	53 618	53 618	53 618
MSIG - 6216-538-9555 (FNB Investment Account)	10 000	10 000	10 000	10 000
PMF review account - 6216-534-1993 (FNB Investment Account)	12 640	172 764	12 640	172 764
DME - 6220-960-0776 (FNB Investment Account)	10 000	2 045 152	1 000	2 045 152
IEC - 6221-824-3418 (FNB Investment Account)	47 423	47 422	47 423	47 423
Skills Development - 6217-582-8189 (FNB Investment Account)	31 320	31 319	31 320	31 320
FNB Operating Call Account - 6216-534-1943	10 412 562	3 088 577	10 412 562	3 088 577
	<b>12 168 175</b>	<b>11 141 421</b>	<b>12 159 166</b>	<b>11 141 424</b>

	2013 R	2012 R
<b>PROPERTY RATES</b>		
<u>Actual</u>		
<b>Rateable Land and Buildings</b>	3 683 699	2 867 068
Residential, Commercial Property, State	<b>3 683 699</b>	<b>2 867 068</b>
<b>Total Assessment Rates</b>	<b>3 683 699</b>	<b>2 867 068</b>

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

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

	2013	2012
<b>GOVERNMENT GRANTS AND SUBSIDIES</b>		
<b>Unconditional Grants</b>	<b>33 027 000</b>	<b>33 088 000</b>
Equitable Share	33 027 000	33 088 000
<b>Conditional Grants</b>	<b>26 942 686</b>	<b>17 244 220</b>
Grants and donations: National	25 563 161	16 072 259
Grants and donations: Other	1 379 525	1 171 961
<b>Total Government Grants and Subsidies</b>	<b>59 969 686</b>	<b>50 332 220</b>
Government Grants and Subsidies - Capital	(20 391 374)	16 485 918
Government Grants and Subsidies - Operating	(39 958 968)	33 088 000
	<b>(60 350 342)</b>	<b>49 573 918</b>
Revenue recognised per vote as required by Section 123 (c) of the MFMA		
Equitable share	35 127 000	33 088 000
Finance & Administration: Budget & Treasury	2 300 000	2 307 855
Finance & Administration: Corporate Services	158 764	-
Planning & Development: IPED	193 857	123 010
Project Management Unit: PMU	21 219 009	7 996 441
Planning & Development	602 056	5 793 914
Community Services: Libraries	369 000	-
	<b>59 969 686</b>	<b>49 309 220</b>

The municipality does not expect any significant changes to the level of grants.

**19.1 Equitable Share**

Opening balance	-	-
Grants received	35 127 000	33 088 000
Conditions met - Operating	(35 127 000)	(33 088 000)
Conditions met - Capital	-	-
Conditions still to be met	-	-

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

**19.2 Local Government Financial Management Grant (FMG)**

Opening balance	10 000	24 789
Grants received	1 500 000	1 532 176
Conditions met - Operating	(1 500 000)	-
Conditions met - Capital	-	(1 546 965)
Conditions still to be met	10 000	10 000

Health subsidies was used fund primary health care services in the municipal area.

**19.3 Integrated National Electrification Programme (Eskom) Grant**

Opening balance	2 045 152	3 813 116
Grants received	-	4 238 674
Conditions met - Operating	(2 044 152)	-
Conditions met - Capital	-	(6 006 638)
Conditions still to be met	1 000	2 045 152

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

**19.4 Municipal Infrastructure Grant (MIG)**

Opening balance	5 625 897	185 656
Grants received	16 292 000	13 497 181
Conditions met - Operating	-	-
Conditions met - Capital	(20 391 374)	(8 056 940)
Conditions still to be met	1 526 523	5 625 897

The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.

**19.5 Municipal Systems Improvement Grant (MSIG)**

Opening balance	10 000	13 065
Grants received	800 000	803 527
Conditions met - Operating	(800 000)	-
Conditions met - Capital	-	(806 592)
Grant expenditure to be recovered	10 000	10 000

The grant was used to upgrade infrastructure in previously disadvantaged areas.

**19.6 Other Grant Providers**

Opening balance	686 897	419 028
Grants received	900 000	336 652
Conditions met - Operating	(487 816)	-
Conditions met - Capital	-	(68 783)
Conditions still to be met	1 099 081	686 897

Various grants were received from other spheres of government (e.g. Skills Development Grant)

**19.7 Total Grants**

Opening balance	8 377 946	4 455 654
Grants received	54 619 000	53 496 210
Conditions met - Operating	(39 958 968)	(33 088 000)
Conditions met - Capital	(20 391 374)	(16 485 918)
Conditions still to be met/(Grant expenditure to be recovered)	<b>2 646 604</b>	<b>8 377 946</b>

Disclosed as follows:		
	2 646 604	8 377 946
	<u>2 646 604</u>	<u>8 377 946</u>
<b>20</b>	<b>SERVICE CHARGES</b>	
	Electricity	7 325 972
	Water	2 004 430
	Refuse removal	1 445 801
	Sewerage and Sanitation Charges	1 157 949
		<u>11 934 152</u>
	<b>Total Service Charges</b>	<b><u>11 934 152</u></b>
<b>21</b>	<b>OTHER INCOME</b>	
	Rental income	109 669
	Traffic department income	1 834 229
	Sundry income (detailed in note on Sundry Income below)	10 557 646
		<u>12 501 544</u>
	<b>Total Other Income</b>	<b><u>12 501 544</u></b>
	<b>Sundry Income</b>	
	Electricity re-connection fee	31 992
	Commission on collection	45 631
	Building plan & inspection fees	4 967
	Registration data base	-
	Other income	417 986
	Rates clearance certificates	8 778
	Site payments	55 140
	Trading licences	13 281
	Defined Benefit: Medical Aid actuarial gain	301 554
	Water income	6 560 016
	Sanitation income	3 060 554
	Rental Income	57 747
	Debt relief from Chris Hani	-
		<u>10 557 646</u>
	<b>Total Sundry Income</b>	<b><u>10 557 646</u></b>
<b>22</b>	<b>EMPLOYEE RELATED COSTS</b>	
	Basic Salaries & Wages	18 840 930
	Bonus	1 148 964
	Medical aid: company contributions	1 322 200
	UIF	168 218
	SDL	260 063
	Acting Allowances	-
	Contribution Bargaining Council	11 578
	Workmens Compensation	891 861
	Leave pay provision charge	640 274
	Long-service awards	182 599
	Overtime payments	2 300 198
	Post -employment benefits: Defined benefit medical aid	1 979 664
	Shift Allowance	57 267
	Telephone allowances	42 984
	Transitional & other allowances	24 840
		<u>27 871 640</u>
	<b>Total Employee Related Costs</b>	<b><u>27 871 640</u></b>
	<b>KEY MANAGEMENT PERSONNEL</b>	
	Municipal Manager is appointed on a 5-year and all other Directors on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period.	
	No performance assessments have been performed by the municipality for the financial years ended 2009 to 2013. Following the outcome of a court case against the municipality, a decision was made to make a payment for the relevant performance bonuses to all section 57 managers. The payment due for 2009 to 2012 were made after the year ended 30 June 2013. A provision was raised in the current financial year in order to take into account the relevant bonuses paid after year end for the years ended 2009 to 2012, together with a provision for the year ended 2013, for payments anticipated to be made to the Municipal Manager and CFO for the 2013 financial year.	
	<b>REMUNERATION OF KEY MANAGEMENT PERSONNEL</b>	
	<b>Remuneration of the Municipal Manager</b>	
	Annual Remuneration	701 715
	Performance Bonuses: 2009	61 200
	Performance Bonuses: 2010	83 028
	Performance Bonuses: 2011	99 076
	Performance Bonuses: 2012	114 653
	Performance Bonuses: 2013	122 106
	Car Allowance	84 000
	Housing & telephone allowances	81 708
	Contributions to UIF, Medical, Pension Funds and Bargaining Council	149 747
	Subsistence & other allowances	58 689
		<u>978 048</u>
	<b>Total</b>	<b><u>978 048</u></b>



	<b>Remuneration of the Chief Finance Officer (CFO)</b>	
	573 321	507 505
Annual Remuneration		
Performance Bonuses: 2009	45 972	-
Performance Bonuses: 2010	64 208	-
Performance Bonuses: 2011	76 619	-
Performance Bonuses: 2012	88 666	-
Performance Bonuses: 2013	94 429	-
Car Allowance	60 000	60 000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	152 633	143 885
Subsistence & other allowances	51 126	47 190
<b>Total</b>	<b>1 206 974</b>	<b>758 580</b>
	<b>Remuneration of the Community Services Manager</b>	
	710 282	283 555
Annual Remuneration		
Travelling Allowance	71	9 277
Contributions to UIF, Medical, Pension Funds and Bargaining Council	1 713	749
<b>Total</b>	<b>712 066</b>	<b>293 581</b>
	<b>Remuneration of the Corporate Services Manager</b>	
	619 267	573 869
Annual Remuneration		
Performance Bonuses: 2009	40 500	-
Performance Bonuses: 2010	64 208	-
Performance Bonuses: 2011	76 619	-
Performance Bonuses: 2012	88 666	-
Performance Bonuses: 2013	-	-
Car Allowance	99 000	108 000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	31 637	31 935
Subsistence & other allowances	21 196	22 347
<b>Total</b>	<b>1 041 093</b>	<b>736 151</b>
	<b>Remuneration of the IPED Manager</b>	
	259 714	601 531
Annual Remuneration		
Performance Bonuses: 2009	40 500	-
Performance Bonuses: 2010	64 208	-
Performance Bonuses: 2011	76 619	-
Performance Bonuses: 2012	88 666	-
Performance Bonuses: 2013	-	-
Car Allowance	36 000	108 000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	5 076	14 623
Subsistence & other allowances	12 437	37 211
<b>Total</b>	<b>583 220</b>	<b>761 365</b>
	<b>Remuneration of the Technical Services Manager</b>	
	280 891	623 935
Annual Remuneration		
Performance Bonuses: 2009	40 500	-
Performance Bonuses: 2010	64 208	-
Performance Bonuses: 2011	76 619	-
Performance Bonuses: 2012	88 666	-
Performance Bonuses: 2013	-	-
Car Allowance	37 000	108 000
Contributions to UIF, Medical, Pension Funds and Bargaining Council	672	9 671
Subsistence & other allowances	9 784	48 231
<b>Total</b>	<b>598 340</b>	<b>789 837</b>
	<b>Remuneration of the Managers (summary)</b>	
	3 145 190	3 224 258
Annual Remuneration		
Performance Bonuses: 2009	228 672	-
Performance Bonuses: 2010	339 860	-
Performance Bonuses: 2011	405 552	-
Performance Bonuses: 2012	469 317	-
Performance Bonuses: 2013	216 535	-
Car Allowance	316 071	477 277
Telephone allowance	81 708	81 708
Contributions to UIF, Medical, Pension Funds and Bargaining Council	341 478	341 478
Subsistence & other allowances	153 232	192 841
<b>Total</b>	<b>5 697 615</b>	<b>4 317 562</b>
<b>23</b>	<b>REMUNERATION OF COUNCILLORS</b>	
	2 628 788	2 636 523
Councillors Salaries		
Mayor Salary	542 170	605 440
Speaker's Salary	382 087	-
Medical, travel & other allowances	1 340 057	1 217 251
<b>Total Councillors' Remuneration</b>	<b>4 893 102</b>	<b>4 459 214</b>
	<b>In-kind Benefits</b>	
	The Executive Mayor and all the committee members are part-time. The Mayor is provided with secretarial support and an office at the cost of the Council.	
<b>24</b>	<b>DEBT IMPAIRMENT</b>	
	5 409 057	1 150 101
Trade Receivables from exchange transactions - Note 15		
Trade Receivables from non-exchange transactions - Note 16	2 347 970	1 553 959
Trade Receivables from exchange transactions (Bad Debts)	-	3 165 304
Chris Hani Agency Account: Impairment loss	-	202 440
<b>Total Contribution to Debt Impairment</b>	<b>7 757 028</b>	<b>6 071 804</b>
Less: Portion Relating to VAT	(952 617)	(331 972)
<b>Debt impairment recognised in statement of financial performance</b>	<b>6 804 411</b>	<b>5 739 832</b>

<b>25</b>	<b>DEPRECIATION AND AMORTISATION</b>		
	Property Plant and Equipment	9 261 264	8 914 256
	Investment Property	189 362	189 362
		<b>9 450 626</b>	<b>9 103 618</b>
<b>26</b>	<b>IMPAIRMENTS</b>		
	Property Plant & Equipment	-	202 440
		-	<b>202 440</b>
<b>27</b>	<b>FINANCE CHARGES</b>		
	Finance leases	952 140	1 245 643
	Post Employment Health	63 791	93 724
	Long service awards	92 062	-
	Other interest paid	53 040	54 270
	<b>Total finance charges</b>	<b>1 161 033</b>	<b>1 393 637</b>
<b>28</b>	<b>BULK PURCHASES</b>		
	Electricity	6 038 685	7 090 874
	<b>Total Bulk Purchases</b>	<b>6 038 685</b>	<b>7 090 874</b>
<b>29</b>	<b>EXPENDITURE THROUGH GRANTS AND SUBSIDIES</b>		
	Fund: Finance Management Grant (FMG)	1 062 423	1 504 482
	Fund: MSIG expenditure	1 093 379	914 475
	Fund: LED	-	50 163
	Fund: Repairs & Maintenance - Roads	23 668	224 826
	Fund: Repairs & Maintenance - Pounds	23 827	5 700
	Fund: Repairs & Maintenance - Street Lights	72 400	15 253
	Fund: DEDEA	428 675	154 850
	Fund: IDP	103 137	162 631
	Fund: Disaster Support	-	-
	Fund: Skills Development	700	-
	Fund: MSP	9 700	-
	Fund: General Valuation	853	-
	Fund: Performance Management	140 460	-
	<b>Total Grants and Subsidies</b>	<b>2 959 222</b>	<b>3 032 380</b>
		<b>2013</b>	<b>2012</b>
<b>30</b>	<b>GENERAL EXPENSES</b>	<b>R</b>	<b>R</b>
	Advertising	312 147	108 134
	Water operating expenditure	822 810	364 985
	Auditors Remuneration	1 666 999	2 415 494
	Bank Charges	137 243	138 752
	Catering & Entertainment	204 302	190 399
	Consulting & Professional Fees	123 086	276 686
	Consumables	139 975	125 054
	Council Inauguration	-	170 793
	Sundry expenditure	664	-
	Electricity Purchases	160 412	101 041
	Fuel & Oil	2 283 231	2 269 539
	Insurance	460 099	447 853
	IT Expenses	131 855	129 812
	Licence Fees	600 689	344 686
	Magazines, books & publications	3 717	-
	Mayors Fund	3 500	61 634
	Plant Hire	-	34 898
	Pound Expenditure	64 673	24 243
	Printing & Stationery	320 821	403 027
	Promotions & Sponsorships	548 822	452 143
	Protective Clothing	261 202	283 343
	Public Participation	117 923	-
	Refuse Bags	11 723	4 600
	Registration fees	68 975	-
	Remuneration Ward Committees	1 098 000	709 000
	Rent - office equipment	81 414	53 856
	Security Services	844 546	438 280
	Subscription & Membership Fees	841 967	236 096
	Team Building	-	107 542
	Telephone, postage & fax	632 673	1 232 267
	Tools & Accessories - non-capital	192 466	378 821
	Training	552 623	266 338
	Travel Expenses	1 985 073	1 966 595
	Valuation Roll	612 308	1 116 968
	VIP Suckage	215 580	49 880
	Water Cartage	-	64 891
	Water Purification	418 865	438 213
	Water week expenditure	97 396	48 650
	<b>Total General Expenses</b>	<b>16 017 779</b>	<b>15 454 513</b>
			<b>2012</b>
			<b>R</b>
<b>31</b>	<b>CORRECTION OF ERROR IN TERMS OF GRAP 3</b>		
<b>31.1</b>	<b>Provision for Long-Term Bonuses</b>		
	Raising of provision for Long-term bonuses for the prior year		(1 453 704)
	A provision for long-term bonuses for 2012 was only calculated and raised in the current year		<b>(1 453 704)</b>
<b>31.2</b>	<b>Inventory - Water</b>		
	Raising of water inventory for the prior year		21 749
	Raising of water inventory for the prior year as the water was only costed in the current year		<b>21 749</b>

31.3	<b>Chris Hani Debtors</b>			
	Adjustment to the opening balance of Chris Hani Debtors account			2 497 961
				<b>2 497 961</b>
31.4	<b>VAT and PAYE</b>			
	Adjustment to the VAT on the Impairment of Debtors for the prior year			(2 239 645)
	Missclassification of PAYE in prior year			70 250
				<b>(2 169 395)</b>
31.5	<b>Accumulated surplus/ (Deficit)</b>			
	Raising of provision for Long-term bonuses for the prior year			1 453 704
	Raising of water inventory for the prior year			(21 749)
	Adjustment to the opening balance of Chris Hani Debtors account			(2 497 961)
	Adjustment to the VAT on the Impairment of Debtors for the prior year			<b>2 169 395</b>
				<b>1 103 389</b>
32	<b>STATEMENT OF FINANCIAL PERFORMANCE</b>			
	<b>Balance previously reported</b>			-
	Raising of provision for Long-term bonuses for the prior year			1 453 704
	Raising of water inventory for the prior year			(21 749)
	<b>Total</b>			<b>1 431 955</b>
		<b>2013</b>	<b>2012</b>	
		<b>R</b>	<b>R</b>	
33	<b>RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS</b>			
	Surplus/(Deficit) for the year	9 751 905	7 805 514	
	<b>Adjustments for:</b>			
	Depreciation	9 450 626	9 103 618	
	Loss on disposal of property, plant and equipment	-	12 743	
	Interest income (cash)	(530 330)	(661 566)	
	Interest income (non-cash)	(4 238 688)	(4 242 775)	
	Finance costs (cash)	952 140	1 245 643	
	Finance costs (non-cash)	208 893	147 994	
	Movement in retirement benefit assets and liabilities	(173 646)	886 471	
	Movement in provisions	1 892 255	211 200	
	Prior year adjustments	-	(3 601 350)	
	Unspent conditional grants and receipts	(5 731 342)	3 922 292	
	Operating Surplus/(Deficit) before changes in working capital	11 581 813	14 829 784	
	Changes in working capital	7 397 848	5 875 327	
	Increase/(Decrease) in Trade and Other Payables	1 895 951	1 182 620	
	Increase/(Decrease) in Taxes	3 644 211	3 808 571	
	(Increase)/Decrease in Inventory	(10 854)	(21 749)	
	Consumer deposits	14 354	30 935	
	(Increase)/Decrease in Trade and other receivables (exchange)	1 972 968	2 487 160	
	(Increase)/Decrease in Trade and other receivables (non-exchange)	(118 782)	(1 612 210)	
	<b>Cash generated/(absorbed) by operations</b>	<b>18 979 661</b>	<b>20 705 111</b>	
34	<b>CASH AND CASH EQUIVALENTS</b>			
	Cash and cash equivalents included in the cash flow statement comprise the following:			
	Call Investments Deposits - Note 17	12 159 166	11 141 424	
	Bank - Note 17	837 684	601 857	
	<b>Total cash and cash equivalents</b>	<b>12 996 850</b>	<b>11 743 281</b>	
35	<b>RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES</b>			
	Cash and Cash Equivalents - Note 34	12 996 850	11 743 281	
	Less:	12 996 850	11 743 281	
		4 221 942	8 377 946	
	Unspent Committed Conditional Grants - Note 10	2 646 604	8 377 946	
	VAT - Note 11	1 575 338	-	
	<b>Resources available for working capital requirements</b>	<b>8 774 908</b>	<b>3 365 335</b>	
36	<b>UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>			
	Long-term Liabilities - Note 2	6 038 199	8 240 884	
	Used to finance property, plant and equipment - at cost	(6 038 199)	(8 240 884)	
	<b>Cash invested for repayment of long-term liabilities</b>	<b>-</b>	<b>-</b>	
	Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.			
37	<b>BUDGET COMPARISONS</b>			
		<b>2013</b>	<b>2013</b>	<b>2013</b>
		<b>R</b>	<b>R</b>	<b>R</b>
		<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>
				<b>(%)</b>
37.1	<b>Operational</b>			
	<b>Revenue by source</b>			
	Property Rates	3 683 699	3 785 000	(101 301)
				-3%

SAKHISIZWE MUNICIPALITY NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Government Grants and Subsidies - Capital	26 942 686	23 977 400	2 965 286	12%
Government Grants and Subsidies - Operating	33 027 000	42 753 000	(9 726 000)	-23%
Fines	-	30 350	(30 350)	-100%
Service Charges	11 934 152	14 640 000	(2 705 848)	-18%
Rental of Facilities and Equipment	-	1 028 000	(1 028 000)	-100%
Interest Earned - external investments	530 330	636 000	(105 670)	-17%
Interest Earned - outstanding debtors	4 238 688	2 130 000	2 108 688	99%
Agency Services	-	4 071 228	(4 071 228)	-100%
Other Income	12 501 544	18 483 491	(5 981 947)	-32%
Gain on disposal of Property, Plant and Equipment	-	-	-	0%
	<b>92 858 099</b>	<b>111 534 469</b>	<b>(18 676 370)</b>	<b>-17%</b>
<b>Expenditure by nature</b>				
Employee Related Costs	33 569 255	27 468 252	(6 101 003)	22%
Remuneration of Councillors	4 893 102	5 000 028	(106 926)	-2%
Debt Impairment	6 804 411	4 976 120	(1 828 291)	37%
Depreciation and Amortisation	9 450 626	4 604 400	(4 846 226)	105%
Actuarial losses	127 908	-	(127 908)	-100%
Repairs and Maintenance	2 084 173	6 354 000	(4 269 827)	-67%
Finance Charges	1 161 033	1 178 153	(17 120)	-1%
Bulk Purchases	6 038 685	8 900 000	(2 861 315)	-32%
Contracted services	-	255 000	(255 000)	-100%
Grants and Subsidies	2 959 222	3 501 000	(541 778)	-15%
General Expenses	16 017 779	23 996 316	(7 978 537)	-33%
	<b>83 106 194</b>	<b>86 233 269</b>	<b>3 127 075</b>	<b>-4%</b>
<b>Net Surplus for the year</b>	<b>9 751 905</b>	<b>25 301 200</b>	<b>(15 549 295)</b>	<b>-61%</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>(%)</b>
<b>37.2 Expenditure by Vote</b>	<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>	<b>(%)</b>
Executive & Council	16 757 372	14 675 524	2 081 848	14%
Budget & Treasury	18 446 409	15 832 701	2 613 708	17%
Planning & Development	2 736 602	3 004 279	(267 677)	-9%
Community & Social Services	1 552 230	2 359 940	(807 710)	-34%
Housing	313 115	307 036	6 079	2%
Public Safety	2 208 474	2 323 096	(114 622)	-5%
Sport & Recreation	145 652	230 765	(85 113)	-37%
Waste Management	5 926 466	7 427 079	(1 500 613)	-20%
Waste Water Management	4 601 059	9 118 045	(4 516 986)	-50%
Road Transport	11 904 199	8 604 375	3 299 824	38%
Water	9 138 559	10 203 997	(1 065 438)	-10%
Electricity	9 376 057	12 146 433	(2 770 376)	-23%
	<b>83 106 194</b>	<b>86 233 270</b>	<b>(3 127 076)</b>	<b>-4%</b>
	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>(%)</b>
<b>37.3 Capital expenditure by vote</b>	<b>(Actual)</b>	<b>(Budget)</b>	<b>(Variance)</b>	<b>(%)</b>
Executive & Council	505 380	600 000	(94 620)	-16%
Budget & Treasury	-	50 000	(50 000)	-100%
Community & Social Services	5 363 893	2 000 000	3 363 893	168%
Waste Management	3 160 851	6 125 000	(2 964 149)	-48%
Road Transport	6 833 349	12 108 000	(5 274 651)	-44%
Water	231 282	-	231 282	100%
Electricity	934 291	5 100 000	(4 165 709)	-82%
	<b>17 029 046</b>	<b>25 983 000</b>	<b>(8 953 954)</b>	<b>-34%</b>
<b>38 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED</b>			<b>2013</b>	<b>2012</b>
			<b>R</b>	<b>R</b>
<b>38.1 Unauthorised expenditure</b>				
Reconciliation of unauthorised expenditure:				
Opening balance			10 417 460	4 001 515
Unauthorised expenditure current year - capital			3 595 175	-
Unauthorised expenditure current year - operating			8 001 459	-
Unauthorised expenditure current year			-	6 415 945
Written off by council			-	-
Transfer to receivables for recovery			-	-
Unauthorised expenditure awaiting authorisation			<b>22 014 094</b>	<b>10 417 460</b>

Unauthorised expenditure in 2013 for R 9,838,573 (2012: R6,415,945) was due mainly to the overspending on the budget. Included in the 2012 year overspending was additional depreciation of R3,316,098 due to the budgeted depreciation being based on the previous asset register which did not add up correctly and additional depreciation of R1,115,612 that resulted from the change in the useful lives of roads.

	2013 R (Actual)	2013 R (Budget)	2013 R (Variance)	2013 R (Unauthorised)
<b>Unauthorised expenditure current year - operating</b>				
Executive & Council	16 757 372	14 675 524	2 081 848	2 081 848
Budget & Treasury	18 446 409	15 832 701	2 613 708	2 613 708
Planning & Development	2 736 602	3 004 279	(267 677)	-
Community & Social Services	1 552 230	2 359 940	(807 710)	-
Housing	313 115	307 036	6 079	6 079
Public Safety	2 208 474	2 323 096	(114 622)	-
Sport & Recreation	145 652	230 765	(85 113)	-
Waste Management	5 926 466	7 427 079	(1 500 613)	-
Waste Water Management	4 601 059	9 118 045	(4 516 986)	-
Road Transport	11 904 199	8 604 375	3 299 824	3 299 824
Water	9 138 559	10 203 997	(1 065 438)	-
Electricity	9 376 057	12 146 433	(2 770 376)	-
	<b>83 106 194</b>	<b>86 233 270</b>	<b>(3 127 076)</b>	<b>8 001 459</b>

	2013 R (Actual)	2013 R (Budget)	2013 R (Variance)	2013 R (Unauthorised)
<b>Unauthorised expenditure current year - capital</b>				
Executive & Council	505 380	600 000	(94 620)	-
Budget & Treasury	-	50 000	(50 000)	-
Community & Social Services	5 363 893	2 000 000	3 363 893	3 363 893
Waste Management	3 160 851	6 125 000	(2 964 149)	-
Road Transport	6 833 349	12 108 000	(5 274 651)	-
Water	231 282	-	231 282	231 282
Electricity	934 291	5 100 000	(4 165 709)	-
	<b>17 029 046</b>	<b>25 983 000</b>	<b>(8 953 954)</b>	<b>3 595 175</b>

	2013 R	2012 R
<b>UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (CONTINUE)</b>		

**38.2 Fruitless and wasteful expenditure**

	2013 R	2012 R
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	769 292	62 284
Fruitless and wasteful expenditure current year	-	-
Overpayment of expenditure refunded	-	(39 146)
Overpayment of expenditure	-	62 430
MTN contract unauthorised by management	-	683 724
Written off by council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting further action	<b>769 292</b>	<b>769 292</b>

2013: There was no fruitless and wasteful expenditure noted for the current financial year  
 2012: A contract was entered into between MTN Cellular Service Provider and Sakhisizwe Municipality, whereby the municipality stands as surety for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not conducted and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones. The payment to MTN in the current financial year is regarded as fruitless and wasteful expenditure. An amount of R6,000 was overpaid to a supplier due to a casting error on their invoice submitted. An amount of R56,430 was overpaid to the supplier for car hire.

2011: Licencing & service fees totalling R23,138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2012. A duplicate payment was incorrectly made to Eskom on 26 August 2010 for R39,146. The payment was refunded during the 2012 financial year.

**38.3 Irregular expenditure**

	2013 R	2012 R
Reconciliation of irregular expenditure:		
Opening balance	22 077 021	13 321 328
Irregular expenditure current year	6 504 460	8 755 693
Condonement supported by council	-	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting further action	<b>28 581 481</b>	<b>22 077 021</b>
Irregular expenditure awaiting condonement from National Treasury	-	-

2011: During the 2011 financial year it was noted that under banking to the amount of R14,807 (2010: R21,713) occurred at the Cala Receiving office. No explanation could be provided and no authorisation was given for the under banking of the cash receipts.

Expenditure to the value of R 6,504,460 (2012: R8,755,693, 2011: R13,306,521) was incurred during the current financial year, for which the minimum required documentation was not available in order to comply with the required procurement procedures. As a result, the expenditure is considered irregular and it will be investigated further.

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

**38.4 Material Losses**

**Water distribution losses**

- Kilo litres disinfected/purified/purchased	-	-
- Kilo litres lost during distribution	-	-
- Percentage lost during distribution	-	-

**Electricity distribution losses**

- Units purchased (Kwh)	-	-
- Units lost during distribution (Kwh)	-	-
- Percentage lost during distribution	-	-

Water losses: In terms of the Water Service Agreement between Chris Hani District Municipality and Sakhisizwe Local Municipality, the water assets are the responsibility of Chris Hani District Municipality. Sakhisizwe Local Municipality is responsible for the maintenance thereof, and any expenditure incurred thereon will be reimbursed by Chris Hani District Municipality. Any potential losses which could exist would be immaterial.

Electricity losses: as at the time of the submission of the financial statements, the municipality was unable to determine electricity losses as no bulk meters or other systems are currently in place to identify and quantify electricity distribution losses. The installation of bulk electricity meters is in its planning stage.

	2013 R	2012 R
<b>39 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT</b>		
<b>39.1 Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA CONTRIBUTIONS</b>		
Opening balance	-	-
Council subscriptions	826 282	134 000
Amount paid - current year	(826 282)	(134 000)
Amount paid - previous years	-	-
<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
	<b>2013</b>	<b>2012</b>
	<b>R</b>	<b>R</b>
<b>39.2 Audit fees - [MFMA 125 (1)(b)]</b>		
Opening balance	2 415 494	-
Current year audit fee	1 467 818	2 415 494
External Audit - Auditor-General	1 374 758	1 888 814
Internal Audit	16 932	375 237
Audit Committee	76 128	151 443
Amount paid - current year	(1 666 999)	-
Amount paid - previous year	(2 415 494)	-
<b>Balance unpaid (included in creditors)</b>	<b>(199 181)</b>	<b>2 415 494</b>
<b>39.3 Councillor's arrear consumer accounts - [MFMA 125 (1)(b)]</b>		
The following Councillors had arrear accounts for more than 90 days as at 30 June 2013:		
	<b>2013</b>	<b>2012</b>
	<b>R</b>	<b>R</b>
	<b>Outstanding</b>	<b>Outstanding</b>
	<b>more than 90</b>	<b>more than 90</b>
	<b>days</b>	<b>days</b>
Councillor SP Nakana	1 681	393
Councillor TT Doda	16 241	18 404
<b>Total Councillor Arrear Consumer Accounts</b>	<b>17 922</b>	<b>18 797</b>
<b>39.4 Other non-compliance (MFMA 125(2)(e))</b>		
Section 9(a) of the MFMA requires the accounting officer of a municipality to submit to the relevant provincial treasury and the Auditor General, in writing within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account. There were no new accounts opened during the current financial year.		
Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.		
Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by the section.		
The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA. The matter has only been addressed after year-end.		
The municipality did not approve their adjustment budget before 25 January 2012 as required by Section 72 of the MFMA. The budget was approved on 11 February 2012.		

40	<b>CAPITAL COMMITMENTS</b>	<b>2013</b>	<b>2012</b>
		<b>R</b>	<b>R</b>
	<b>Commitments in respect of capital expenditure:</b>		
	Approved and contracted for:	4 663 941	12 107 801
	Total commitments consist out of the following:		
	- Property, plant & equipment	4 663 941	12 107 801
		<u>4 663 941</u>	<u>12 107 801</u>
	This expenditure will be financed from:		
	Government Grants	4 663 941	12 107 801
		<u>4 663 941</u>	<u>12 107 801</u>

41	<b>FINANCIAL RISK MANAGEMENT</b>	<b>2013</b>	<b>2012</b>
		<b>R</b>	<b>R</b>

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

**(a) Foreign Exchange Currency Risk**

The municipality does not engage in foreign currency transactions.

**(b) Price risk**

The municipality is not exposed to price risk.

**(c) Interest Rate Risk**

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

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

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

1 % (2012 - 0.5%) Increase in interest rates	69 587	17 512
0.5% (2012 - 0.5%) Decrease in interest rates	(34 793)	(17 512)

**(d) Credit Risk**

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

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies. The municipality only deposits cash with major banks with high quality credit standing and limited exposure to any one counter-party.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers, however customers cannot be refused basic services, therefore in practice this is difficult to apply and this constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but the risk is largely dependent on the political will for execution to control the credit risk.

All rates and services are payable within 30 days from invoice date. Refer to note 15 and 16 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 15 and 16 for balances included in receivables that were re-negotiated for the period under review.

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 15 and 16 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

	2013 R	2012 R
Financial assets exposed to credit risk at year end are as follows:		
Receivables from exchange transactions	5 639 525	3 373 805
Cash and Cash Equivalents	12 996 850	11 743 281
	<u>18 636 375</u>	<u>15 117 086</u>



(e) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow and available borrowing facilities are monitored.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
<b>2013</b>				
Long Term liabilities - Annuity Loans	-	-	-	-
Capital repayments			-	-
Interest			-	-
Long Term liabilities - Finance Lease Liability	-	3 162 390	-	-
Capital repayments		2 209 361	-	-
Interest		953 029	-	-
Provisions - Landfill Sites	-	-	-	-
Capital repayments			-	-
Interest			-	-
Trade and Other Payables	2 091 431	-	-	-
Unspent conditional government grants and receipts	2 646 604	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>4 738 035</u>	<u>3 162 390</u>	<u>-</u>	<u>-</u>
	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Between 5 and 10 years</b>	<b>Over 10 Years</b>
<b>2012</b>				
Long Term liabilities - Annuity Loans	-	-	-	-
Capital repayments			-	-
Interest			-	-
Long Term liabilities - Finance Lease Liability	-	3 125 398	-	-
Capital repayments		1 895 090	-	-
Interest		1 230 308	-	-
Provisions - Landfill Sites	-	-	-	-
Capital repayments			-	-
Interest			-	-
Trade and Other Payables	1 949 960	-	-	-
Unspent conditional government grants and receipts	8 377 946	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>10 327 906</u>	<u>3 125 398</u>	<u>-</u>	<u>-</u>

42	<b>FINANCIAL INSTRUMENTS</b>	2013 R	2012 R
	In accordance with GRAP 104 the financial instruments of the municipality are classified as follows:		
42.1	<b>Financial Assets</b>		
	<b>Receivables</b>		
	Receivables from exchange transactions	5 639 525	3 373 805
	<b>Short-term Investment Deposits</b>		
	Call Deposits	12 159 166	601 857
	<b>Bank Balances and Cash</b>		
	Bank Balances	837 684	11 141 424
		<b>18 636 375</b>	<b>15 117 086</b>
	<b>SUMMARY OF FINANCIAL ASSETS</b>		
	Financial instruments at amortised cost	18 636 375	15 117 086
	<b>At amortised cost</b>	<b>18 636 375</b>	<b>15 117 086</b>

42.2	<b>Financial Liability</b>	2013 R	2012 R
	<b>FINANCIAL INSTRUMENTS (CONTINUE)</b>		
	<b>Long-term Liabilities</b>		
	Capitalised Lease Liability	3 549 861	6 038 197
	<b>Payables from exchange transactions</b>		
	Trade creditors	2 068 480	1 936 639
	Deposits	22 951	13 321
	<b>Other Payables</b>		
	Unspent Government Subsidies and Grants	2 646 604	8 377 946
	<b>Current Portion of Long-term Liabilities</b>		
	Capitalised Lease Liability	2 488 338	2 202 687
		<b>10 776 234</b>	<b>18 568 790</b>
	<b>SUMMARY OF FINANCIAL LIABILITY</b>		
	Financial instruments at amortised cost	10 776 234	18 568 790

43 **EVENTS AFTER THE REPORTING DATE**

The municipality has no events after reporting date during the financial year ended 2012/2013.

44 **IN-KIND DONATIONS AND ASSISTANCE**

The municipality did not receive any in-kind donations or assistance during the year under review.

45 **PRIVATE PUBLIC PARTNERSHIPS**

Council has not entered into any private public partnerships during the financial year.

46 **CONTINGENT LIABILITY**

The municipality does not have a permit or license for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.

Workmens Compensation:

2012: The municipality has not yet submitted the required assessments to the Department of Labour relating to Compensation for Occupational Health and Safety for the 2006, 2007, 2009 and 2010 financial years. The municipality is currently in the process of negotiating payment terms, however it was not possible to quantify the amount owed for the 2006 to 2010 financial years, nor was it possible to quantify the amount that will be due by the municipality for penalties and interest.

ESKOM: under billing of electricity is disclosed as a contingent liability as electricity sales are approximately 1.5 million units more than units purchased from Eskom, as it has been determined that Eskom has possibly under billed the municipality for electricity consumed during the 2012/2013 financial year. A contingent liability has been disclosed for electricity consumed, but not paid for by the municipality as Eskom could bill the municipality for the amount under billed by Eskom.

47 **RELATED PARTIES**

Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.

The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.

**47.1 Related Party Loans**

Since 1 July 2004 loans to councillors and senior management employees are not permitted. No loans have been granted by the municipality prior or subsequent to this date.

**47.2 Compensation of key management personnel**

The compensation of key management personnel is set out in note 22 to the Annual Financial Statements.

**47.3 Other related party transactions**

The following purchases were made during the year where Councillors or staff have an interest:

*None*

**48 FINANCIAL SUSTAINABILITY**

The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:

**Financial Indicators**

The municipality have budgeted for a deficit of R 1,815,933 for the 2011/2012 financial year. The municipality is also budgeting for a deficit of R682,396 in the 2012 - 2013 financial year. These deficit will be covered by surplus cash in the Municipality.

The debtors turnover rate is 2.91 and the creditors 3.59.

Sakhisizwe Municipality do not have any overdraft facility arrangements with the bank.

We draw attention to the fact that as at 30 June 2013, the municipality had an accumulated surplus of R 134,162,775 and that the municipality's total assets exceed its liabilities by R 134,162,775.

**Other Indicators**

Possible outflow of resources due to the contingent liability are disclosed in note 46

**APPENDIX B - Unaudited**  
**SAKHISIZWE LOCAL MUNICIPALITY**  
**SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013**

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2012	Correction	Balance at 30 JUNE 2012 Restated	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2013
<b>ANNUITY LOANS</b>									
Annuity loans					-	-	-	-	-
<b>Total Annuity Loans</b>				-	-	-	-	-	-
<b>LEASE LIABILITY</b>									
Bell Bomag BW212D-40		0010E		1 255 828		1 255 828		442 064	813 764
HD 1023 Excavator		0002E		793 190		793 190		201 923	591 268
315 SJ 4 X 4 TLB		0003B		296 132		296 132		75 386	220 746
BELL 670G MOTOR GRADER		0004A		965 032		965 032		244 116	720 916
BELL BOMAG BW 212 D-40		0005T		521 483		521 483		136 145	385 338
S BELL DOZER		0006S		1 099 577		1 099 577		287 070	812 507
BELL B20D ADT 6 X 4		0007L		1 012 482		1 012 482		264 332	748 150
BELL B20D ADT 6 X 4		0008K		1 012 482		1 012 482		264 332	748 150
BELL B18D ADT 6X4 Water Tanker		0009J		1 255 251		1 255 251		293 993	961 258
<b>Total Lease Liabilities</b>				<b>8 211 457</b>	-	<b>8 211 457</b>	-	<b>2 209 361</b>	<b>6 002 097</b>
<b>TOTAL EXTERNAL LOANS</b>				<b>8 211 457</b>	-	<b>8 211 457</b>	-	<b>2 209 361</b>	<b>6 002 097</b>

**APPENDIX D - Unaudited**  
**SAKHISIZWE LOCAL MUNICIPALITY**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**  
**GENERAL FINANCE STATISTIC CLASSIFICATIONS**

<b>2012 Actual Income R</b>	<b>2012 Actual Expenditure R</b>	<b>2012 Surplus/ (Deficit) R</b>		<b>2013 Actual Income R</b>	<b>2013 Actual Expenditure R</b>	<b>2013 Surplus/ (Deficit) R</b>
(1 023 000)	12 788 396	11 765 396	Executive & Council	(2 100 000)	16 757 372	14 657 372
(40 981 902)	17 261 371	(23 720 531)	Budget & Treasury	(41 494 793)	18 446 409	(23 048 384)
		-	Corporate Services			-
(13 959 992)	1 959 790	(12 000 202)	Planning & Development	(22 014 922)	2 736 602	(19 278 320)
		-	Health			-
(53 806)	1 317 108	1 263 302	Community & Social Services	(421 341)	1 552 230	1 130 889
(63 147)	226 892	163 745	Housing	(60 295)	313 115	252 820
(2 269 263)	1 926 373	(342 890)	Public Safety	(1 834 229)	2 208 474	374 245
(400)	95 291	94 891	Sport & Recreation	(9 022)	145 652	136 630
		-	Environmental Protection			-
(2 500 779)	6 127 266	3 626 487	Waste Management	(2 487 976)	5 926 466	3 438 490
(4 788 384)	3 906 032	(882 352)	Waste Water Management	(5 005 535)	4 601 059	(404 476)
(52 233)	12 612 601	12 560 368	Road Transport	(9 188)	11 904 199	11 895 011
(10 091 984)	8 823 196	(1 268 788)	Water	(9 826 724)	9 138 559	(688 165)
(5 712 561)	9 145 582	3 433 021	Electricity	(7 594 074)	9 376 057	1 781 983
		-				-
<b>(81 497 451)</b>	<b>76 189 898</b>	<b>(5 307 553)</b>	<b>Total</b>	<b>(92 858 099)</b>	<b>83 106 194</b>	<b>(9 751 905)</b>

**APPENDIX E - Unaudited**  
**SAKHISIZWE LOCAL MUNICIPALITY**  
**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

Grant Description	Balance 1 JULY 2012	Correction of error	Balance 1 JULY 2012	Grants Received	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 JUNE 2013	Unspent 30 JUNE 2013 (Creditor)	Unpaid 30 JUNE 2013 (Debtor)
	R	R	R	R	R	R	R	R	R
<b>UNSPENT AND UNPAID GOVERNMENT GRANTS AND RECEIPTS</b>									
<b>National Government Grants</b>									
Equitable Share	-	-	-	35 127 000	35 127 000	-	-	-	-
Local Government Financial Management Grant (FMG)	10 000	-	10 000	1 500 000	1 500 000	-	10 000	10 000	-
Integrated National Electrification Programme (Eskom) Grant	<b>2 045 152</b>	-	2 045 152	-	2 044 152	-	1 000	1 000	-
- DME Projects	2 045 152	-	2 045 152	-	2 044 152	-	1 000	1 000	-
Municipal Infrastructure Grant (MIG)	<b>5 625 897</b>	-	5 625 897	16 292 000	-	20 391 374	1 526 523	1 526 523	-
- General MIG Fund	5 625 897	-	5 625 897	16 292 000	-	20 391 374	1 526 523	1 526 523	-
Municipal Systems Improvement Grant (MSIG)	<b>10 000</b>	-	10 000	800 000	800 000	-	10 000	10 000	-
<b>Total National Government Grants</b>	<b>7 691 049</b>	-	7 691 049	53 719 000	39 471 152	20 391 374	1 547 523	1 547 523	-
<b>Provincial Government Grants</b>									
Other Provincial Government Grants	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	900 000	-	-	900 000	900 000	-
<b>Total Provincial Government Grants</b>	-	-	-	900 000	-	-	900 000	900 000	-
<b>District Municipality Grants</b>									
Other District Municipality Grants	-	-	-	-	-	-	-	-	-
<b>Total District Municipality Grants</b>	-	-	-	-	-	-	-	-	-
<b>Other Grant Providers</b>									
(MSP ) MUNICIPAL SUPPORT PROGRAMME	42 702	-	42 702	-	1 829	-	40 873	40 873	-
ELLIOT HOUSING	1 110	-	1 110	-	1	-	1 109	1 109	-
SURVEY ACCOUNT	8 648	-	8 648	-	763	-	7 885	7 885	-
EXTENTION 13 & 14	1 000	-	1 000	-	-	-	1 000	1 000	-
EXTENTION 15	2 213	-	2 213	-	-	-	2 213	2 213	-
GENERAL VALUATION	1 000	-	1 000	-	-	-	1 000	1 000	-
IDP PLAN	53 618	-	53 618	-	-	-	53 618	53 618	-
PMF REVIEW ACCOUNT	172 764	-	172 764	-	160 124	-	12 640	12 640	-
IEC - ELECTION	47 423	-	47 423	-	-	-	47 423	47 423	-
SKILLS DEVELOPEMENT	31 320	-	31 320	-	-	-	31 320	31 320	-
EPWP Unspent Grant/ Fund	325 099	-	325 099	-	325 099	-	-	-	-
LED	-	-	-	-	-	-	-	-	-
CHDM Libraries	-	-	-	-	-	-	-	-	-
<b>Total Other Grant Providers</b>	<b>686 897</b>	-	<b>686 897</b>	-	<b>487 816</b>	-	<b>199 081</b>	<b>199 081</b>	-
<b>Total</b>	<b>8 377 946</b>	-	<b>8 377 946</b>	<b>54 619 000</b>	<b>39 958 968</b>	<b>20 391 374</b>	<b>2 646 604</b>	<b>2 646 604</b>	-