NDLAMBE LOCAL MUNICIPALITY

Financial statements
for the year ended 30 June 2013

Nature of business and principal activities	Local Government
Accounting Officer	R Dumezweni
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General

Index

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

The financial statements set out on pages 3 to 54, which have been prepared on the going concern basis, were approved on 31 August 2013 and were signed by:

Statement of Financial Position as at 30 June 2013

Figures in South African Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	3	2 051 172	1 055 871
Receivables from non-exchange transactions	4	8 546 278	7 886 717
Receivables from exchange transactions	5	30 900 335	14 717 322
Cash and cash equivalents	6	27 971 194	37 992 578
		69 468 979	**61 652 488**
Non-Current Assets			
Investment property	8	36 559 250	36 610 990
Property, plant and equipment	9	652 411 208	632 502 028
Intangible assets	10	334 891	94 451
Heritage assets	11	-	-
Other financial assets	7	107 494	81 900
Operating lease asset		20 051	20 574
		689 432 894	**669 309 943**
Non-Current Assets		689 432 894	669 309 943
Current Assets		69 468 979	61 652 488
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**758 901 873**	**730 962 431**
Liabilities			
Current Liabilities			
Consumer deposits	13	1 635 907	1 666 575
Payables	14	38 954 531	42 675 772
Unspent conditional grants and receipts	15	12 418 861	14 894 082
VAT payable	16	3 936 679	1 714 113
Financial liabilities - DBSA	17	3 371 116	3 171 261
Retirement benefit obligation	18	1 479 000	1 355 764
Provisions	19	955 135	868 419
		62 751 229	**66 345 986**
Non-Current Liabilities			
Financial liabilities - DBSA	17	23 673 153	27 201 397
Retirement benefit obligation	18	49 315 000	48 286 237
Provisions	19	5 806 487	5 024 785
		78 794 640	**80 512 419**
Non-Current Liabilities		78 794 640	80 512 419
Current Liabilities		62 751 229	66 345 986
Liabilities of disposal groups		-	-
Total Liabilities		**141 545 869**	**146 858 405**
Assets		758 901 873	730 962 431
Liabilities		(141 545 869)	(146 858 405)
Net Assets		**617 356 004**	**584 104 026**
Net Assets			
Accumulated surplus		617 356 004	584 104 026

Statement of Financial Performance

Figures in South African Rand	Note(s)	2013	2012
Revenue			
Service charges	22	118 257 430	92 735 337
Rendering of services (burial fees)		170 376	152 025
Rental of facilities and equipment		3 489 913	3 074 239
Licences and permits		3 189 776	3 379 580
Rental income		4 151	8 059
Other income	24	4 720 341	1 556 687
Interest received - investment		5 804 527	4 697 775
Property rates	21	52 394 181	46 367 740
Government grants & subsidies	23	121 682 530	89 658 073
Fines		510 927	443 321
Total revenue		**310 224 152**	**242 072 836**
Expenditure			
Personnel	25	(80 368 457)	(71 145 118)
Remuneration of councillors	26	(4 973 700)	(4 716 830)
Administration		-	(33 395)
Depreciation and amortisation	9	(40 490 171)	(41 839 956)
Impairment loss/ Reversal of impairments	9	(1 054 007)	-
Finance costs	30	(3 028 357)	(3 652 015)
Debt impairment	27	(15 155 312)	(16 228 391)
Repairs and maintenance		(11 839 733)	(8 465 805)
Bulk purchases	33	(35 730 626)	(33 442 479)
Grants and subsidies paid	32	(7 836 312)	(11 095 612)
Indigent subsidy	47	(24 807 507)	(21 921 792)
General Expenses	34	(48 196 377)	(44 764 363)
Total expenditure		**(273 480 559)**	**(257 305 756)**
		-	-
Total revenue		310 224 152	242 072 836
Total expenditure		(273 480 559)	(257 305 756)
Operating surplus (deficit)		**36 743 593**	**(15 232 920)**
(Loss) gain on disposal of assets and liabilities		(117 178)	264 677
Fair value adjustments	29	25 594	21 378
		(91 584)	**286 055**
Surplus (deficit) before taxation		36 652 009	(14 946 865)
Taxation		-	-
Surplus (deficit) for the year		**36 652 009**	**(14 946 865)**

Statement of Changes in Net Assets

Figures in South African Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	18 079 190	18 079 190
Adjustments		
Prior year adjustments	580 971 701	580 971 701
Balance at 01 July 2011 as restated	**599 050 891**	**599 050 891**
Changes in net assets		
Surplus for the year	(14 946 865)	(14 946 865)
Total changes	(14 946 865)	(14 946 865)
Balance at 01 July 2012	**584 104 025**	**584 104 025**
Changes in net assets		
Prior year adjustment	(3 400 030)	(3 400 030)
Net income (losses) recognised directly in net assets	(3 400 030)	(3 400 030)
Surplus for the year	36 652 009	36 652 009
Total recognised income and expenses for the year	33 251 979	33 251 979
Total changes	33 251 979	33 251 979
Balance at 30 June 2013	**617 356 004**	**617 356 004**
Note(s)	44	

Cash Flow Statement

Figures in South African Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Exchange and non-exchange transactions		139 692 519	125 205 840
Grants		121 682 530	89 658 073
Interest income		5 804 527	4 697 775
Other receipts		11 884 963	8 441 312
		279 064 539	228 003 000
Payments			
Employee costs		(84 190 158)	(70 628 998)
Suppliers		(98 260 712)	(75 028 693)
Finance costs		(3 028 357)	(3 652 015)
Other payments		(35 119 040)	(33 050 799)
		(220 598 267)	(182 360 505)
Total receipts		279 064 539	228 003 000
Total payments		(220 598 267)	(182 360 505)
Net cash flows from operating activities	35	**58 466 272**	**45 642 495**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(61 615 753)	(25 590 143)
Proceeds from sale of property, plant and equipment	9	174 137	285 753
Purchase of other intangible assets	10	(317 621)	(58 104)
Other non-cash item		(3 400 030)	(1 030 982)
Net cash flows from investing activities		**(65 159 267)**	**(26 393 476)**
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(3 328 389)	(2 850 153)
Movement on unspent governmental grants and subsidies		-	(2 574 784)
Consumer deposits		-	112 096
Net cash flows from financing activities		**(3 328 389)**	**(5 312 841)**
Net increase/(decrease) in cash and cash equivalents		**(10 021 384)**	**13 936 178**
Cash and cash equivalents at the beginning of the year		37 992 578	24 056 400
Cash and cash equivalents at the end of the year	6	**27 971 194**	**37 992 578**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in South African Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	118 529 007	-	**118 529 007**	118 257 430	**(271 577)**	46
Rendering of services	207 300	-	**207 300**	170 376	**(36 924)**	46
Rental of facilities and equipment	4 010 511	-	**4 010 511**	3 489 913	**(520 598)**	46
Licences and permits	4 127 427	-	**4 127 427**	3 189 776	**(937 651)**	46
Rental income	10 790	-	**10 790**	4 151	**(6 639)**	
Other income - (rollup)	1 845 678	264 540	**2 110 218**	4 720 341	**2 610 123**	46
Interest received - investment	4 222 520	-	**4 222 520**	5 804 527	**1 582 007**	46
Total revenue from exchange transactions	**132 953 233**	**264 540**	**133 217 773**	**135 636 514**	**2 418 741**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	75 171 943	(40 000 000)	**35 171 943**	52 394 181	**17 222 238**	46
Government grants & subsidies	39 955 515	41 236 510	**81 192 025**	121 682 530	**40 490 505**	46
Transfer revenue						
Fines	602 544	-	**602 544**	510 927	**(91 617)**	46
Total revenue from non-exchange transactions	**115 730 002**	**1 236 510**	**116 966 512**	**174 587 638**	**57 621 126**	
'Total revenue from exchange transactions'	132 953 233	264 540	**133 217 773**	135 636 514	**2 418 741**	
'Total revenue from non-exchange transactions'	115 730 002	1 236 510	**116 966 512**	174 587 638	**57 621 126**	
Total revenue	**248 683 235**	**1 501 050**	**250 184 285**	**310 224 152**	**60 039 867**	
Expenditure						
Personnel	(79 329 856)	(122 950)	**(79 452 806)**	(80 368 457)	**(915 651)**	46
Remuneration of councillors	(4 879 844)	600 000	**(4 279 844)**	(4 973 700)	**(693 856)**	46
Administration	212 950	-	**212 950**	-	**(212 950)**	46
Depreciation and amortisation	(2 223 366)	-	**(2 223 366)**	(40 490 171)	**(38 266 805)**	46
Impairment loss/ Reversal of impairments	-	-	**-**	(1 054 007)	**(1 054 007)**	46
Finance costs	(4 626 780)	(351 000)	**(4 977 780)**	(3 028 357)	**1 949 423**	46
Debt impairment	(14 013 721)	-	**(14 013 721)**	(15 155 312)	**(1 141 591)**	46
Repairs and maintenance	(19 106 385)	1 473 400	**(17 632 985)**	(11 839 733)	**5 793 252**	46
Bulk purchases	(37 945 803)	30 000	**(37 915 803)**	(35 730 626)	**2 185 177**	46
Grants and subsidies paid	(4 130 490)	(7 139 510)	**(11 270 000)**	(7 836 312)	**3 433 688**	46
Indigent subsidy	-	-	**-**	(24 807 507)	**(24 807 507)**	46
General Expenses	(45 109 025)	(533 075)	**(45 642 100)**	(48 196 377)	**(2 554 277)**	46
Total expenditure	**(211 152 320)**	**(6 043 135)**	**(217 195 455)**	**(273 480 559)**	**(56 285 104)**	
	248 683 235	1 501 050	**250 184 285**	310 224 152	**60 039 867**	
	(211 152 320)	(6 043 135)	**(217 195 455)**	(273 480 559)	**(56 285 104)**	
Operating surplus	**37 530 915**	**(4 542 085)**	**32 988 830**	**36 743 593**	**3 754 763**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in South African Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Loss on disposal of assets and liabilities	167 500	-	**167 500**	(117 178)	**(284 678)**	
Fair value adjustments	-	-	**-**	25 594	**25 594**	
	167 500	**-**	**167 500**	**(91 584)**	**(259 084)**	
	37 530 915	(4 542 085)	**32 988 830**	36 743 593	**3 754 763**	
	167 500	-	**167 500**	(91 584)	**(259 084)**	
Surplus before taxation	**37 698 415**	**(4 542 085)**	**33 156 330**	**36 652 009**	**3 495 679**	
Deficit before taxation	37 698 415	(4 542 085)	**33 156 330**	36 652 009	**3 495 679**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**37 698 415**	**(4 542 085)**	**33 156 330**	**36 652 009**	**3 495 679**	

Reconcilation

Accounting Policies

1. Presentation of Financial Statements

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

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

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

1.1 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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

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

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

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

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

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

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

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

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

Accounting Policies

1.1 Property, plant and equipment (continued)

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

Item	**Average useful life**
Land	Indefinite
Buildings	50 Years
Plant and machinery	15 Years
Motor vehicles	5 - 15 Years
Office equipment	3-5 Years
IT equipment	3 - 5 Years
Community	10-30 Years
Electricity network	20 - 30 Years
Roads	20 Years
Wastewater network	20 Years
Water network	20 Years

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

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

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

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

Items of municipality are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

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

1.2 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Item	**Useful life**
Computer software, other	3 years

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

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

1.3 Financial instruments

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

1.3 Financial instruments (continued)

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

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

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

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

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

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

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

A financial asset is:

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

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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

1.3 Financial instruments (continued)

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents (funds and call accounts)	Financial asset at fair value
Cash and cash equivalents (notice accounts)	Financial asset measured at amortised cost
Other financial assets	Financial asset at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables	Financial liability measured at amortised cost
DBSA Loan	Financial liability measured at amortised cost

1.3 Financial instruments (continued)

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.3 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.

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

Fair value measurement considerations

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

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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

Financial assets measured at cost:

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

1.3 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

1.3 Financial instruments (continued)

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

1.4 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.5 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

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

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

Accounting Policies

1.5 Inventories (continued)

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.6 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

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

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

Value in use

1.6 Impairment of cash-generating assets (continued)

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Cash-generating units

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

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

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

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

1.6 Impairment of cash-generating assets (continued)

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.7 Impairment of non-cash-generating assets

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

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

Accounting Policies

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

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

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

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

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

Identification

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

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating 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.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating 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 a non-cash-generating 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. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

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

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

Redesignation

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

1.8 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

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

1.8 Employee benefits (continued)

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

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

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

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

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

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

Other post retirement obligations

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

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.9 Provisions and contingencies

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

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

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

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

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

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

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

1.9 Provisions and contingencies (continued)

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

1.9 Provisions and contingencies (continued)

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.6 and 1.7.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.10 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. They are significantly affected by a number of factors, including economic.

Provisions

1.10 Significant judgements and sources of estimation uncertainty (continued)

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18&19 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

Other key assumptions for post retirement obligations are based on current market conditions. Additional information is disclosed in Note 18.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

1.11 Investment property

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

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

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

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

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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

Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite

1.11 Mergers (continued)

Property - buildings	30 years

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

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

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

1.12 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 2015/06/30.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):
- Presentation of Financial Statements (GRAP 1),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.13 Revenue from exchange transactions

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

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

1.13 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets..

Accounting Policies

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value without directly giving approximately equal value in exchange, or gives value without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

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

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

Measurement

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

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

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.15 Investment income

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

1.16 Comparative figures

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

1.17 Unauthorised expenditure

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

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Presentation of currency

These financial statements are presented in South African Rand.

Accounting Policies

1.21 Offsetting

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

1.22 Conditional grants and receipts

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

1.23 Unconditional grants and receipts

Receipts of unconditional grants, donations and funding are recognised as revenue on receipt.

1.24 Budget information

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

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

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

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

1.25 Related parties

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

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

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

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

1.26 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognized elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for.

Figures in South African Rand	2013	2012

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has not early adopted any standards and interpretations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
GRAP 20: Related party disclosures	**01 July 2013**	**Additional disclosures**
GRAP 25: Employee benefits	**01 July 2013**	**To be estimated**

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
GRAP 18: Segment reporting	**01 July 2013**	**To be estimated**

3. Inventories

	2013	2012
Electrical spares	39 780	64 024
Game	1 057 000	777 950
Maintenance materials	108 310	70 477
Water	86 420	89 616
Stores, materials and fuels	759 662	53 804
	2 051 172	**1 055 871**

No inventories were written down to net realisable value.

In terms of game owned by the munciipality within the Kap river and Roundhill reserves: Game is sold at auctions as and when the population levels reaches a certain level. To determine the value of wildlife owned by the muncipality, a game count was done around year end, using known location and roadside count methods from game viewing vehicles. A game capturing company (Wildlife Marketing) provided assistance in valuing the animals counted. Prices provided by the company are estimates and are based on values obtained at auctions held in the area. Prices provided excludes VAT, capturing and releasing fees as well as transportation.

4. Receivables from non-exchange transactions

	2013	2012
Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Sundry receivables	25 232	1 166 823
Recoverable fruitless and wasteful expenditure	119 058	119 058
Rates	18 277 184	17 071 062
Housing sundry	1 209	792
Environmental levies	2 485 837	1 891 224
Other debtors	1 141 591	-
Impairment for bad debts	(13 781 770)	(12 640 179)
	8 546 278	**7 886 717**

Reconciliation of provision for impairment of trade and other receivables

Notes to the Financial Statements

Figures in South African Rand	2013	2012

4. Receivables from non-exchange transactions (continued)

Opening balance	12 640 179	1 478 100
Provision for impairment - other non-exchange receivables	1 141 591	11 162 079
	13 781 770	**12 640 179**

5. Receivables from exchange transactions

Gross balances		
Electricity	9 978 764	8 116 580
Water	34 571 011	17 192 422
Waste water	747 513	670 711
Sewerage	7 994 574	8 236 039
Refuse	9 219 368	9 101 768
Housing rental	459 016	518 661
Service charges and other	12 247 128	15 520 486
	75 217 374	**59 356 667**

Less: Allowance for impairment		
Impairment allowance	(44 317 039)	(44 639 345)

Net balance		
Electricity	9 978 764	8 116 580
Water	34 571 011	17 192 422
Waste water	747 513	670 711
Sewerage	7 994 574	8 236 039
Refuse	9 219 368	9 101 768
Housing rental	459 016	518 661
Service charges and other	12 247 128	15 520 486
Impairment allowance	(44 317 039)	(44 639 345)
	30 900 335	**14 717 322**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(44 639 345)	(66 660 139)
Contributions to allowance	322 306	22 020 794
	(44 317 039)	**(44 639 345)**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 111	4 361
Bank balances	14 603 620	32 522 049
Short-term deposits	13 362 463	5 466 168
	27 971 194	**37 992 578**

The municipality had the following bank accounts

Figures in South African Rand | 2013 | 2012

6. Cash and cash equivalents (continued)

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
FIRST NATIONAL BANK - General Account - Current	6 496 669	6 554 457	1 411 724	(5 552 609)	14 161 247	(2 161 669)
FIRST NATIONAL BANK - Housing Account - Current	5 153 010	681 816	1 626 112	5 153 010	681 816	1 626 112
FIRST NATIONAL BANK - Revolving Account - Current	15 003 219	17 678 986	19 367 025	15 003 219	17 678 986	38 723 586
Total	**26 652 898**	**24 915 259**	**22 404 861**	**14 603 620**	**32 522 049**	**38 188 029**

7. Other financial assets

	2013	2012
Designated at fair value		
Listed shares	107 494	81 900
Fair value of investments are as at face value and Old Mutual shares as at quoted market value at 30 June 2013.		
	107 494	81 900
	-	-
	-	-
Non-current assets		
Designated at fair value	107 494	81 900
Non-current assets	107 494	81 900
Current assets	-	-

8. Investment property

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	36 859 792	(300 542)	36 559 250	36 859 792	(248 802)	36 610 990

Reconciliation of investment property - 2013

	Opening balance	Depreciation	Total
Investment property	36 610 990	(51 740)	36 559 250

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	36 693 924	(82 934)	36 610 990

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Figures in South African Rand

9. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	141 669 246	-	141 669 246	141 669 246	-	141 669 246
Buildings	104 968 459	(27 567 857)	77 400 602	104 904 509	(22 977 318)	81 927 191
Plant and machinery	3 914 587	(2 127 016)	1 787 571	3 561 561	(1 594 039)	1 967 522
Motor vehicles	21 952 328	(11 329 563)	10 622 765	19 234 819	(8 942 005)	10 292 814
Office equipment	5 356 865	(3 285 102)	2 071 763	5 145 138	(2 524 571)	2 620 567
Work in progress	114 112 561	-	114 112 561	58 265 755	-	58 265 755
Wastewater network	81 943 824	(33 304 745)	48 639 079	81 943 824	(30 851 903)	51 091 921
Water network	155 135 648	(85 172 845)	69 962 803	155 135 648	(73 409 261)	81 726 387
Roads	360 675 203	(218 368 246)	142 306 957	360 675 203	(205 838 891)	154 836 312
IT equipment	3 603 714	(2 012 173)	1 591 541	3 171 192	(1 496 806)	1 674 386
Electricity network	103 851 002	(61 604 682)	42 246 320	102 658 406	(56 228 479)	46 429 927
Total	**1 097 183 437**	**(444 772 229)**	**652 411 208**	**1 036 365 301**	**(403 863 273)**	**632 502 028**

Figures in South African Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	141 669 246	-	-	-	-	141 669 246
Buildings	81 927 191	63 950	-	(4 590 539)	-	77 400 602
Plant and machinery	1 967 522	393 224	(24 225)	(548 950)	-	1 787 571
Motor vehicles	10 292 814	3 335 404	(218 538)	(2 786 915)	-	10 622 765
Office equipment	2 620 567	211 727	-	(760 531)	-	2 071 763
IT equipment	1 674 386	432 522	-	(515 367)	-	1 591 541
Electricity network	46 429 927	1 332 120	(48 552)	(5 467 175)	-	42 246 320
Work in progress	58 265 755	55 846 806	-	-	-	114 112 561
Roads	154 836 312	-	-	(11 490 048)	(1 039 307)	142 306 957
Wastewater network	51 091 921	-	-	(2 444 672)	(8 170)	48 639 079
Water network	81 726 387	-	-	(11 757 053)	(6 531)	69 962 803
	632 502 028	**61 615 753**	**(291 315)**	**(40 361 250)**	**(1 054 008)**	**652 411 208**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Total
Land	141 582 246	87 000	-	-	141 669 246
Buildings	87 987 294	-	-	(6 060 103)	81 927 191
Plant and machinery	2 076 482	406 076	(3 274)	(511 762)	1 967 522
Motor vehicles	11 729 426	1 069 321	-	(2 505 933)	10 292 814
Office equipment	2 888 330	445 399	(17 478)	(695 684)	2 620 567
IT equipment	1 711 343	402 982	(324)	(439 615)	1 674 386
Electricity network	51 896 771	-	-	(5 466 844)	46 429 927
Work in progress	35 086 390	23 179 365	-	-	58 265 755
Roads	167 264 149	-	-	(12 427 837)	154 836 312
Wastewater network	53 505 076	-	-	(2 413 155)	51 091 921
Water network	92 945 041	-	-	(11 218 654)	81 726 387
	648 672 548	**25 590 143**	**(21 076)**	**(41 739 587)**	**632 502 028**

Pledged as security

No assets have been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

10. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	446 450	(111 559)	334 891	128 829	(34 378)	94 451

Reconciliation of intangible assets - 2013

Figures in South African Rand	2013	2012

10. Intangible assets (continued)

	Opening balance	Additions	Amortisation	Total
Computer software	94 451	317 621	(77 181)	334 891

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	53 782	58 104	(17 435)	94 451

Pledged as security

No intangible assets have been pledged as security.

11. Heritage assets

	2013			2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	-	-	-	-	-	-

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical buildings	-	-

Reconciliation of heritage assets 2012

	Opening balance	Total
Historical buildings	-	-

Transitional provisions

Heritage assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain heritage assets with a carrying value of R - (2012: R -) was recognised at provisional amounts.

12. Financial instruments disclosure

Categories of financial instruments

2013

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	107 494	-	107 494
Receivables from exchange transactions	-	30 900 335	30 900 335
Receivables from non-exchange transactions	-	7 007 692	7 007 692
Cash and cash equivalents	27 971 194	-	27 971 194

Figures in South African Rand		2013	2012
	28 078 688	**37 908 027**	**65 986 715**

Financial liabilities

	At amortised cost	Total
Financial liabilities - DBSA	3 371 116	3 371 116
Payables	5 147 269	5 147 269
	8 518 385	**8 518 385**

2012

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	81 900	-	81 900
Receivables from exchange transactions	-	14 717 322	14 717 322
Receivables from non-exchange transactions	-	7 489 722	7 489 722
Cash and cash equivalents	37 992 578	-	37 992 578
	38 074 478	**22 207 044**	**60 281 522**

Financial liabilities

	At amortised cost	Total
Financial liabilities - DBSA	3 171 261	3 171 261
Payables	802 624	802 624
	3 973 885	**3 973 885**

13. Consumer deposits

	2013	2012
Electricity	1 471 302	1 526 684
Water	164 605	139 891
	1 635 907	**1 666 575**

14. Payables

	2013	2012
Trade payables	5 147 269	802 624
Payments received in advance	2 288 681	4 320 157
Accrued leave pay	3 574 337	3 164 013
13th cheque accrual	1 879 375	1 715 063
Accrued expense	15 805 567	28 909 019
Deposits received	805 296	846 797
Other payables	108 306	98 064
Unidentified direct deposits	2 266 692	2 138 219
Retention monies	1 528 457	-
Eastern Cape Department of Housing	5 550 551	681 816
	38 954 531	**42 675 772**

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Notes to the Financial Statements

Figures in South African Rand	2013	2012

15. Finance lease obligation (continued)

Unspent conditional grants and receipts		
FMG	(245 130)	9 518
DWAF	2 005 428	2 781 106
Cacadu grants	919 133	2 130 919
MIG	132 746	5 061 736
MSIG	74 714	(85 402)
LED	2 731 199	4 341 329
ECDC	17 289	17 289
CIP	(351)	(351)
EC Sports/Arts and culture	2 059 478	(16 850)
LG SETA	394 796	341 622
Amatole Water Board	(171 785)	(171 785)
DLGTA	79 165	79 165
DME	282 802	268 786
Public Works - EPWP	(10 471)	137 000
LED Assistant	87 990	-
Flood damage grant	4 061 858	-
	12 418 861	**14 894 082**

The liability relates to unfulfilled conditions and other contingencies attached to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was witheld during the year

See note 23 for reconciliation of grants from National/Provincial Government.

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

16. VAT payable

VAT refunds payable	3 936 679	1 714 113

17. Other financial liabilities

At amortised cost		
DBSA Loan 102198 10 years @ 10.89%	6 564 464	7 724 698
DBSA Loan 101161/2 20 years @12.34%	6 309 338	6 570 403
DBSA Loan 13478/101 20 years @17%	3 492 584	3 773 310
DBSA Loan 101855 10 years @ 9.68%	2 526 061	3 620 980
DBSA Loan 102557/1 15 years @ 8.81%	8 151 822	8 683 267
	27 044 269	**30 372 658**
Total other financial liabilities	**27 044 269**	**30 372 658**
Non-current liabilities		
At amortised cost	23 673 153	27 201 397
Current liabilities		
At amortised cost	3 371 116	3 171 261

Notes to the Financial Statements

Figures in South African Rand	2013	2012

18. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The expected value of each employee and their spouse’s future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). Allowances for mortality, retirements and withdrawals from service are made as set out below. The accrued liability is determined on the basis that each employee’s medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. It was also assumed that 100% of all active members on medical aid will remain on medical aid once they retire and it was also assumed that all active members will remain on the same medical aid option at retirement

Ndlambe Municipality employees contribute to 5 medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Healt and SAMWU Med Medical Scheme. The obligation in respect of the medical care contributions for retirement benefits is valued by an independent qualified actuary. The last acturial valuation was performed on 30 June 2013 by ZAQ Consultants and Actuaries using the projected unit credit funding method. The calculation is based on 328 (2012:307) active members and 43 (2012: 43) pensioners entitled to a post-retirement medical scheme.

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

	2013	2012
Carrying value		
Balance at the beginning of the year	(49 642 001)	(44 409 051)
Economic and actuarial assumptions	-	(325 255)
Medical contribution increases	-	(1 859 562)
Membership changes	-	336 905
Interest, service cost and benefits paid	-	(3 385 038)
Current service cost	(2 407 659)	-
Interest cost	(2 769 546)	-
Benefits paid	1 361 000	-
Actuarial (Loss) / Gain	2 664 206	-
	(50 794 000)	**(49 642 001)**

	2013	2012
Non-current liabilities	(49 315 000)	(48 286 237)
Current liabilities	(1 479 000)	(1 355 764)
	(50 794 000)	**(49 642 001)**

Net expense recognised in the statement of financial performance

	2013	2012
Current service cost	2 407 659	-
Interest cost	2 769 546	-
Actuarial (gains) losses	(2 664 206)	-
Benefits paid	(1 361 000)	-
Interest, service cost and benefits paid	-	4 236 584
	1 151 999	**4 236 584**

Key assumptions used

Assumptions used at the reporting date:

	2013	2012
Discount rates used	7,89 %	8,94 %
Consumer price inflation	6,14 %	- %
Medical aid contribution inflation	7,14 %	7,86 %
Net effective discount rate	0,70 %	1,00 %

Notes to the Financial Statements

Figures in South African Rand	2013	2012

18. Employee benefit obligations (continued)

Other assumptions

The cost of the subisdy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees. The effect of a 1% p.a. change in the medical aid inflation assumption is as follows:

	One percentage point increase	One percentage point decrease
Total accured liability	43 581 000	59 787 000
Interest cost	3 485 000	4 819 000
Service cost	2 598 000	4 014 000

19. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Environmental rehabilitation	5 893 204	868 418	6 761 622

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	4 068 270	1 824 934	5 893 204

Non-current liabilities	5 806 487	5 024 785
Current liabilities	955 135	868 419
	6 761 622	**5 893 204**

Environmental rehabilitation provision

Ndlambe Municipality operates 10 landfill sits which by law will have to be permitted and closed in accordance with the “Minimum Requirements” and in accordance with the Environment Conservation Act. (Act 73 of 1989). Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as waste minimisation, population changes etc.

20. Revenue

Rendering of services	170 376	152 025
Service charges	118 257 430	92 735 337
Rental of facilities and equipment	3 489 913	3 074 239
Licences and permits	3 189 776	3 379 580
Rental income	4 151	8 059
Other income - (rollup)	4 720 341	1 556 687
Interest received - investment	5 804 527	4 697 775
Property rates	52 394 181	46 367 740
Government grants & subsidies	121 682 530	89 658 073
Fines	510 927	443 321
	310 224 152	**242 072 836**

Notes to the Financial Statements

Figures in South African Rand	2013	2012

20. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	118 257 430	92 735 337
Rendering of services	170 376	152 025
Rental of facilities and equipment	3 489 913	3 074 239
Licences and permits	3 189 776	3 379 580
Rental income	4 151	8 059
Other income - (rollup)	4 720 341	1 556 687
Interest received - investment	5 804 527	4 697 775
	135 636 514	**105 603 702**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	52 394 181	46 367 740
Transfer revenue		
Government grants & subsidies	121 682 530	89 658 073
Fines	510 927	443 321
	174 587 638	**136 469 134**

21. Property rates

Rates received

Property rates	52 394 181	46 624 886
Less: Income forgone	-	(257 146)
	52 394 181	**46 367 740**

Valuations

All	12 433 252 452	11 720 641 122

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis.

22. Service charges

Sale of electricity	46 397 155	41 869 538
Sale of water	41 461 956	21 879 842
Sewerage and sanitation charges	12 895 552	11 813 732
Refuse removal	16 939 203	16 685 880
Other service charges	563 564	486 345
	118 257 430	**92 735 337**

Figures in South African Rand	2013	2012

23. Government grants and subsidies

Equitable share	45 834 000	47 829 789
Health subsidies	1 289 512	1 218 392
Government grant (PPE)	65 335 438	28 321 258
Government grant (operating)	9 223 580	12 288 634
	121 682 530	**89 658 073**

Equitable Share

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

Reconciliation: Unspent conditional grants (all grants)

Balance unspent at beginning of year	14 894 082	17 468 866
Current-year receipts	73 373 309	39 253 499
Conditions met - transferred to revenue	(75 848 530)	(41 828 283)
	12 418 861	**14 894 082**

Conditions still to be met - remain liabilities (see note 15)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (2013/2014), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

24. Other income

Admission fees	46 487	68 140
Alexandria sundry	29 274	-
Building plan fees	794 354	655 789
Encroachments	2 612	4 713
Event application fees	9 493	5 010
Sundry fees	43 561	29 092
Insurance claim refund	2 596 738	-
Pit inspection fees	-	4 011
Refuse bags sold	20 163	19 474
River usage	128 382	118 512
Sundry income	400 921	407 736
Subdivisions	19 313	23 866
Town planning income	127 098	147 468
Valuation rolls	77 265	72 876
Camping fees	81 640	-
Donations (flood)	343 040	-
	4 720 341	**1 556 687**

Figures in South African Rand	2013	2012

25. Employee related costs

Basic	49 317 784	43 466 408
Bonus	164 312	149 724
Medical aid - company contributions	5 117 568	4 139 857
UIF	526 299	429 131
WCA	381 422	-
SDL	634 865	520 936
Leave pay provision charge	410 324	129 538
Post-employment benefits	9 902 983	10 390 920
Overtime payments	7 115 164	5 343 263
Car allowance	2 402 995	2 213 944
Housing benefits and allowances	309 628	273 770
Group insurance	458 150	487 725
Allowances	2 264 138	2 289 429
Industrial levy	31 577	20 488
Casuals	1 331 248	1 289 985
	80 368 457	**71 145 118**

Remuneration of municipal manager

Annual Remuneration	724 337	601 379
Car Allowance	175 986	175 986
Telephone allowance	15 535	15 535
Other (Allowance, UIF, Medical, Pension, etc)	6 221	150 058
13th Cheque	50 602	50 701
Leave pay	74 025	56 031
	1 046 706	**1 049 690**

Remuneration of chief finance officer

Annual Remuneration	534 513	491 265
Car Allowance	180 861	170 951
Telephone allowance	21 304	16 251
Other (Allowance, UIF, Medical, Pension, etc)	14 687	155 157
13th Cheque	34 271	40 975
Leave pay	46 251	93 518
	831 887	**968 117**

Remuneration of executive directors

Remuneration of the director: infrastructural development

Annual Remuneration	497 290	493 706
Car Allowance	204 000	181 948
Performance Bonuses	-	23 699
Telephone allowance	24 000	13 833
Other (Allowance, UIF, Medical, Pension, etc)	36 000	151 407
13th Cheque	38 021	40 890
Leave pay	85 932	74 149
	885 243	**979 632**

Remuneration of the director: corporate services

Annual Remuneration	430 505	384 337
Car Allowance	144 000	134 923
Telephone allowance	12 000	11 910

Figures in South African Rand	2013	2012

25. Employee related costs (continued)

Other (Allowance, UIF, Medical, Pension, etc)	24 000	25 457
13th Cheque	16 662	41 003
Leave pay	31 951	-
	659 118	**597 630**

Remuneration of the director: community and protection services

Annual Remuneration	497 290	442 681
Car Allowance	204 000	166 629
Telephone allowance	24 000	13 832
Other (Allowance, UIF, Medical, Pension, etc)	36 000	130 240
13th Cheque	38 021	40 671
Leave pay	85 932	106 107
	885 243	**900 160**

Two were two incumbents in the prior year.

26. Remuneration of councillors

Councillors (refer to table below)	4 973 700	4 716 830

Councillors		
S R Tandani	685 318	684 773
N V Maphaphu	296 412	282 040
S B Funde	278 133	266 783
M Mateti	278 131	265 019
R K Purdon	278 660	263 547
G G Cannon	206 043	195 678
T L E Khoathani	205 659	195 952
Z Ngxingo	205 464	195 789
K C Ncamiso	274 664	195 949
N T Donile	206 043	196 068
J P Guest	205 934	196 068
A L Marasi	-	163 215
T Manzana	206 043	196 068
L R Schenk	206 043	196 068
T Stander	206 043	196 068
M J Tarentaal	205 785	195 945
S Venene	205 743	196 061
N Xhasa	206 043	196 068
C Meterlerkamp	206 043	196 068
P P Faxi	206 043	208 585
M E Msimang	205 453	35 018
	4 973 700	**4 716 830**

In-kind benefits

The Mayor is full-time. He is provided with an office and secretarial support at the cost of the Council.

The Mayor has the use of a separate Council owned vehicle for official duties.

27. Debt impairment

Contribution to debt impairment provision	15 155 312	16 228 391

Notes to the Financial Statements

Figures in South African Rand	2013	2012

28. Investment revenue

Interest revenue		
Unlisted financial assets	-	291 195
Bank	1 202 751	97 795
Interest charged on trade and other receivables	4 601 776	4 308 785
	5 804 527	**4 697 775**
	-	-
	5 804 527	4 697 775

29. Fair value adjustments

Other financial assets		
• NRB (under curatorship) amount due, Old Mutual shares	25 594	21 378

30. Finance costs

Non-current borrowings	3 028 357	3 506 592
Auditor-General of South Africa	-	145 423
	3 028 357	**3 652 015**

31. Auditors' remuneration

Fees	2 616 138	2 786 005

32. Grants and subsidies paid

Other subsidies		
Spatial development framework	871 241	924 067
Operating expenditure ex Grant Funding	6 965 071	10 171 545
	7 836 312	**11 095 612**
Grants paid to ME's	-	-
Other subsidies	7 836 312	11 095 612

33. Bulk purchases

Electricity	28 454 698	26 054 841
Water	7 275 928	7 387 638
	35 730 626	**33 442 479**

Notes to the Financial Statements

Figures in South African Rand	2013	2012

34. General expenses

Advertising	211 709	164 605
Auditors remuneration	2 616 138	2 786 005
Bank charges	572 463	459 298
Commission paid	328 659	341 414
Consulting and professional fees	16 460 798	12 876 565
Consumables	1 630	325 978
Delivery expenses	38 945	106 324
Entertainment	79 459	84 287
Flowers	200	2 057
Hire	528 444	371 957
Insurance	1 752 730	1 716 603
Conferences and seminars	64 869	58 888
IT expenses	268 942	236 044
Lease rentals on operating lease	1 785 148	1 809 909
Motor vehicle expenses	306 917	207 338
Packaging	(410 369)	(318 919)
Fuel and oil	4 331 027	4 073 222
Postage and courier	826 150	495 230
Printing and stationery	636 879	842 613
Promotions	38 676	22 676
Security (Guarding of municipal property)	918 736	735 811
Staff welfare	9 230	24 634
Subscriptions and membership fees	1 179 020	504 979
Telephone and fax	1 444 423	1 338 771
Transport and freight	1 208	24 750
Training	289 485	215 076
Travel - local	1 782 559	1 197 604
Refuse	1 147 096	1 885 294
Electricity	6 250 925	6 624 874
Sewerage and waste disposal	149 961	144 945
Uniforms	473 261	614 533
Tourism development	97 244	-
Water testing	45 823	262 714
Bursaries	67 616	54 750
Water services authority expenditure	432 456	151 214
Publicity	14 560	-
Valuation expenses	56 754	276 631
Transport (workshop)	74 760	130 910
Chemicals	949 545	741 655
PMS review process	24 545	18 877
Clearing of erven	59 530	24 950
Other expenses	2 288 226	3 129 297
	48 196 377	**44 764 363**

Figures in South African Rand	2013	2012

35. Cash generated from operations

Surplus (deficit)	36 652 009	(14 946 865)
Non-cash transactions:		
Depreciation and amortisation	40 490 171	41 839 956
Loss (gain) on sale of assets and liabilities	117 178	(264 677)
Fair value adjustments	(25 594)	(21 378)
Impairment deficit	1 054 007	-
Debt impairment	15 155 312	16 228 391
Movements in operating lease assets and accruals	523	(20 574)
Retirement benefits	1 151 999	5 232 950
Debt impairment contribution/written off	868 418	-
Inventories	(995 301)	658 421
Receivables from non-exchange transactions	(659 561)	8 993 027
Decrease/(increase) in receivables from exchange transactions	(31 338 325)	(23 042 289)
Payables	(3 721 241)	11 644 261
(Decrease)/increase in VAT	2 222 566	(658 728)
Unspent conditional grants and receipts	(2 475 221)	-
Consumer deposits	(30 668)	-
	58 466 272	**45 642 495**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	12 591 473

This committed expenditure relates to infrastructure development and will be financed from grant funding.

37. Contingencies

One of the municipality's traffic officers arrested an offender and the municipality has been sued for wrongful arrest and crimen injuria. The amount claimed amounts to R100 000. According to the municipality's legal advisors the council will most probably not be held accountable, however it is unsure if the legal costs will be recoverable.

38. Going concern

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

39. Events after the reporting date

There were no events for disclosure that occurred after the reporting date.

40. Unauthorised expenditure

Unauthorised expenditure	-	12 026 249

The above amount represents expenditure incurred due to either no budget or overspending on budget.

41. Irregular expenditure

Opening balance	69 824 080	59 322 992
Add: Irregular Expenditure - current year (Supply Chain Management regulations not adhered to)	-	10 501 088
	69 824 080	**69 824 080**

Figures in South African Rand	2013	2012

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	447 598	462 329

Non-compliance with MFMA

During the year various instances of non-compliance with the MFMA occurred due to several reasons:
- Emergency expenditure incurred in terms of the flood during October 2012;
- Overspending on operating and capital budgets;
- Not all grants received budgeted for; and
- Suppliers not paid within 30 days.

Audit fees

Expense - current year	2 616 138	2 694 064

PAYE and UIF

Amount paid - current year	7 964 043	7 512 881

Pension and Medical Aid Deductions

Amount paid - current year	19 872 152	18 405 412

VAT

VAT payable	3 936 679	1 714 113

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
M Tarentaal	2 853	34 621	37 474
S Venene	251	2 582	2 833
M E Msimang	193	4 684	4 877
	3 297	**41 887**	**45 184**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Sundries	35 210 150	11 996 033

Notes to the Financial Statements

Figures in South African Rand	2013	2012

43. Related parties

Related party balances

Receivables		
Department of Roads & Public Works	340 914	188 614
Department of Health	3 952	68 704
Department of Agriculture	7 528	7 659
Department of Education	179 324	60 897

Related party transactions

Revenue		
Department of Health	382 511	710 443
Department of Roads & Public Works	2 086 281	1 584 987
Department of Education	302 026	372 184
Department of Agriculture	79 736	97 844

44. Prior period adjustments

Certain prior period adjustments had to be effected - these were as follow:

Property, plant and equipment, Intangibles and Investment property were previously not accurately accounted for in terms of GRAP 17, GRAP 31 and GRAP 16 due to incomplete registers in 2012. During the current year a comprehensive verification and valuation excercise was done and prior period balances have been restated.

A prior period adjustment has been done for the Environmental rehabilitation provision, which has previously not been recognised in terms of GRAP 19.

Not all inventory were accounted for in terms of GRAP 12 in prior periods. A prior period adjustment has been done in the current year to reflect the correct inventory values for 2012.

During the prior period a financial system error occured which led to an irreconcilable difference in the municipality's trial balance which has been corrected to Accumulated Surplus. A similar error occured in the current year, which has been adjusted to the current year opening balance for Accumulated surplus.

Certain comparative amounts have been re-classified (refer below).

The effect on the Statement of Financial Position as a result of the abovementioned adjustments and reclassifications is as follows:

Property, plant and equipment		
Balance previously reported	-	127 912 285
Assets identified: Net asset value	-	549 497 738
Additions for 2012 previously incorrectly accounted for	-	(28 967 444)
Restated additions for 2012	-	26 014 296
Depreciation for 2012 previously not accounted for	-	(41 739 587)
Disposals for 2012 previously not accounted for	-	(21 076)
Correction of other incorrect allocations	-	(194 184)
Restated balance	**-**	**632 502 028**

Intangible assets		
Balance previously reported	-	-
Re-allocation of opening balance from PPE	-	843 305
Correction of Cost: Opening balance for 2012	-	(123 459)
Correction of 2012 additions	-	(591 017)
Account for Accumulated amortisation Opening balance for 2012	-	(16 943)
Accounting for 2012 Amortisation	-	(17 435)
Restated balance	**-**	**94 451**

Figures in South African Rand	2013	2012

44. Prior period adjustments (continued)

Investment property		
Balance previously reported	-	-
Assets identified: Net asset value	-	36 693 924
Restated depreciation for 2012	-	(82 934)
Restated balance	**-**	**36 610 990**

Provisions		
Balance previously reported	-	-
Environmental rehabilitation: Opening balance (prior years)	-	4 068 270
Environmental rehabilitation: 2012 movement	-	1 824 934
Restated balance	**-**	**5 893 204**

Operating lease asset		
Balance previously reported	-	-
Adjustment - accounting for operating lease asset	-	20 574
Restated balance	**-**	**20 574**

Inventory		
Balance previously reported	-	188 305
Water inventory previously not reported	-	89 616
Game inventory previously not reported	-	777 950
Restated balance	**-**	**1 055 871**

Accumulated surplus		
Balance previously reported	-	18 079 189
Property, plant and equipment take on	-	549 497 738
Intangible assets take on / adjustment	-	(140 402)
Investment property take on	-	36 693 924
Provisions not previously accounted for	-	(4 068 270)
Operating lease asset not previously accounted for	-	19 696
Billing system correction	2 101 341	-
Accruals adjustment on creditors for prior period	343 211	-
Adjustment due to system error	955 478	(1 030 984)
	3 400 030	**599 050 891**

An adjustment of R3 400 030 has been made to the opening balance of Accumulated surplus in the current financial year. This adjustment was as a result of billing errors, where customers where incorrectly billed in prior periods.

The effect on the Statement of Financial Performance as a result of the abovementioned adjustments and reclassifications is as follows:

Rental from facilities and equipment		
Balance previously reported	-	3 073 360
Lease smoothing adjustment	-	879
Restated balance	**-**	**3 074 239**

(Loss) / Gain on disposal of assets		
Balance previously reported	-	285 753
Disposals not previously accounted for	-	(21 076)
Restated balance	**-**	**264 677**

Figures in South African Rand 2013 2012

44. Prior period adjustments (continued)

	2013	2012
General expenses		
Balance previously reported	-	43 717 379
Accounting for PPE previously expensed	-	1 046 984
	-	**44 764 363**

	2013	2012
Depreciation and amortisation		
Balance previously reported	-	-
Depreciation on Property, plant and equipment not previously accounted for	-	41 739 587
Depreciation on Investment property not previously accounted for	-	82 934
Amortisation of Intangible assets not previously accounted for	-	17 435
Restated balance	**-**	**41 839 956**

45. Fruitless and wasteful expenditure

	2013	2012
Fruitless and wasteful expenditure	-	62 074

46. Budget differences

Material differences between budget and actual amounts

Revenue:

Service charges: (-1.50%) Although in total variances are not material, but individually variances have been noted and have been reported on separately in the Annual report.

Rendering of services: (-17.80%) Variance is due to less burials taking place than what was anticipated.

Rental of facilities and equipment: (-12.98%) RDP houses transferred to beneficiaries and rental no longer due to the muncipality.

Licences and permits: (-29.39%) During the current year not all the driving testing centres were not properly staff and were closed for certain periods and revenue was not realised as anticipated.

Other income - (roll-up): (+123.68%) Insurance claim refunds were recevied during the year as a result of the flood in October 2012. These amounts were not budgeted for.

Interest received - investment: (+37.47%) Interest on flood relief money received during the year were not budgeted for.

Property rates: (+50.69%) Income foregone erroneously taken into account twice in the budgeted figures.

Government grants and subsidies: (+49.87%) Certain departments did not adjust their individual budgets with grants received during the year. This matter, which is a non-compliance with the MFMA, has been reported in note 42.

Fines: (-15.21%) Budget amounts are subjective and cannot be accurately predicted.

Expenses:

Personnel: (-1.15%) Variance is not material.

Remuneration of councillors: (-16.21%) Budget for ward councillors moved from councillor remuneration budget in error.

Administration: (-100%) Budgeted expense did not materialise.

Depreciation and amortisation: (-1 721.12%) Budget amount was insufficient due to the late finalisation of the municipality's fixed asset register.

Notes to the Financial Statements

Figures in South African Rand	2013	2012

Impairment loss / Reversal of impairments: (-100%) Impairments could not have been foreseen at the time of finalisation of the budget.

Finance cost: (+39.16%) Loans that were redeemed were not taken into account during the preparation of the budget.

Debt impairment: (-8.10%) Variance is not material.

Repairs and maintenance: (+32.85%) Increase is due to work done to repair flood damage.

Bulk purchases: (+5.76%) Variance is not material.

Grants and subsidies paid: (+30.47%) Certain departments did not adjust their individual budgets with grants received and paid during the year. This matter, which is a non-compliance with the MFMA, has been reported in note 42.

General expenses: (-5.60%) Variance is not material.

Indigent subsidy: (+100%) Budget figure was included with Grants and subsidies received (Equitable share). Expense could not be set off against an income, hence the reallocation in the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to the annual report

47. Indigent subsidy

An Equitable share amount of R24 807 507 (2012: R21 921 792) was utilised to set off amounts receivable from indigent debtors.

48. Risk management

Financial risk management

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

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

Liquidity risk

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

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2013 and 2012, the municipality's borrowings at variable rate were denominated in the Rand.

Credit risk

Notes to the Financial Statements

Figures in South African Rand	2013	2012

48. Risk management (continued)

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

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

Financial instrument	**2013**	**2012**
Receivables from non-exchange transactions	8 546 278	7 886 717
Receivables from exchange transactions	30 900 335	14 717 322

The municipality holds deposits of R1 635 907 (2012: R1 666 575) from consumer debtors. No guarantees or collateral was provided to third parties.

49. Water and electricity losses

Losses		
Water	9 524 194	-
Electricity	3 976 334	2 559 480
	13 500 528	**2 559 480**

In the current year, the water reticulation losses were 27.62% (4 744 008kl produced and 3 433 940kl sold). These losses are predominantly due to riding water to areas that could not be provided with water, burst pipes and metering inefficiencies.

In the current year, the energy losses were 13.66% (2012: 13.15%). Energy purchased was 44 107 242 kWh and 38 082 493 kWh sold (2012: 46 311 000 kWh purchased and 40 217 000 kWh sold). These losses are the result of 320 prepaid electricity meters being disfunctional, 180 meters being tampered with, street lights that are not metered, obsolete aluminium lines, old high and low voltage cables and dirty oil in transformers and switchgear.