Mnquma Local Municipality
Financial statements
for the year ended 30 June 2013

General Information

Legal form of entity	Government Entity
Nature of business and principal activities	Service Delivery Institution
The following is included in the scope of operation	Municipality
Mayoral committee	
Executive Mayor	Cllr B Ganjana
	Cllr Magadla - Speaker
	Cllr Mnqwazi - Chief Whip
Councillors	Cllr Mgandela - Portfolio Head: Strategic Management
	Cllr Sogayise - Portfolio Head: Budget & Treasury Office
	Cllr Ntanga - Portfolio Head: Corporate Services
	Cllr Bikitsha - Portfolio Head: Community Services Cllr Sheleni - Portfolio Head: Water & Sanitation Cllr Noganta - Portfolio Head: Special Programmes Unit Cllr Madikane - Portfolio Head: LED Cllr Ncetezo - Portfolio Head: Infrustructural Planning & Development
	Please refer to Note 30 for the full list of councillors
Grading of local authority	Grade 3
Accounting Officer	Mrs. V. Zitumane
Chief Finance Officer (CFO)	Mr. B. Mashiyi
Registered office	Corner King & Umtata Street BUTTERWORTH 4960
Business address	Corner King & Umtata Street BUTTERWORTH 4960
Postal address	P.O Box 36 BUTTERWORTH 4960
Bankers	First National Bank
Auditors	AUDITOR GENERAL Certified Public Accountants (S.A.) Registered Auditors
Attorneys	Mpeto & Associates Mangcotywa Ndzabela Associates Ross G. M. Sogoni ZYM Ndzabela Incorporated Smith Tabata Attorneys Sonamzi Mkata Attorneys Keithley Incorporated Velile Tinto & Associates
Published	30 August 2013

Index

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

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRS	International Financial Reporting Standard
IFRIC	International Financial Reporting Standards

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The annual financial statements set out on pages 6 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013.

V. Zitumane
Administrator

BUTTERWORTH

30 August 2013

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 6 meetings were held.

Name of member	Number of meetings attended
1) Ms. T. Cumming	6
2) Dr. W. A. Plaatjies	5
3) Ms. P. Ntisana	5
4) Mr. L. Galada	

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(1) of the MFMA and Treasury Regulation 3.1.

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

The Audit Committee also performs the responsibilities of the Performance Audit Committee.

The Committee has no executive function and its primary objective is to review and conduct oversight rather than assume responsibility for any matters within its remit.

The terms of reference were adopted by the Council.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was not entirely efficient and effective.

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

The audit committee is not satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review. (Provide details of what the audit committee was not satisfied with.)

Evaluation of financial statements

The audit committee has:

- reviewed and discussed the unaudited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed changes in accounting policies and practices;
- reviewed the Municipality's compliance with legal and regulatory provisions;
- reviewed significant adjustmentsused in the compilation of the annual financial statements.

The Audit Committee met on 21 August 2013 and again on 28 August 2012 to review the draft annual financial statement and performance information. Information presented to the Committee was incomplete and we were therefore unable to perform an appropriate review of the draft annual financial statements and performance information. The Audit Committee therefore recommended that the draft financial statements and performance information be properly compiled, completed and reviewed by the Municipality prior to submission to the Auditor-General.

Audit Committee Report

Internal audit

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

Chairperson of the Audit Committee - Mr. L. Galada

Date:

Accounting Officer's Report

1. Review of activities

Main business and operations

The municipality is engaged in service delivery and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in my opinion require any further comment.

2. 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.

3. Subsequent events

The accounting officer is aware of the matter and/or circumstance which arose since the end of the financial year:
Please refer to Note 44 for the detail regarding this matter.

4. Accounting policies

The financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
N. Pakade	South African	Left institution in May 2013
V. Zitumane	South African	Administrator from 19-March-2013

6. Bankers

First National Bank

7. Auditors

The Auditor General South Africa will continue in office for the next financial period.

8. Other Matters

The municipality was placed under section 139 (1) b administration, which is an assumption of duty by the MEC for Local Government through an appointed Administrator. An intervention is effected when a municipality fails to perform its executive obligations. The intervention commenced on the 19 March 2013, and is due to be completed on 18 September 2013.

Statement of Financial Position as at 30 June 2013

	Note(s)	2013	2012 Restated
Assets			
Current Assets			
Trade and other receivables from exchange transactions	2&9	3,151,223	4,956,326
Trade and other receivables from non-exchange transactions	2&10	3,557,359	3,400,738
VAT receivable	11	11,809,648	8,682,934
Prepayments		390,228	-
Cash and cash equivalents	12	61,517,388	47,288,358
		80,425,846	**64,328,356**
Non-Current Assets			
Investment property	4	60,934,939	61,592,557
Property, plant and equipment	5	241,338,303	214,602,003
Intangible assets	6	5,849	29,072
		302,279,091	**276,223,632**
Total Assets		**382,704,937**	**340,551,988**
Liabilities			
Current Liabilities			
Finance lease obligation	13	863,548	703,588
Trade and other payables	16	29,659,294	27,041,430
Unspent conditional grants and receipts	14	21,684,051	5,060,732
Provisions	15	528,267	615,864
		52,735,160	**33,421,614**
Non-Current Liabilities			
Finance lease obligation	13	1,018,622	1,911,250
Employee benefit obligation	8	3,708,000	2,988,000
Provisions	15	21,527,807	15,333,773
		26,254,429	**20,233,023**
Total Liabilities		**78,989,589**	**53,654,637**
Net Assets		**303,715,348**	**286,897,351**
Net Assets			
Accumulated surplus		303,715,348	286,897,351

Statement of Financial Performance

	Note(s)	2013	2012 restated
Revenue			
Revenue from exchange transactions			
Service charges	21	3,436,176	3,420,624
Rental of facilities		2,168,315	2,190,917
Interest on outstanding debtors		2,461,889	1,903,301
Income from agency services		2,594,106	2,243,911
Licences and permits		1,013,057	1,097,307
Fees earned		1,490,683	400,641
Recoveries		615,864	101,814
Miscellaneous income		122,714	334,503
Donations		17,096,592	-
Interest received - investment		3,168,873	2,800,219
Total revenue from exchange transactions		**34,168,269**	**14,493,237**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	11,136,441	10,764,837
Transfer revenue			
Government grants & subsidies		215,351,246	190,155,072
Fines		1,384,495	1,751,322
Total revenue from non-exchange transactions		**227,872,182**	**202,671,231**
		34,168,269	14,493,237
		227,872,182	202,671,231
Total revenue	19	**262,040,451**	**217,164,468**
Expenditure			
Employee Related Costs	24	(88,962,555)	(78,597,422)
Remuneration of councillors	25	(20,375,812)	(15,810,658)
Depreciation and amortisation	28	(35,130,226)	(33,575,521)
Finance costs	29	(442,357)	(414,531)
Debt impairment	26	(7,183,779)	(4,833,185)
Repairs and maintenance		(28,083,242)	(31,204,714)
Bulk purchases	32	(2,218,153)	(1,351,059)
General Expenses	23	(62,851,916)	(38,429,284)
Total expenditure		**(245,248,040)**	**(204,216,374)**
		-	-
Total revenue		262,040,451	217,164,468
Total expenditure		(245,248,040)	(204,216,374)
Operating surplus		**16,792,411**	**12,948,094**
Gain on disposal of assets and liabilities		25,578	56,929

Statement of Changes in Net Assets

	Accumulated surplus	Total net assets
Opening balance as previously reported	264,909,042	264,909,042
Adjustments		
Prior year adjustments	8,983,286	8,983,286
Balance at 01 July 2011 as restated	**273,892,328**	**273,892,328**
Changes in net assets		
Surplus for the year	13,005,023	13,005,023
Total changes	13,005,023	13,005,023
Opening balance as previously reported	309,308,186	309,308,186
Adjustments		
Changes in accounting policy	647,932	647,932
Prior period error	(23,058,759)	(23,058,759)
Balance at 01 July 2012 as restated	**286,897,359**	**286,897,359**
Changes in net assets		
Surplus/(Deficit) for the year	16,817,989	16,817,989
Total changes	16,817,989	16,817,989
Balance at 30 June 2013	**303,715,348**	**303,715,348**
Note(s)	2	

Cash Flow Statement

	Note(s)	2013	2012 restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		26,559,526	14,298,008
Grants		231,974,565	193,058,861
Interest from investments		3,168,873	2,800,219
Interest on outstanding debtors		2,461,889	1,903,301
		264,164,853	212,060,389
Payments			
Personnel & Remuneration of councillors		(109,338,367)	(94,406,058)
Suppliers		(78,180,648)	(29,564,818)
Other payments		(442,357)	(1,220,411)
		(187,961,372)	(125,191,287)
Total receipts		264,164,853	212,060,389
Total payments		(187,961,372)	(125,191,287)
Net cash flows from operating activities	33	**76,203,481**	**86,869,102**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(61,089,584)	(52,592,869)
Proceeds from sale of property, plant and equipment	5	290,159	488,011
Purchase of other intangible assets	6	(10,667)	(469)
Proceeds from sale of other intangible assets	6	10,666	130,924
Net cash flows from investing activities		**(60,799,426)**	**(51,974,403)**
Cash flows from financing activities			
Finance lease payments		(1,175,025)	(703,742)
Other cash item		-	1,609,864
Net cash flows from financing activities		**(1,175,025)**	**906,122**
Net increase/(decrease) in cash and cash equivalents		**14,229,030**	**35,800,821**
Cash and cash equivalents at the beginning of the year		47,288,358	11,487,537
Cash and cash equivalents at the end of the year	12	**61,517,388**	**47,288,358**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	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	3,893,510	-	**3,893,510**	3,436,176	**(457,334)**	
Rental of facilities and equipment	2,205,117	-	**2,205,117**	2,168,315	**(36,802)**	
Interest on outstanding debtors	945,933	1,386,476	**2,332,409**	2,461,889	**129,480**	**A/B - 1**
Income from agency services	2,789,176	273,150	**3,062,326**	2,594,106	**(468,220)**	**A/B - 2**
Licences and permits	1,326,980	(331,828)	**995,152**	1,013,057	**17,905**	
Fees earned	343,846	(343,846)	**-**	1,490,683	**1,490,683**	**A/B - 3**
Recoveries	-	-	**-**	615,864	**615,864**	**A/B - 4**
Miscellaneous income	4,146,965	(87,650)	**4,059,315**	122,714	**(3,936,601)**	**A/B - 5**
Donations	-	-	**-**	17,096,592	**17,096,592**	**A/B - 6**
Interest received - investment	2,258,000	658,116	**2,916,116**	3,168,873	**252,757**	**A/B - 7**
Total revenue from exchange transactions	**17,909,527**	**1,554,418**	**19,463,945**	**34,168,269**	**14,704,324**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	13,566,246	-	**13,566,246**	11,136,441	**(2,429,805)**	**A/B - 8**
Government grants & subsidies	153,903,071	1,527,109	**155,430,180**	215,351,246	**59,921,066**	**A/B - 9**
Transfer revenue						
Fines	1,563,096	-	**1,563,096**	1,384,495	**(178,601)**	
Total revenue from non-exchange transactions	**169,032,413**	**1,527,109**	**170,559,522**	**227,872,182**	**57,312,660**	
'Total revenue from exchange transactions'	17,909,527	1,554,418	**19,463,945**	34,168,269	**14,704,324**	
'Total revenue from non-exchange transactions'	169,032,413	1,527,109	**170,559,522**	227,872,182	**57,312,660**	
Total revenue	**186,941,940**	**3,081,527**	**190,023,467**	**262,040,451**	**72,016,984**	
Expenditure						
Personnel	(94,940,754)	2,743,231	**(92,197,523)**	(88,962,555)	**3,234,968**	
Remuneration of councillors	(20,088,686)	(1,891,293)	**(21,979,979)**	(20,375,812)	**1,604,167**	
Depreciation and amortisation	(3,536,649)	(4,483,513)	**(8,020,162)**	(35,130,226)	**(27,110,064)**	**A/B - 10**
Finance costs	(4,371,705)	(128,815)	**(4,500,520)**	(442,357)	**4,058,163**	**A/B - 11**
Debt impairment	(3,500,000)	-	**(3,500,000)**	(7,183,779)	**(3,683,779)**	**A/B - 12**
Repairs and maintenance	(6,677,292)	1,117,055	**(5,560,237)**	(28,083,242)	**(22,523,005)**	**A/B - 13**
Bulk purchases	(4,000,000)	500,000	**(3,500,000)**	(2,218,153)	**1,281,847**	**A/B - 14**
General Expenses	(50,149,301)	(10,778,080)	**(60,927,381)**	(62,851,916)	**(1,924,535)**	**A/B - 15**
Total expenditure	**(187,264,387)**	**(12,921,415)**	**(200,185,802)**	**(245,248,040)**	**(45,062,238)**	
	186,941,940	3,081,527	**190,023,467**	262,040,451	**72,016,984**	
	(187,264,387)	(12,921,415)	**(200,185,802)**	(245,248,040)	**(45,062,238)**	
Operating surplus	**(322,447)**	**(9,839,888)**	**(10,162,335)**	**16,792,411**	**26,954,746**	
Gain on disposal of assets and liabilities	666,292	-	**666,292**	25,578	**(640,714)**	**A/B - 16**
	(322,447)	(9,839,888)	**(10,162,335)**	16,792,411	**26,954,746**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	666,292	-	**666,292**	25,578	**(640,714)**	
Surplus before taxation	**343,845**	**(9,839,888)**	**(9,496,043)**	**16,817,989**	**26,314,032**	
Deficit before taxation	343,845	(9,839,888)	**(9,496,043)**	16,817,989	**26,314,032**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**343,845**	**(9,839,888)**	**(9,496,043)**	**16,817,989**	**26,314,032**	

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

A summary of the significant accounting policies, adopted in the preparation of these annual financial statements which have been consistently applied, are disclosed below:

Municipalities are required to apply the standards of GRAP where the Minister has determined the effective date. The Minister has determined the effective date for the following Standards of GRAP:

GRAP 1	Presentation of Financial Statements (as revised in 2010)
GRAP 2	Cash Flow Statements (as revised in 2010)
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4	The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5	Borrowing Costs
GRAP 9	Revenue from Exchange Transactions (as revised in 2010)
GRAP 10	Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11	Construction Contracts (as revised in 2010)
GRAP 12	Inventories (as revised in 2010)
GRAP 13	Leases (as revised in 2010)
GRAP 14	Events After the Reporting Date (as revised in 2010)
GRAP 16	Investment Property (as revised in 2010)
GRAP 17	Property Plant and Equipment (as revised in 2010)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
GRAP 100	Non-current Assets held for Sale and Discontinued Operations (as revised in 2010)
GRAP 101	Agriculture
GRAP 102	Intangible Assets
GRAP 21	Impairment of non-cash-generating assets
GRAP 23	Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 26	Impairment of cash-generating assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

Standards Issued, Future Effective Date - can base accounting policy on, or early adopt

GRAP 20	Related Party Disclosures
GRAP 25	Employee Benefits
GRAP 27	Agriculture (replace GRAP 101)
GRAP 31	Intangible Assets (replace GRAP 102)

Standards Issued, no Effective Date - can base accounting policy on, cannot early adopt

GRAP 105	Transfer of functions between entities under common control
GRAP 106	Transfer of functions between entities not under common control
GRAP 107	Mergers

Standards Issued, no Effective Date - cannot use

GRAP 18 - Segment Reporting

Accounting Policies

Interpretations

IGRAP 1 - Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2 - Changes in Existing Decommissioning Restoration and Similar Liabilities
IGRAP 3 - Determining Whether an Arrangement Contains a Lease
IGRAP 4 - Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5 - Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6 - Loyalty Programme
IGRAP 7 -The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8 - Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9 - Distributions of Non-cash Assets to Owners
IGRAP 10 - Assets Received from Customers
IGRAP 13 - Operating Leases - Incentives
IGRAP 14 - Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15 - Revenue - Barter Transactions Involving Advertising Services
IGRAP 16 - Intangible Assets - Website Costs (effective 1 April 2013)

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 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 and/or loans and receivables

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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. In addition, goodwill is tested on an annual basis for impairment. 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. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including production estimates and supply demand, together with economic factors such as inflation rates and interest rates.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Accounting Policies

1.1 Transfer of functions between entities under common control (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8

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.

1.2 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.3 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.

1.3 Investment property (continued)

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 and 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
Property - buildings	10 - 100 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.

The municipality has land and buildings, including vacant land that is classified as investment property. In terms of the Local Government Municipal Properties Rates Act of 2004, the municipality is required to perform general valuation once every four (4) years. The investment property held in the books of the municipality is not actively traded as the mandate of the municipality also includes local economic development. As such properties may be earmarked for local economic development. Thus, their trade value will be based on the proposal that impacts positively on economic growth. Therefore fair value cannot be measured reliably at each reporting date.

1.4 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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Item	**Average useful life**
Infrastructure	
• Roads and paving	10 - 30 years
• Access Roads	3 - 10 years
• Pedestrian Malls	30 years
• Electricity	10 - 25 years
• Water	15 - 20 years
• Sewerage	15 - 20 years
Community	
• Buildings	10 - 100 years
• Recreational Facilities	20 - 30 years
• Security	5 years
• Halls	30 years
• Libraries	30 years
• Parks and gardens	20-30 years
• Other assets	20-30 years
Finance lease assets	
• Motor Vehicles	4 - 27 years
Other Assets	
• Buildings	30 years
• Specialist Vehicles	10 years
• Other Vehicles	5 years
• Office Equipment	3 - 16 years
• Furniture and Fittings	3 - 23 years
• Watercraft	15 years
• Bins and Containers	5 years
• Specialised plant and equipment	15 years
• Other items of plant and equipment	5 - 23 years
• Computer Equipment	3 years
• Plant and Machinery	5 - 31 years
• Landfill Site	

The residual value, and the useful life and depreciation method of each asset are reviewed annually and any changes are recognised as a change in accounting estimates in the Statement of Financial Perfomance.

1.4 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the Municipality 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.

1.5 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.6 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from the 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.

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

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

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

1.6 Intangible assets (continued)

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:

Computer software, other	5 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.

1.7 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.

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

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.

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 impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

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.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

1.7 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy was made in accordance with its transitional provision as per Directive 2 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 Note 5. The transitional provision expires on 30/06/2015.

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),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- 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.

1.8 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.

1.8 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.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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.

1.8 Financial instruments (continued)

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

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

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

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

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

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.

1.8 Financial instruments (continued)

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
Trade and other receivables	Financial asset measured at amortised cost

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
Trade and other payables	Financial liability measured at amortised cost

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

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.

1.8 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 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.

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.8 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.

1.8 Financial instruments (continued)

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

Presentation

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

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

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

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

1.9 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 Municipality 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 - 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.

1.10 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.

1.10 Impairment of cash-generating assets (continued)

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.

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

1.10 Impairment of cash-generating assets (continued)

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.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

After the recognition of an impairment loss, 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.

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess 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.

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.

1.11 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.

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.

1.11 Impairment of non-cash-generating assets (continued)

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 test 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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

1.11 Impairment of non-cash-generating assets (continued)

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.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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 assess 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.

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

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.

1.12 Share capital / contributed capital

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

1.13 Employee benefits

Defined contribution plans

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

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

Accounting Policies

1.13 Employee benefits (continued)

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 end of the reporting period where the interim valuation is performed at an earlier date.

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

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

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

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

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

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

1.14 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.

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

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

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

Provisions are not recognised for future operating deficits.

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

1.14 Provisions and contingencies (continued)

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 35.

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.

1.15 Revenue from exchange transactions

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

Service charges relating to refuse are based on the tariffs set per the tariff policy.

Measurement

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

1.15 Revenue from exchange transactions (continued)

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.

1.16 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, other than increases relating to contributions from owners.

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 arise 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 from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality 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.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

1.16 Revenue from non-exchange transactions (continued)

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.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

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 Municipality.

1.16 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

1.22 Irregular expenditure

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

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

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

1.22 Irregular expenditure (continued)

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality'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.

1.23 Use of estimates

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

1.24 Presentation of currency

These financial statements are presented in South African Rand.

1.25 Offsetting

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

1.26 Conditional grants and receipts

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

1.27 Budget information

The 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 the 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 economic classification linked to performance outcome objectives.

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

1.27 Budget information (continued)

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.

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

Comparative information is not required.

1.28 Related parties

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

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

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

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

1.29 Going Concern Assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months

1.30 Comparative Information

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.30 Level of rounding

The figures on the Financial Statements have been rounded off to the next Rand amount.

Notes to the Financial Statements

2. Changes in accounting policy

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

GRAP 104 - Financial Instrument

During the year, the municipality changed its accounting policy with respect to the treatment of financial Instruments in order to conform with the benchmark treatment in of GRAP 104 - financial Instruments.

GRAP 104, paragraph 87 states that short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Based on the assessment made it was noted that the the initial credit period granted by the municipality is consistent with terms used in the public sector, through established practices. Thus the effects of the previous discounting performed have been adjusted retrospectively as follows:

The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2012 is as follows:

Statement of financial position

Trade and Other Receivables from exchange transactions		
Previously stated per 2012 Annual report	-	2,100,460
Impact of reversal of discounting of debtors	-	252,815
	-	**2,353,275**
Trade and other receivables from non-exchange transactions		
Previously stated per 2012 Annual report	-	3,005,621
Impact of reversal of discounting of debtors	-	395,117
	-	**3,400,738**
Accumulated surplus		
Previously stated per 2012 Annual report	-	(309,308,186)
Impact of reversal of discounting of debtors on interest income	-	(647,939)
	-	**(309,956,125)**

Notes to the Financial Statements

	2013	2012

2. Changes in accounting policy (continued)

Statement of Financial Performance

	2013	2012
Interest on outstanding debtors		
Previously stated per 2012 Annual report	-	(1,255,368)
Impact of reversal of discounting of debtors on interest income	-	(647,932)
	-	**(1,903,300)**

	2013	2012
Revenue		
Revenue from exchange transactions - Service charges		
Previously stated per 2012 Annual report	-	(3,404,162)
Impact of the reversal of discounting of debtors on revenue	-	(16,462)
	-	**(3,420,624)**

	2013	2012
Revenue		
Revenue from exchange transactions - Rental of facilities		
Previously stated per 2012 Annual report	-	(2,180,122)
Impact of reversal of discounting of debtors on revenue	-	(10,795)
	-	**(2,190,917)**

	2013	2012
Revenue		
Revenue from non-exchange transactions - Property rates		
Previously stated per 2012 Annual report	-	(10,711,797)
Impact of reversal of discounting of debtors on revenue	-	(53,040)
	-	**(10,764,837)**

Notes to the Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity 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 will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Notes to the Financial Statements

3. New standards and interpretations (continued)

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

Notes to the Financial Statements

3. New standards and interpretations (continued)

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

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

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

An 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, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess 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, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an 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.

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

3. New standards and interpretations (continued)

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, an 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, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:
- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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.

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.

An municipality assess 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, an municipality estimates the recoverable amount of that asset.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Notes to the Financial Statements

3. New standards and interpretations (continued)

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

Notes to the Financial Statements

3. New standards and interpretations (continued)

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the amendment is set out in note 2 Changes in Accounting Policy.

3.2 Standards and interpretations issued, but not yet effective

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

3. New standards and interpretations (continued)

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

Notes to the Financial Statements

3. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

3. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

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

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 financial statements.

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Notes to the Financial Statements

3. New standards and interpretations (continued)

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

3. New standards and interpretations (continued)

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:
- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

Notes to the Financial Statements

3. New standards and interpretations (continued)

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity’s website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

3.3 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:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

Notes to the Financial Statements

3. New standards and interpretations (continued)

It is unlikely that the standard will have a material impact on the municipality's financial statements.

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality expects to adopt the amendment for the first time in the 2014 financial statements.

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

4. Investment property

	2013			2012		
	Cost	**Accumulated depreciation**	**Carrying value**	**Cost**	**Accumulated depreciation**	**Carrying value**
Investment property	76,429,510	(15,494,571)	60,934,939	76,429,510	(14,836,953)	61,592,557

Reconciliation of investment property - 2013

	Opening balance	**Depreciation**	**Total**
Investment property	61,592,557	(657,618)	60,934,939

Reconciliation of investment property - 2012

	Opening balance	**Depreciation**	**Total**
Investment property	62,250,176	(657,618)	61,592,557

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.

Details of valuation

The municipality has land and buildings, including vacant land that is classified as investment property. In terms of the Local Government Municipal Properties Rates Act of 2004, the municipality is required to perform general valuation once every four (4) years. The investment property held in the books of the municipality is not actively traded as the mandate of the municipality also includes local economic development. As such properties may be earmarked for local economic development. Thus, their trade value will be based on the proposal that impacts positively on economic growth. Therefore fair value cannot be measured reliably at each reporting date.

5. Property, plant and equipment

	2013			2012		
	Cost	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	79,107,692	(44,036,670)	35,071,022	79,107,692	(42,366,481)	36,741,211
Plant and machinery	8,510,164	(1,402,855)	7,107,309	5,169,329	(1,135,792)	4,033,537
Furniture and fixtures	3,525,136	(1,136,611)	2,388,525	2,992,278	(992,317)	1,999,961
Motor vehicles	12,360,743	(4,564,463)	7,796,280	10,410,923	(3,507,251)	6,903,672
Office equipment	1,110,912	(298,444)	812,468	774,653	(205,486)	569,167
IT equipment	1,233,917	(567,730)	666,187	954,025	(405,359)	548,666
Infrastructure	625,988,844	(453,041,280)	172,947,564	573,214,688	(422,445,899)	150,768,789
Community	14,249,000	(3,459,020)	10,789,980	14,249,000	(3,172,043)	11,076,957
Other property, plant and equipment	4,318,496	(559,528)	3,758,968	2,349,702	(389,659)	1,960,043
Total	**750,404,904**	**(509,066,601)**	**241,338,303**	**689,222,290**	**(474,620,287)**	**214,602,003**

Notes to the Financial Statements

	2013	2012

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Difference	Additions	Under construction	Disposals	Depreciation	Impairment loss
Buildings	36,741,211	-	-	-	-	(1,670,189)	
Plant and machinery	4,033,537	-	3,340,835	-	-	(254,739)	(12,32
Furniture and fixtures	1,999,961	-	558,110	-	-	(144,294)	(25,25
Motor vehicles	6,903,672	-	2,182,076	-	(237,422)	(1,052,046)	
Office equipment	569,167	-	336,046	-	-	(59,290)	(33,45
IT equipment	548,666	-	279,892	-	-	(51,355)	(111,01
Infrastructure	150,768,789	**(23,312)**	31,587,519	20,832,479	-	(30,217,911)	
Community	11,076,957	-	-	-	-	(286,977)	
Other property, plant and equipment	1,960,043	**23,312**	1,972,627	-	(27,159)	(169,073)	(78
	214,602,003	**-**	**40,257,105**	**20,832,479**	**(264,581)**	**(33,905,874)**	**(182,82**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Under Construction	Disposals	Transfers	Depreciation	Total
Buildings	38,310,687	91,558	-	-	-	(1,661,034)	36,741,21
Plant and machinery	4,021,268	186,300	-	(15,898)	-	(158,133)	4,033,53
Furniture and fixtures	1,891,288	311,429	-	(78,679)	-	(124,077)	1,999,96
Motor vehicles	5,906,090	2,058,119	-	(222,738)	-	(837,799)	6,903,67
Office equipment	484,980	133,678	-	(5,658)	-	(43,833)	569,16
IT equipment	616,926	-	-	(22,124)	-	(46,136)	548,66
Infrastructure	156,712,710	4,631,558	44,829,824	-	(25,793,547)	(29,611,756)	150,768,78
Community	11,363,935	-	-	-	-	(286,978)	11,076,95
Other property, plant and equipment	1,785,422	350,403	-	(85,985)	-	(89,797)	1,960,04
	221,093,306	**7,763,045**	**44,829,824**	**(431,082)**	**(25,793,547)**	**(32,859,543)**	**214,602,00**

Assets subject to finance lease (Net carrying amount)

	2013	2012
Motor vehicles	7,796,280	6,903,672

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

6. Intangible assets

	2013			2012		
	Cost	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	87,012	(81,163)	5,849	87,012	(57,940)	29,072

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	29,072	10,667	(10,666)	(23,224)	5,849

6. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	183,624	469	(130,924)	(24,097)	29,072

7. Financial assets by category

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

2013

	Amortised cost	Total
Trade and other receivables from exchange transactions	3,151,223	3,151,223
Trade and other receivables from non-exchange transactions	3,557,359	3,557,359
Cash and cash equivalents	61,517,388	61,517,388
	68,225,970	**68,225,970**

2012

	Amortised Cost	Total
Trade and other receivables from exchange transactions	4,956,326	4,956,326
Trade and other receivables from non-exchange transactions	3,400,738	3,400,738
Cash and cash equivalents	47,288,359	47,288,359
	55,645,423	**55,645,423**

8. Employee benefit obligation

Defined benefit plan

The Muncipality has a defined benefit obligation in terms of the Long Service Awards. The independent valuers, ZAQ Consultants and Actuaries ("ZAQ") have been engaged to carry out an IAS 19: Employee Benefits actuarial valuation of the Municipality's liability as at 30 June 2013 arising from the long-service leave awarded to qualifying in-service employees.

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

	2013	2012
Carrying value		
Opening Balance	(2,988,000)	(2,753,000)
Service cost	(702,000)	(482,000)
Interest cost	(285,000)	(222,000)
Expected benefit paid	222,108	438,000
Actuarial gains/(losses)	44,892	31,000
Net liability	**(3,708,000)**	**(2,988,000)**

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

	2013	2012
Opening balance	(1,524,000)	(851,000)
Net expense recognised in the statement of financial performance	(845,108)	(673,000)
Closing balance	**(2,369,108)**	**(1,524,000)**

	2013	2012

8. Employee benefit obligation (continued)

Net expense recognised in the statement of financial performance

	2013	2012
Current service cost	(605,000)	(482,000)
Interest cost	(285,000)	(222,000)
Actuarial (gains) losses	44,892	31,000
Total included in employee related costs	**(845,108)**	**(673,000)**

Key assumptions used

Assumptions used at the reporting date:

	2013	2012
Discount rates used	7.40 %	8.00 %
Expected increase in salaries	6.66 %	7.50 %

9. Trade and other receivables from exchange transactions

	2013	2012
Trade debtors Impairment	(35,946,653)	(33,138,360)
Housing rentals	11,939,022	10,537,664
Fire Levy	3,439,781	3,492,005
Other debtors	17,566	1,038
Prepaid Assets	124,981	2,649,877
Refuse	23,576,526	21,414,102
	3,151,223	**4,956,326**

Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings to historical information about counterparty default rates.

Trade receivables

Counterparties with external credit rating	2013	2012
A - Government	2,640,553	3,133,242
B - Business	9,570,159	7,835,622
C - Residential	26,887,164	24,522,771
	39,097,876	**35,491,635**

Group A – Government
Their payment history is good as they usually pay timeously.

Group B - Business
Existing customer (more than 6 months) with no defaults in the past.

Group C – Residential
These debtors usually pay, but have previously paid late and therefore there is a possibility that these debts will not be recoverable.

	2013	2012

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

Trade and other receivables impaired

As of 30 June 2013, trade and other receivables from exchange transactions, greater than 30 days, of R 38,595,017 (2012: R 35,124,155) were considered for impairment and the following were provided for.

The amount of the provision was R (35,946,653) as of 30 June 2013 (2012: R (33,138,360)).

The ageing of these receivables is as follows:

	2013	2012
31 - 90 days	709,371	611,577
91 - 120 days	342,403	299,661
>120 days	37,543,243	34,212,917
	38,595,017	**35,124,155**

Reconciliation of provision for impairment of trade and other receivables

	2013	2012
Opening balance	84,905,296	80,072,111
Provision for impairment	7,183,779	4,833,185
	92,089,075	**84,905,296**

10. Trade and other receivables non-exchange transactions

	2013	2012
Debt Impairment	(57,360,873)	(51,979,659)
Assessment Rates	60,918,232	55,380,397
	3,557,359	**3,400,738**

Credit quality of trade and other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Trade and other receivables non-exchange transactions

	2013	2012
A - Government	4,859,726	4,895,646
B - Business	14,039,905	12,169,885
C - Residential	42,018,601	38,314,865
	60,918,232	**55,380,396**

Analysis of table:

Group A - Government
The debtors are of good credit quality and no default in payment is expected.

Group B - Business
The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time

Group C - Residential
These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable

	2013	2012

10. Trade and other receivables non-exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2013, trade and other receivables from non-exchange transactions,greater than 30 days, of R 60,300,204 (2012: R 54,826,423) were were considered for impairment and and the following were provided for.

The amount of the provision was R 57,360,873 as of 30 June 2013 (2012: R (51,979,659)).

The ageing of these receivables is as follows:

	2013	2012
31 - 90 days	1,216,752	1,060,016
91 - 120 days	587,308	519,388
>120 days	58,496,144	53,247,019
	60,300,204	**54,826,423**

Reconciliation of provision for total impairment of trade and other receivables

	2013	2012
Opening balance	84,905,296	80,072,111
Provision for impairment	7,183,779	4,833,185
	92,089,075	**84,905,296**

11. VAT receivable

	2013	2012
VAT	11,809,648	8,682,934

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Bank balances	1,404,429	4,125,142
Short-term deposits	60,112,959	43,163,216
	61,517,388	**47,288,358**

12. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2013	Bank statement balances 30 June 2012	Bank statement balances 30 June 2011	Cash book balances 30 June 2013	Cash book balances 30 June 2012	Cash book balances 30 June 2011
Primary Bank Account - FNB - Current - 62 247 497 872	1,559,037	3,911,973	527,135	1,377,575	160,861	1,265,573
First National Bank - MSP - 62240253188	25,024	25,037	-	25,024	25,037	-
First National Bank - MIG - 62240253542	5,429,217	307,004	-	5,429,217	307,004	-
First National Bank - Ngqamakhwe survey - 62240259615	101,333	101,333	-	101,333	101,333	-
First National Bank - FMG - 62240252768	121,828	41,992	-	121,828	41,992	-
First National Bank - Centane Survey - 62240260430	81,046	81,089	-	81,046	81,089	-
First National Bank - Siyanda Planning - 62240262105	87,779	87,825	-	87,779	87,825	-
First National Bank - Centane Planning - 62240261149	132,056	132,126	-	132,056	132,126	-
First National Bank - MSIG - 62240254003	423,030	545,867	-	423,030	545,867	-
First National Bank - Siyanda Survey - 62240259144	353,093	353,279	-	353,093	353,279	-
First National Bank - Intervention - 62240258568	23,715	23,727	-	23,715	23,727	-
First National Bank - DHLGTA - 62240254673	28,116	28,131	-	28,116	28,131	-
First National Bank - Call Account - 62240252198	37,226,362	38,018,186	-	37,226,362	38,018,186	-
First National Bank - DEAT - 62240256471	225,390	227,373	-	225,390	227,373	-
First National Bank - INEG - 6236177559	7,621,169	2,261,092	-	7,621,169	2,261,092	-
First National Bank - EPWP - 62345680195	593,480	720,127	-	593,480	720,127	-
Total	**54,031,675**	**46,866,161**	**527,135**	**53,850,213**	**43,115,049**	**1,265,573**

Notes to the Financial Statements

	2013	2012

13. Finance lease obligation

Minimum lease payments due		
- within one year	863,548	703,588
- in second to fifth year inclusive	1,018,622	1,911,250
Present value of minimum lease payments	**1,882,170**	**2,614,838**
Non-current liabilities	1,018,622	1,911,250
Current liabilities	863,548	703,588
	1,882,170	**2,614,838**

14.1 MEEG BANK: QUANTUM AND 2X TWIN CABS
The liability under a finance lease agreement is payable in monthly instalments R5 986 and R13 334 over a original period of 5 years at an interest rate of 2,5% below prime per year.

14.2 TOYOTA FINANCE: 8X TOYOTA COROLLAS
The liability under a finance lease agreement is payable in monthly instalments R28 641 and R13 334 over a period of 6 years at an interest rate of 1% below prime per year.

14.3 TOYOTA FINANCE: 1X 25 SEATER BUS
The liability under a finance lease agreement is payable in monthly instalmentsof R18 355 over a period of 5 years at an interest rate of 1% below prime per year.

14.4 TOYOTA FINANCE: 3 X TOYOTA HILUX
The liability under a finance lease agreement is payable in monthly instalments R3 962 over a period of 6 years at an interest rate of 1% below prime per year. .

14.5 TOYOTA FINANCE: 1 X TOYOTA HILUX
The liability under finance lease agreement is payable in monthly instalments R4 123.50 over a period of 6 years at an interest rate of 1% below prime per year.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 5 for further details .

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

MIG	4,165,721	282,230
MSIG	415,274	543,825
Centane Survey and Planning	212,441	212,441
Ngqamakhwe survey and planning	101,019	101,019
MSP	24,946	24,946
Siyanda survey and planning	439,504	439,504
Intervention	23,623	23,623
LGSETA	769,492	269,926
DHLGTA	28,029	28,029
FMG	128,586	41,310
EPWP	588,698	663,265
Electrification	7,691,987	2,205,923
Electricity Demandside Management	6,870,040	-
DEAT	224,691	224,691
	21,684,051	**5,060,732**

Notes to the Financial Statements

	2013	2012

14. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	5,060,732	2,156,943
Additions during the year	78,826,566	57,561,462
Income recognition during the year	(62,203,247)	(54,657,673)
	21,684,051	**5,060,732**

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

15. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Increase	Reversed during the year	Total
Environmental rehabilitation	15,333,773	6,194,034	-	21,527,807
Performance Bonuses	615,864	-	(87,597)	528,267
	15,949,637	**6,194,034**	**(87,597)**	**22,056,074**

Reconciliation of provisions - 2012

	Opening Balance	Increase	Utilised during the year	Total
Environmental rehabilitation	14,862,262	471,511	-	15,333,773
Performance Bonus	695,292	-	(79,428)	615,864
	15,557,554	**471,511**	**(79,428)**	**15,949,637**

	2013	2012
Non-current liabilities	21,527,807	15,333,773
Current liabilities	528,267	615,864
	22,056,074	**15,949,637**

Environmental rehabilitation provision

The Municipality operates a landfill site in Butterworth. This site is approximately 5224 square metres. The current legislation indicates that the landfill site is and has been operating illegally as the municipality has no licence to operate the site.

Additionally it is required that this landfill site should be closed in terms of minimum requirements. The legislation however does not specify the time frame within which this must be undertaken.

During the financial year consultants were appointed to calculate the cost of rehabilitating and closing this site. The amount was calculated and has been included above as the provision for the rehabilitation and closure of the site.

Additionally during the financial year the site was not used illegally. The municipaity has applied for a licence and is awaiting approval and issue thereof in order to commence with the process of rehabilitating and closing the site.

Performance Bonus

The provision for performance bonus is based on the amounts expected to paid based on assesments conducted on employees' performance.

The expected timing of any resulting outflows of economic benefits or service potential is the 2013/14 financial year.

16. Trade and other payables

	2013	2012
Trade payables	16,180,793	13,303,334
Advance payment - Consumer Debtors	6,106,030	6,252,888
Accrued leave	7,259,883	7,485,208
Other creditors	112,588	-
	29,659,294	**27,041,430**

17. Financial instruments disclosure

Categories of financial instruments

2013

	2013	2012

Financial assets

	At amortised cost	Total
Cash and cash equivalents	61,517,388	61,517,388
Trade and other receivables from exchange transactions	938,400	938,400
Other receivables from non-exchange transactions	3,557,359	3,557,359
	66,013,147	**66,013,147**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	29,859,483	29,859,483

2012

Financial assets

	At amortised cost	Total
Cash and cash equivalents	47,288,358	47,288,358
Trade and other receivables from exchange transactions	2,353,275	2,353,275
Other receivables from non-exchange transactions	3,400,738	3,400,738
Cash and cash equivalents	-	-
	53,042,371	**53,042,371**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	27,241,621	27,241,621

18. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Total
Trade and other payables	29,659,294	29,659,294

2012

	Financial liabilities at amortised cost	Total
Trade and other payables	27,249,432	27,249,432

Notes to the Financial Statements

	2013	2012

19. Revenue

	2013	2012
Service charges	3,436,176	3,420,624
Rental of facilities and equipment	2,168,315	2,190,917
Interest on outstanding debtors	2,461,889	1,903,301
Income from agency services	2,594,106	2,243,911
Licences and permits	1,013,057	1,097,307
Fees earned	1,490,683	400,641
Recoveries	615,864	101,814
Miscellaneous income	122,714	334,503
Donations	17,096,592	-
Interest received - investment	3,168,873	2,800,219
Property rates	11,136,441	10,764,837
Government grants & subsidies	215,351,246	190,155,072
Fines	1,384,495	1,751,322
	262,040,451	**217,164,468**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	3,436,176	3,420,624
Rental of facilities and equipment	2,168,315	2,190,917
Interest on outstanding debt	2,461,889	1,903,301
Income from agency services	2,594,106	2,243,911
Licences and permits	1,013,057	1,097,307
Fees earned	1,490,683	400,641
Recoveries	615,864	101,814
Miscellaneous Income	122,714	334,503
Donations	17,096,592	-
Interest received - investment	3,168,873	2,800,219
	34,168,269	**14,493,237**

The amount included in revenue arising from non-exchange transactions is as follows:		
Rates revenue		
Property rates	11,136,441	10,764,837
Transfer revenue		
Government grants & subsidies	215,351,246	190,155,072
Fines	1,384,495	1,751,322
	227,872,182	**202,671,231**

Nature and type of Bequests, gifts, donations and goods in-kind are as follows:

Donations	1) Donations amounting to R50,000 were received from Siva Pillay. These pertained to the performance awards function. 2) Donations amounting to R20,000 were received from Siva Pillay. These pertained to the heritage function. 3) Donations amounting to R10,000 were received during the year from Melki Civil and Plant hire.These pertained to the heritage function.
Service in-kind	The Department of Housing, Local Government and Traditional Affairs donated services in-kind through the appointment of an adminstrator to assist the Municipality.

	2013	2012

20. Property rates

Rates received

Property rates	11,136,441	10,764,837

Valuations

Residential	464,526,907	461,048,105
Business and Commercial	284,943,300	277,675,300
Vacant	102,155,180	102,057,100
Public Services	62,071,000	62,071,000
Small holdings and farms	7,325,000	6,950,000
Industrial	94,000,000	94,000,000
	1,015,021,387	**1,003,801,505**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2009. Interim valuations are conducted at least once on an annual basis to take into account changes in individual property values due to alterations and subdivisions. Tariffs applied are as follows:

Residential
A general rate of R0.01532 - (2012: R 0.01532) is applied to residential property valuations to determine assessment rates. Rebates of R20 000.00 are granted to all residential property owners.

Properties with a property value of R50, 000 or more get a rebate of R20,000.

Properties with a property value of less than R50, 000 or less get a rebate of 100% on rates(exempt)

Business and Commercial
A general rate of R0.018384 - (2012: R0.018384) is applied to business and commercial property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

Vacant and Industrial
A general rate of R0.018384 - (2012: R0.018384) is applied to vacant and indutrial property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

Public Services
A general rate of R0.00383 - (2012: R0.00383) is applied to vacant and indutrial property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

Small Holdings and Farms
A general rate of R0.00383 - (2012: R0.00383) is applied to vacant and indutrial property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

Industrial
A general rate of R0.018384 - (2012: R0.018384) is applied to indutrial property valuations to determine assessment rates. Rebates of R20 000.00 are granted to residential property owners.

21. Service charges

Refuse removal	3,436,176	3,420,624

Notes to the Financial Statements

	2013	2012

22. Government grants and subsidies

Operating grants		
Equitable share	153,148,000	135,532,000
DEDEA (Department of Economic Development and Environmental Affairs)	-	8,286
District Municipality Grant	968,550	247,175
EDSMG (Electricity Demand Side Management Municipal Grant)	129,960	-
FMG (Finance Management Grant)	1,412,724	1,409,690
Mineral and energy grant	8,513,936	7,794,077
Intervention	-	33,530
IEC (Independent Electoral Commission)	-	57,941
EPWP (Expanded Public Works Programme)	1,246,567	50,735
	165,419,737	145,133,434
Capital grants		
MIG (Municipal Infrastructure Grant)	49,931,509	45,021,638
	49,931,509	45,021,638
	215,351,246	**190,155,072**

Conditional and Unconditional

The revenue recognised for the grants and subsidies (as disclosed in the note above) can be classified as follow :

Conditional grants	62,203,246	45,072,373
Unconditional grants	153,148,000	145,082,699
	215,351,246	**190,155,072**

Equitable Share

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

All registered indigents receive the following subsidies:
1. For paraffin beneficiaries, every ward has 100 beneficiaries at 20 litre person bi-monthly
2. For all electricity beneficiaries, 50 KW per month
3. Rebates of R20,000 are granted to residential property owners.

Municipal Infrastructure Grant

Balance unspent at beginning of year	282,230	940,868
Current-year receipts	53,815,000	44,363,000
Conditions met - transferred to revenue	(49,931,509)	(45,021,638)
	4,165,721	**282,230**

Conditions still to be met - remain liabilities (see note 14).

The above grant was financed by National Revenue Fund and was used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, to micro enterprises and social institutions servicing poor communities.

Centane survey and planning

Balance unspent at beginning and end of year	212,441	212,441

Conditions still to be met - remain liabilities (see note 14).

The above grant was financed by the Department of Housing and was used for planning and surveying.

Ngqamakhwe Survey

	2013	2012

22. Government grants and subsidies (continued)

Balance unspent at beginning and end of year	101,019	101,019

Conditions still to be met - remain liabilities (see note 14).

The above grant was financed by the Department of Housing and was used for planning and surveying.

Municipal Support Programme

Balance unspent at beginning and end of year	24,946	24,946

Conditions still to be met - remain liabilities(see note 14).

The grant was received from the Department of Local Government and Traditional Affairs and was used to assist municipalities in building in–house capacity to perform their functions and stabilise institutional and governance systems.

Siyanda survey and planning

Balance unspent at beginning and end of year	439,504	439,504

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Housing and was used for planning and surveying.

T/A Intervention

Balance unspent at beginning and end of year	23,623	57,153
Conditions met transferred to revenue	-	(33,530)
	23,623	**23,623**

Conditions still to be met - remain liabilities (see note 14).

LGSETA (Local Government Sectorial Education Training Authority)

Balance unspent at beginning of year	269,926	25,464
Current-year receipts	499,566	244,462
	769,492	**269,926**

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Local Government Sectorial Education Training and was used for the training of staff.

DHLGTA (Department of Housing, Local Government and Traditional Affairs)

Balance unspent at beginning and end of year	28,029	28,029

Conditions still to be met - remain liabilities (see note 14). The grant was received from the(Department of Housing, Local Government and Traditional Affairs). This grant was utilised for housing development in the Butterworht area.

Finance Management Grant (FMG)

Balance unspent at beginning of year	41,310	1,000
Current-year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,412,724)	(1,409,690)
	128,586	**41,310**

	2013	2012

22. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities. (see note 14).

The grant was received from National Tresury and was mainly used for budget reforms and financial management reforms.

EPWP (Expanded Public Works Programme)

Balance unspent at beginning of year	663,265	-
Current-year receipts	1,172,000	714,000
Conditions met - transferred to revenue	(1,246,567)	(50,735)
	588,698	**663,265**

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Public Works to subsidise non–profit organisations in home and community based care via the provincial departments of Health and Social Development, to provide stipends to previously unpaid volunteers to maximise job creation and skills development in line with the Expanded Public Works Programme guidelines.

Electrification

Balance unspent at beginning of year	2,205,923	-
Current-year receipts	14,000,000	10,000,000
Conditions met - transferred to revenue	(8,513,936)	(7,794,077)
	7,691,987	**2,205,923**

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Energy to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

EDSMG (Electricity Demand Side Management)

Current-year receipts	7,000,000	-
Conditions met - transferred to revenue	(129,960)	-
	6,870,040	**-**

Conditions still to be met - remain liabilities (see note 14).

The grant was received from the Department of Energy to implement the Electricity Demand Side Management (EDSM) programme by providing capital subsidies to licensed distributors to address EDSM in residential dwellings, communities and commercial buildings in order to mitigate the risk of load shedding and supply interruptions.

DEAT Investment

Balance unspent at beginning and end of year	224,691	224,691

Conditions still to be met - remain liabilities (see note 14). The grant was received from the Department of Environmental Affairs and tourism. This grant was used to market the Butterworth area for tourism purposes.

Notes to the Financial Statements

23. General expenses

	2013	2012
Advertising fees	147,605	250,789
Auditors fees	2,110,071	2,572,680
Bank charges	260,855	302,335
Cleaning materials	533,302	453,394
Commission paid	1,989	-
Consulting and professional fees	4,648	2,111,377
Consumables	1,492,270	1,175,772
Refuse bags	1,620,723	1,699,733
Entertainment	110,489	14,177
License & registration fees	975,657	911,582
Decorations	248,035	4,393
Hire of transport & equipment	597,515	610,918
Insurance	347,320	222,969
Conf. fees & workshops	141,079	149,025
Community awareness	35,613	39,427
Vehicle licensing	251,651	136,819
Seeds, bulbs & plants	17,783	13,203
Skills development levy	812,876	859,297
First aid material	-	7,330
Fuel	2,642,628	1,695,037
Petty cash	10,487	13,690
Postage and telecommunication	4,364,314	4,143,392
Printing and stationery	1,145,226	796,919
Security	1,169,883	302,303
Landfill site	6,194,034	471,511
Electric consumption	3,969,893	1,431,306
Gas & oxygen	1,300	1,742
Water consumption	3,146,681	438,802
Uniforms, overall and protect	697,759	502,329
Operating Projects	19,120,124	10,959,583
Subsistence & travelling fees	3,359,246	1,380,177
Sundry expenses	500,932	133,953
Operating Lease	2,631,913	2,368,084
Civic functions	339,023	230,914
Membership fees	932,002	17,119
Car wash	-	3,973
News paper and periodicals	16,749	5,549
Legal Fees	2,900,241	1,997,681
	62,851,916	**38,429,284**

	2013	2012

24. Employee related costs

	2013	2012
Salaries	61,388,998	55,118,341
Bonus	4,848,293	4,735,044
Medical aid - company contributions	4,362,464	3,638,438
UIF	534,895	436,835
Insurance accident liability	1,112,530	204,602
Other payroll levies	32,568	22,316
Accumulated leave	1,415,545	2,499,895
Pension fund	10,394,018	8,800,308
Allowances	1,456,838	1,120,355
Overtime	1,638,336	833,518
Acting allowances	871,521	674,594
Car allowance	812,488	628,803
Housing subsidy	81,956	(115,627)
Relocation Costs	12,105	-
	88,962,555	**78,597,422**

The amounts below (which represent the Section 56 employees remuneration) are already included in the amounts above.

Remuneration of Municipal Manager

	2013	2012
Annual Remuneration	567,034	758,458
Car Allowance	71,710	118,808
Performance Bonuses	-	117,789
Contributions to UIF, Medical and Pension Funds	56,864	1,497
Cellphone allowance	42,865	52,802
Travel Allowance	127,076	-
Leave Pay	175,092	-
Backpay	31,311	-
	1,071,952	**1,049,354**

Remuneration of Chief Finance Officer

	2013	2012
Annual Remuneration	316,000	444,031
Car Allowance	-	139,801
Performance Bonuses	-	95,146
Contributions to UIF, Medical and Pension Funds	70,990	117,971
Cellphone Allowance	23,500	55,590
Travel allowance	79,510	-
	490,000	**852,539**

Remuneration of Legal Manager

	2013	2012
Annual Remuneration	124,924	374,773
Car Allowance	-	148,358
Performance Bonuses	-	253,690
Contributions to UIF, Medical and Pension Funds	57,107	24,000
Computer Allowance	1,648	4,945
Travel Allowance	49,452	-
Leave Pay	22,381	-
Cellphone Allowance	8,000	-
	263,512	**805,766**

Remuneration of Director Strategic Management

	2013	2012
Annual Remuneration	-	395,320

	2013	2012

24. Employee related costs (continued)

	2013	2012
Car Allowance	-	113,033
Performance Bonuses	-	48,079
Contributions to UIF, Medical and Pension Funds	-	115,304
Cellphone Allowance	-	60,708
	-	**732,444**

Corporate and Human Resources (Corporate Services)

	2013	2012
Annual Remuneration	554,742	602,970
Car Allowance	28,500	119,724
Performance Bonuses	-	95,146
Contributions to UIF, Medical and Pension Funds	-	1,497
Cellphone Allowance	46,946	33,202
Backpay	36,035	-
Leave Pay	87,360	-
Travel Allowance	91,173	-
	844,756	**852,539**

Remuneration of Director Infrustructural Development and Planning

	2013	2012
Annual Remuneration	564,717	658,868
Car Allowance	28,500	-
Performance Bonuses	-	65,887
Contributions to UIF, Medical and Pension Funds	-	1,497
Cellphone Allowance	44,258	24,000
Leave pay	179,538	-
Backpay	60,377	-
Acting Allowance	5,533	-
Travel Allowance	56,597	-
	939,520	**750,252**

Remuneration of Director Community Services

	2013	2012
Annual Remuneration	428,273	596,163
Car Allowance	71,710	126,531
Performance Bonuses	-	80,509
Contributions to UIF, Medical and Pension Funds	-	1,497
Cellphone Allowance	65,139	33,202
Backpay	36,035	-
Leave pay	87,360	-
Travel Allowance	118,439	-
Acting Allowance	9,615	-
	816,571	**837,902**

25. Remuneration of Councillors and Committees

	2013	2012
Executive Mayor and Mayoral Committee	3,152,730	2,913,290
Speaker and ward committee members	2,250,219	824,319
Councillors	14,972,863	12,073,049
	20,375,812	**15,810,658**

26. Debt impairment

	2013	2012
Debts impaired	7,183,779	4,833,185

Notes to the Financial Statements

	2013	2012

27. Interest Received

Interest revenue		
Bank	3,168,873	2,800,219

28. Depreciation and amortisation

Property, plant and equipment	35,130,226	33,575,521

29. Finance costs

Finance leases	442,357	414,531

30. Auditors' remuneration

Fees	2,110,071	2,572,680

31. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	2,168,315	2,190,917
	-	-
	-	-
	-	-
	-	**-**

32. Bulk purchases

Electricity and parraffin	2,218,153	1,351,059

33. Cash generated from operations

Surplus	16,817,989	13,005,023
Adjustments for:		
Depreciation and amortisation	35,130,226	33,575,521
Profit/Loss on sale of assets and liabilities	(25,578)	(56,929)
Finance costs - Finance leases	442,357	414,531
Debt impairment	7,183,779	4,833,185
Movements in retirement benefit assets and liabilities	720,000	235,000
Movements in provisions	6,106,437	392,083
Work in progress moved to repairs and maintenance	-	25,793,547
Prior period asset corrections	(427,459)	(2,483,845)
Changes in working capital:		
Trade and other receivables from exchange transactions	1,805,103	(1,173,172)
Other receivables from non-exchange transactions	(156,621)	(2,302,113)
Debt impairment	(7,183,779)	(4,833,185)
Prepayments	(390,228)	(390,228)
Trade and other payables	2,684,650	5,049,740
VAT	(3,126,714)	11,906,155
Unspent conditional grants and receipts	16,623,319	2,903,789
	76,203,481	**86,869,102**

Notes to the Financial Statements

	2013	2012

34. Commitments

Authorised capital expenditure

Already contracted and provided for		
• Property, plant and equipment	12,962,531	77,859,383

These commitments are to be funded by government grants

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	-
- in second to fifth year inclusive	-	-
- later than five years	-	-
	-	**-**

Notes to the Financial Statements

	2013	2012

35. Contingencies

Contingent Liabilities

	2013	2012
Contingent Liabilities - 2012		
1) The Speaker (Mnquma Municipality) vs. Municipal Manager, Mayor & Mnquma Council	-	(300,000)
2) Mr. B. Gqubela vs. Mnquma Municipality	-	(100,000)
3) T.K. Semekazi vs. Mnquma Municipality	-	(22,961)
4) Taxi Association vs. Mnquma Municipality	-	(20,000)
5) Siyephu vs. Mnquma Municipality	-	(20,000)
6) State vs. Aphelele Ngcaku GBH	-	(19,000)
Total contingent liabilities for 2012	**-**	**(481,961)**

	2013	2012
Contingent Liabilities - 2013		
Opening Balance	481,961	-
1) Langulabantu Construction vs Municipality File 14/16/68	292,920	-
2) Atlas Construction vs Municipality	238,572	-
3) Pumeza Mapazi vs Municipality	3,069	-
4) S. S. Mangaliso vs Municipality	130,000	-
5) Bongani Gqubela and two others vs Municipality, Matoti and Mphalwa	100,000	-
6) A.K. Gqiba vs Mnquma Municipalty	9,100	-
7) Thozamile Kenneth Semekazi vs Mnquma Municipality	85,000	-
8) D. Poncana vs Mnquma Municipality	18,000	-
9) Buyile George vs Eskom & Mnquma Local Municipality	240,655	-
9) Eagle Ukhozi Transport CC vs Mnquma Local Municipality & 23 Others.	150,000	-
10) Bongile Maxam vs Mnquma Municipality	250,000	-
11) Mnquma Municipality vs Nobanda &8 Others	150,000	-
12) Eagle Ukhozi Transport CC vs Mnquma Local Municipality	80,000	-
13) Eagle Ukhozi Transport CC vs Mnquma Municipality	526,550	-
14) Bukwana Nikelo vs Mnquma Municipality	2,638	-
15) Mbangeni vs Mnquma Municipality & Others	300,000	-
16) Skaap/ Mnquma Municipality, Ngcaku & Others	2,200,000	-
17) MC : Siyephu vs Mnquma Municipality & Others	100,000	-
Total contingent liabilities for 2013	**5,358,465**	**-**

Contingent assets

	2013	2012
Contingent Assets - 2012/13		
Opening Balance	230,000	-
1) Mnquma vs. Mangaliso	-	50,000
2) Mnquma Municipality vs. N.S. Gxoyi	-	9,000
3) Mnquma Municipality vs. Key & Hawkes	-	40,000
4) Mnquma Municipality vs. Sintu Ndwandwa	-	40,000
5) Mnquma Municipality vs. Mgoboli Tours Project	-	40,000
6) Mnquma Municipality vs. Thobeka Mdleleni	-	10,000
7) Mnquma Municipality vs. P. Maphazi	-	21,000
8) Mnquma Municipality vs. Illegal Occupants	-	20,000
9) Mnquma Municipality vs Scam	28,000	-
10) Moth Hall Swimming pool vs Mnquma Municpality	4,512	-
11) TKA Consulting vs Mnquma Municipality	41,008	-
Toal contingent assets - 2012/13	**303,520**	**230,000**

36. Related parties

Relationships
Mayoral Committee

	2013	2012

36. Related parties (continued)

Executive Mayor	Cllr Ganjana
Chief Whip	Cllr Mnqwazi
Mayoral Committee Member	Cllr Ntanga {Portfolio Head: Corporate Services}
Mayoral Committee Member	Cllr Bikitsha {Portfolio Head: Community Services}
Mayoral Committee Member	Cllr Ncethezo {Portfolio Head: Infrastructure}
Mayoral Committee Member	Cllr Noganta {Portfolio Head: SPU}
Mayoral Committee Member	Cllr Sheleni {Portfolio Head : Water and Sanitation}
Mayoral Committee Member	Cllr Ntshebe {Portfolio Head: Housing}
Mayoral Committee Member	Cllr Madikane {Portfolio Head: LED}
Mayoral Committee Member	Cllr Mgandela {Portfolio Head: Strategic Management}

Administrator	V. Zitumane
Municipal Manager	N Pakade
Chief Financial Officer	B. Mashiyi
Department of Local Government and Traditional Affairs	

Councillors

Cllr. BikitshaTobeka	Cllr. Ganjana
Cllr .Thoko Manyenyeza	Cllr. Nokwanda Sheleni
Cllr .Mgandela Luxolo	Cllr. Luckman Kuselo Ntshebe
Cllr .Mgonyama Yoliswa	Cllr. Vuyani Tongo
Cllr .Mankune Andries Velile	Cllr. Zukile Sogayise
Cllr .Tyala Nomakorinte	Cllr. Pamella Mntwini
Cllr .Mahlanza Sibongiseni Zimasile	Cllr. Ntombotando Winifred Mzimba
Cllr .Sukwana Nokwakha Queen	Cllr. Qinisile Armstrong Mpande
Cllr .Jiya Nomonde	Cllr. Thobakazi Patience Ntanga
Cllr .Plaatjie Nomabhele	Cllr. Matanga
Cllr .Mtalo Livingstone Mziyanda	Cllr. Magnet Zibuthe Mnqwazi
Cllr .Makholwa Synthia Nomaphelo	Cllr. Caroline Nomnikelo Magadla
Cllr .Mdudo Gaylard	Cllr. Eunice Nomdakazana Noganta
Cllr .Mnqokoyi Zikhethele	Cllr. Sithembiso Ncetezo
Cllr .Luwaca Nokhona	Cllr. Magqabini
Cllr. Tsetse Namawethu Sylvia	Cllr. Gidion Qalayo Ngqongolo
Cllr .Gobingca Zukile	Cllr. Mbaso Ntongana
Cllr .Gade Zinzile	Cllr. Thamsanqa Ntshawuzana
Cllr .Phahlane Nomatshayina Vivienne	Cllr. Thomas Mazizi Ntisana
Cllr .Nkaule Ambrose	Cllr. Maureen Zimba
Cllr .Nyengule Esther Weena	Cllr. Zamindawo David Solontsi
Cllr .Mbelani Thamsanqa Zamukulungisa	Cllr. Kholisile Charles Mpeluza
Cllr .Buso Mziwonke	Cllr. Nikiwe Thandela
Cllr .Mkhwezo Maboyisana Divide	Cllr. Zama Bomela
Cllr .Madikane Timothy	Cllr. Nofinish Nqata
Cllr .Zaba Nozinzile	Cllr. Mzwanele Nyhontso
Cllr .Njengele Nofundile	Cllr. Zamindawo Abner Mqolo
Cllr .Sajini Nokind	Cllr. Nosikhumbuzo Dayimani
Cllr .Nkamisa Tunyiswa	Cllr. Thembisile Dyani
Cllr .Velaphi Monde Sydney Hurtzenburg	Cllr. Cleopatra Xoliswa Doko
Cllr .Mbuku Nangamso	Cllr. Xolile Nkwateni

Related party transactions

The Municipality received assistance during the financial year from the Department of Local Government and Traditional Affairs through the appointment of an administrator.

	2013	2012

37. Prior period errors

NATURE

CORRECTION OF REHABILITATION OF TOWNSHIP ROADS
Prior period errors relating to expenditure for rehabilitation of township roads refers to expenditure incorrectly posted to WIP instead of being expensed as repairs and maintenance of the township roads.

CORRECTION OF ACCOUNTS PAYABLE
Prior period errors relating to trade and other payables which were incorrectly included in creditors in the prior year closing balance were corrected.

ERRONEOUS BILLING
Prior period errors relating to amounts which were incorrectly billed for the year ending 30 June 2012 were corrected. The errors corrected relate to over/under biling which took place during the prior year.

IMPACT
Statement of Financial Position

	2013	2012
Balance per the 2011 Annual Report	-	240,071,693
Increase in the creditors balance	-	2,311
Increase in the Property, Plant and Equipment balance	-	(25,547,642)
Restated balance disclosed in the corresponding figure	-	214,602,003

	2013	2012
PROPERTY, PLANT AND EQUIPMENT		
Balance per the 2012 Annual Report	-	240,071,693
Decrease in Property, Palnt and Equipment	-	(25,469,690)
Restated balance disclosed in the corresponding figure	**-**	**214,602,003**

	2013	2012

37. Prior period errors (continued)

	2013	2012
TRADE AND OTHER PAYABLES		
Balance per the 2012 Annual Report	-	(27,239,309)
Increase in the Trade and other payables balance	-	(2,313)
Increase in the Trade and other payables balance	-	(200,191)
Restated balance disclosed in the corresponding figure	-	27,241,622
PREPAYMENTS		
Balance per the 2012 Annual Report	-	390,228
Decrease in prepayments	-	(390,228)
Restated balance disclosed in the corresponding figu	**-**	**-**
TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Balance per the 2012 Annual Report	-	2,100,460
Increase in trade and other receivables from exchange transactions	-	2,855,866
Restated balance disclosed in the corresponding figure	**-**	**4,956,326**
TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS		
Balance per the 2012 Annual Report	-	3,005,621
Increase in trade and other receivables from exchange transactions	-	395,117
Restated balance disclosed in the corresponding figure	**-**	**3,400,738**
VAT RECEIVABLE		
Balance per the 2012 Annual Report	-	8,682,713
Increase in VAT receivable	-	221
Restated balance disclosed in the corresponding figure	**-**	**8,682,934**
STATEMENT OF FINANCIAL PERFORMANCE		
Movement in surplus for the year ending 30 June 2012	-	-
REVENUE	-	-
Balance per the 2012 Annual Report	-	(216,169,205)
Increase in Property rates	-	(53,040)
Increase in service charges	-	(16,462)
Increase in rental of facilities	-	(10,795)
Increase in interest on outstanding debtors	-	(1,903,301)
Increase in income from agency fees	-	(2,243,911)
Decrease in licences and permits	-	2,243,911
Increase in miscellaneous income	-	(323,962)
Decrease in interest received	-	1,255,368
Restated balance disclosed in the corresponding figure	**-**	**(217,221,397)**
EXPENDITURE		
Total per the 2012 Annual Report	-	180,688,877
Decrease in depreciation and amortisation	-	(322,801)
Increase in finance cost	-	80,297
Increase in repairs and maintenance	-	23,678,475
Increase in general expenses	-	227,248
Increase in employee related cost	-	200,191
Restated balance disclosed in the corresponding figure	**-**	**204,552,287**

Notes to the Financial Statements

	2013	2012

38. Risk management

Market risk: Currency Risk

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency.

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. Risk management is carried out by the financial department under policies approved by the accounting officer in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies.

Liquidity risk

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

Interest rate risk

The municipality’s interest bearing assets are included under cash and cash equivalents. The municipality’s income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with the South African Prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Trade debtors in arrears linked to South African prime rate plus one percent.
Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 5.
At year end, financial liabilities exposed to interest rate risk were as follows:

Interest rate sensitivity analysis

The sensitivity anlsysis below was determined based on financial instrument exposures to interest rates at reporting date. For floating rate instruments analysis is prepaered assuming the amount of the instrument outstanding at reporting date was outstanding for the whole year.

The basis points adjustment represent managements assessment of the reasonable possible change in interest rate
There were no changes in the methods or assumptions from one period to the next.

A 100 point increase in rates would result in a decrease of R9,961 (2012: R10,227) in the net surplus for the period.

38. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. 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.

The carrying amount of the financial assets represent the entities maximum exposure to credit risk in relation to these assets. The Municipality's cash and cash equivalents and short term deposits are with high credit quality financial institutions.

Financial assets exposed to credit risk at year end were as follows:
Trade and other receivables from exchange transactions
Trade and other receivables from non-exchange transactions:

Financial instrument	2013	2012
Trade and other receivables from exchange transactions	938,400	2,353,275
Trade and other receivables from non-exchange transactions	3,557,359	3,400,738

39. 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.

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40. Events after the reporting date

The Municipal Manager was appointed at the council meeting held on 22 August 2013.The MEC has since been informed of this appointment in line with section 56 of Municipal systems Act.

41. Deviations from the Municipal Supply Chain Management Policy

Opening Balance	5,253,924	2,507,077
Deviations from the SCM policy during the year	-	2,746,847
Closing Balance	**5,253,924**	**5,253,924**

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

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

42. Unauthorised expenditure

Depreciation	(34,312,917)	(33,705,874)

During the financial year ended 30-June-13 the municipality has incurred unauthorised expenditure in respect of its depreciation charge which was not adequately budgeted for. Depreciation represents a non-cash item and therefore no actual expenditure was incurred on depreciation.

During the financial year ended 30-June-12 the municipality has incurred unauthorised expenditure in respect of its depreciation charge which was not adequately budgeted for. Depreciation represents a non-cash item and therefore no actual expenditure was incurred on depreciation.

This amount is reflected for disclosure purposes.

	2013	2012

43. Fruitless and wasteful expenditure

Opening Balance	1,368,617	938,930
Accomodation double booking	-	16,473
Interest on overdue accounts	-	413,214
	1,368,617	**1,368,617**

2012
1) The R16,473 pertains to the following:
A double booking which was made for accomodation which was made through the appointed Service Provider. The double booking was only discovered subsequent to the relevant date.

2) The interest on overdue accounts of R413,214 pertains to the following:
- Interest charged by suppliers on outstanding amounts owed by the Municipality;
- Interest on Eskom Lines,
- Interest on Long service bonus

2013
There was no fruitless and wasteful expenditure incurred in the 2012/13 year that the Municipality is aware of.

44. Irregular expenditure

	2013	2012
Opening balance	888,339	528,014
Add: Current year	779,356	360,325
Add: Current Year	46,100,885	-
Closing Balance	**47,770,593**	**890,351**

Analysis of expenditure awaiting condonation per age classification

Current Year		
Deviation on the SCM processes on the appointment of a facilitator for council & officials workshop held on 21-23 May 13	138,000	-
Deviation on the appointment of PWC for the forensic investigation	434,913	-
Litigation matter between the speaker vs Mnquma Local Municpality	912,472	-
	1,485,385	**-**

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	32,570	22,316
Amount paid - current year	(32,570)	(22,316)
	-	**-**

Audit fees

Opening balance	51,897	-
Current year fee	2,058,174	2,878,562
Amount paid - current year	(2,110,071)	(2,826,665)
	-	**51,897**

	2013	2012

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

PAYE and UIF

	2013	2012
Current year subscription / fee	12,401,233	8,066,064
Amount paid - current year	(12,401,233)	(8,066,064)
	-	-

Pension and Medical Aid Deductions

	2013	2012
Current year subscription / fee	14,756,484	15,671,753
Amount paid - current year	(14,756,484)	(15,671,753)
	-	-

VAT

	2013	2012
VAT receivable	11,809,648	8,682,934

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

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
MGANDELA	16,358	-	16,358

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MGANDELA	12,948	14,181	27,129
MAGADLA	2,547	5,856	8,403
	15,495	**20,037**	**35,532**

46. Actual operating expenditure versus budgeted operating expenditure

Refer to the Budget vs Actual statement for the comparison of actual operating expenditure versus budgeted expenditure.

47. Actual capital expenditure versus budgeted capital expenditure

Refer to the Budget vs Actual statement for the comparison of actual capital expenditure versus budgeted expenditure.

48. Budget differences

Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for certain line items was due to the following: There were no other material differences between the final budget and the actual amounts.

		2013	2012

A/B 1	160%	The hand over process of defaulters could not be done to its completion due to the review of the Revenue Enhancement Strategy
A/B 2	7%	This was due to the ssessment of the institution's performance during the mid-term assessment
A/B 3	334%	The Municipality included this under miscellaneous income
A/B4	100%	Provision for perfomance bonus
A/B 5	97%	This, together with fees earned are clubbed together
A/B 6	100%	The amount in question is insignificant to revise anticipated revenues
A/B 7	40%	This is due to increase in unspent conditional grants as a result of delayed projects
A/B 8	-18%	Budget was based only on one type of rebate
A/B 9	40%	Actuals include grants relating to capital expenditure
A/B 10	871%	The varinace is still being investigated
A/B 11	-90%	The institution was to lease plant at a large scale but that was affected by change in management
A/B 12	105%	The varinace is still being investigate

Additional text

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to the minutes of the council meetings held on the following dates:
1) 29 August 2012
2) 28 March 2013
3) 25 June 2013

49. Irregular Expenditure (Additional)

Irregular expenditure relating to infrastructure expenditure on roads amounting to R46, 100,885 was identified during the year. Transactions relating to the irregular expenditure incurred were subject to a forensic investigation in August 2013. The investigation is still ongoing. The detail of the irregular expendire is contained in Note 44.