NGQUSHWA LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2013

NGQUSHWA LOCAL MUNICIPALITY
(Registration number EC126)
Annual Financial Statements for the year ended 30 June 2013

GENERAL INFORMATION

LEGAL FORM OF ENTITY	Municipality
EXECUTIVE COMMITTEE	
Mayor	Mr S.E Ndwayana
	Mr Z. Jowela (Speaker)
	Ms Z. Gqadushe (Chief Whip)
	Mr T Siwisa (Member of the Executive Committee)
	Ms L. Cuka (Member of the Executive Committee)
	Ms N. Tele (Memeber of the Executive Committee)
	Mr M Faltein (Member of the Executive Committee)
Councillors	Mrs N.N Maphekula
	Ms T.M Dyani
	Mr T. Tusani
	Mr M Boqwana
	Ms N.C Gxasheka
	Ms Z. Gqadushe
	Ms P. Sitole
	Mr M.G Yolelo
	Mr M.C Mapuma
	Mr A. Mtshakazi
	Ms N.A Seysman
	Mr A. Ndanda
	Mr T Magazi
	Ms T.G Dyibishe
	Ms N Mntanga
	Mr G.M Ntonjane
	Ms N Ndabazonke
	Mr S Jali
	Mr M.B Sethuntsa
Traditional Leaders	Prince G. L Zitshu
	Prince B. Matomela
	Princess N. V Njokweni
	Chief S. S Ngwekazi
	Chief M. W Kaulela
GRADING OF LOCAL AUTHORITY	Grade 3
CHIEF FINANCE OFFICER (CFO)	Ms V. Fonoza (Acting)
MUNICIPAL MANAGER	Ms V Mbelani (Appointed 11 September 2013)
REGISTERED OFFICE	Peddie
BUSINESS ADDRESS	Corner of N2 and R345 Road Peddie 5640
POSTAL ADDRESS	P.O Box 539 Peddie 5640
BANKERS	First National Bank
AUDITORS	Auditor-General South Africa

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

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
FMG	Financial Management Grant
DBSA	Development Bank of South Africa
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
LED	Local Economic Development
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (Act 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay AS You Earn
SARS	South African Revenue Services
SALGABC	South African Local Government and Bargaining Council
IDP	Intergrated Development Planing
PMS	Performance Management Systems
SPU	Special Programmes Unit
PMU	Project Management Unit
ASB	Account Standatrds Board
VAT	Value Added Tax
HRD	Human Resource Development Grant
COGTA	Co-Operative Goverance and Traditional Affairs
UIF	Unemplyment Insurance Fund

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL OF FINANCIAL STATEMENTS

The Accounting Officer is required by the Municipal Finance Management Act (MFMA) (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 annual financial statements and were 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 (ASB).

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 Council 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 external auditors are responsible for independently auditing and reporting on the Municipality's annual financial statements. The annual financial statements have been examined by the Municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 46, which have been prepared on the going concern basis, were approved by the Council on 28 August 2013 and were signed on its behalf by:

Ms V Mbelani
Municipal Manager

29 September 2013

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note(s)	30 June 2013 R	Restated 2012 R
ASSETS			
Current assets			
Receivables from non-exchange transactions	3	14 292 440	8 478 811
VAT receivable	4	2 986 993	947 306
Receivables from exchange transactions	5	10 835 061	(247 043)
Cash and cash equivalents	6	24 344 434	10 695 167
		52 458 928	**19 874 241**
Non-current assets			
Investment property	7	5 430 000	5 430 000
Property, plant and equipment	8	168 922 405	168 073 217
Intangible assets	9	1 177 568	-
		175 529 973	**173 503 217**
Total assets		**227 988 901**	**193 377 458**
LIABILITIES			
Current liabilities			
Finance lease obligation	10	113 948	149 737
Payables from exchange transactions	11	5 449 096	3 310 827
Unspent conditional grants and receipts	12	24 802 657	7 881 422
Provisions	13	3 067 911	1 587 370
Bank overdraft	6	-	2 017 982
		33 433 612	**14 947 338**
Non-current liabilities			
Finance lease obligation	10	71 345	185 293
Non - current provisions	13	1 668 322	1 319 238
		1 739 667	**1 504 531**
Total liabilities		**35 173 279**	**16 451 869**
Net assets		**192 815 622**	**176 925 589**
NET ASSETS			
Accumulated surplus		192 815 622	176 925 589

NGQUSHWA LOCAL MUNICIPALITY
(Registration number EC126)
Annual Financial Statements for the year ended 30 June 2013

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	30 June 2013 R	Restated 2012 R
Revenue			
Revenue from exchange transactions			
Service charges	14	451 021	417 386
Rental of facilities and equipment	15	72 287	105 644
Interest received		2 958 196	13 344
Income from agency services		230 501	251 785
Licences and permits		1 543 845	377 498
Other revenue	16	463 666	871 762
Interest received - investment		1 010 177	254 909
Total revenue from exchange transactions		**6 729 693**	**2 292 328**
Revenue from non-exchange transactions			
Property rates	17	23 669 076	23 673 677
Government grants and subsidies	18	71 550 741	68 251 672
Public contributions and donations		530	-
Fines		66 646	197 660
Total revenue from non-exchange transactions		**95 286 993**	**92 123 009**
Total revenue		**102 016 686**	**94 415 337**
Expenditure			
Employee related costs	19	28 882 276	25 265 684
Remuneration of councillors	20	6 233 719	6 613 479
Depreciation and amortisation	21	15 859 086	14 257 930
Finance costs		20 367	36 738
Debt impairment	5	4 788 412	5 057 348
Repairs and maintenance		2 425 004	3 979 482
Grants and subsidies paid	22	4 098 539	592 043
General expenses	23	26 590 443	36 261 895
Total expenditure		**88 897 846**	**92 064 599**
Operating surplus		**13 118 840**	**2 350 738**
Gain on disposal of assets and liabilities		197 157	2 135 100
Surplus for the year		**13 315 997**	**4 485 838**

STATEMENT OF CHANGES IN NET ASSETS

		Accumulated surplus R	Total net assets R
Balance at 01 July 2011		**172 439 751**	**172 439 751**
Changes in net assets			
Surplus for the year		4 485 838	4 485 838
Total changes		4 485 838	4 485 838
Opening balance as previously reported		176 925 588	176 925 588
Adjustments			
Prior year adjustments	33	2 574 037	2 574 037
Balance at 01 July 2012 as restated		**179 499 625**	**179 499 625**
Changes in net assets			
Surplus for the year		13 315 997	13 315 997
Total changes		13 315 997	13 315 997
Balance at 30 June 2013		**192 815 622**	**192 815 622**

Note(s)

CASH FLOW STATEMENT

	Note(s)	30 June 2013 R	Restated 2012 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Rates and other income		26 627 272	25 908 756
Grants		71 550 741	68 251 672
Interest income		1 010 177	254 909
		99 188 190	94 415 337
Payments			
Employee costs		(35 115 995)	(31 879 157)
Finance costs		(20 367)	(36 738)
Other cash item		(30 402 568)	(37 956 794)
		(65 538 930)	(69 872 689)
Net cash flows from operating activities	24	**33 649 260**	**24 542 648**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(16 818 204)	(15 772 108)
Proceeds from sale of property, plant and equipment		197 157	2 135 100
Purchase of other intangible assets	9	(1 190 860)	-
Net cash flows from investing activities		**(17 811 907)**	**(13 637 008)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Finance lease payments		(170 104)	(7 444)
Net increase/(decrease) in cash and cash equivalents		**15 667 249**	**10 898 196**
Cash and cash equivalents at the beginning of the year		8 677 185	(2 221 011)
Cash and cash equivalents at the end of the year	6	**24 344 434**	**8 677 185**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Cash Basis

	Approved budget	Adjusted Budget	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	R	R	R	R	R	
Statement of Financial Performance						
REVENUE						
REVENUE FROM EXCHANGE TRANSACTIONS						
Service charges	356 000	356 000	**356 000**	451 021	**95 021**	
Rental of facilities and equipment	28 143	28 143	**28 143**	72 287	**44 144**	
Interest received (trading)	-	-	**-**	2 958 196	**2 958 196**	
Income from agency services	292 050	292 050	**292 050**	230 501	**(61 549)**	
Licences and permits	3 600 000	3 600 000	**3 600 000**	1 543 845	**(2 056 155)**	
Interest received - investment	360 000	360 000	**360 000**	1 010 177	**650 177**	
Total revenue from exchange transactions	**4 636 193**	**4 636 193**	**4 636 193**	**6 729 693**	**2 093 500**	
REVENUE FROM NON-EXCHANGE TRANSACTIONS						
TAXATION REVENUE						
Property rates	4 550 000	4 550 000	**4 550 000**	23 669 076	**19 119 076**	
Government grants & subsidies	24 433 000	24 433 000	**24 433 000**	71 550 741	**47 117 741**	
TRANSFER REVENUE						
Public contributions and donations	-	-	**-**	530	**530**	
Fines	280 000	280 000	**280 000**	66 646	**(213 354)**	
Total revenue from non-exchange transactions	**29 263 000**	**29 263 000**	**29 263 000**	**95 286 993**	**66 023 993**	
Total revenue	**33 899 193**	**33 899 193**	**33 899 193**	**102 016 686**	**68 117 493**	
EXPENDITURE						
Personnel	(32 277 401)	(32 277 401)	**(32 277 401)**	(28 882 276)	**3 395 125**	
Remuneration of councillors	(6 431 314)	(6 431 314)	**(6 431 314)**	(6 233 719)	**197 595**	
Depreciation and amortisation	-	-	**-**	(15 859 086)	**(15 859 086)**	
Finance costs	-	-	**-**	(20 367)	**(20 367)**	
Debt impairment	-	-	**-**	(4 788 412)	**(4 788 412)**	
Repairs and maintenance	(3 015 623)	(3 015 623)	**(3 015 623)**	(2 425 004)	**590 619**	
Grants and subsidies paid	-	-	**-**	(4 098 539)	**(4 098 539)**	
General Expenses	(24 333 869)	(24 333 869)	**(24 333 869)**	(26 590 443)	**(2 247 698)**	
Total expenditure	**(66 058 207)**	**(66 058 207)**	**(66 058 207)**	**(88 897 846)**	**(22 830 763)**	
Operating Surplus/(Deficit)	**(32 159 014)**	**(32 159 014)**	**(32 159 014)**	**13 118 840**	**45 277 854**	
Gain on disposal of assets and liabilities	4 300 000	4 300 000	**8 600 000**	197 157	**(8 402 843)**	
Surplus/(Deficit)	**(27 859 014)**	**(27 859 014)**	**(55 718 028)**	**13 315 997**	**69 034 025**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(27 859 014)**	**(27 859 014)**	**(55 718 028)**	**13 315 997**	**69 034 025**	

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historic cost convention, except where indicated otherwise. They have been prepared in terms of Section122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) and in accordance with the Genearal Recognised Accounting Practise (GRAP).

The Accounting Framework of the municipality, based on the preceding paragraphs and applicable to the operations of the municipality, is therefore as follows:

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

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables and other receivables

The municipality assesses its trade receivables and otherreceivables 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.

Fair value estimation

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

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

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

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

1.2 Investment property (continued)

Fair value

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

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

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

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

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

ACCOUNTING POLICIES

1.3 Property, plant and equipment (continued)

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

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

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

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

Item	**Average useful life**
Land	Indefinite
Buildings	30 years
Specialised Plant and machinery	10 - 15 years
Furniture and fixtures	5-7 years
Motor vehicles	7 years
Office equipment	5-7 years
IT equipment	4 years
Infrastructure	
• Roads - Paved	30 years
• Roads Graded	7 years
• Electricity	20 years

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.

1.4 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

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

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

ACCOUNTING POLICIES

1.4 Intangible assets (continued)

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

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

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

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

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

Item	**Useful life**
Computer software, other	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.

1.5 Financial instruments

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

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.

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an Municipality 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 Municipality 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 Municipality; or
- a contractual right to:
  - receive cash or another financial asset from another Municipality; or
  - exchange financial assets or financial liabilities with another Municipality under conditions that are potentially favourable to the Municipality.

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

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

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.

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 a Municipality 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 Municipality'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 Municipality.

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 Municipality had not acquired, issued or disposed of the financial instrument.

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

Initial recognition

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

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:
- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions, where it is the recipient of the loan.

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

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

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 Municipality 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.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the Municipality 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.

Impairment and uncollectibility of financial assets

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

Financial assets is measured at amortised cost:

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

ACCOUNTING POLICIES

1.5 Financial instruments (continued)

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.

Presentation

Interest relating to a financial instrument or 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 Municipality 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 Municipality does not offset the transferred asset and the associated liability.

1.6 Leases

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

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

Finance leases - lessor

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Finance leases - lessee

The Municipality leases certain property, plant and equipment. Leases of property, plant and equipment where the Municipality substantially assumes risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The Municipality will not incur a foreign lease liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

1.7 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.

ACCOUNTING POLICIES

1.7 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:

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.8 Impairment of 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.

ACCOUNTING POLICIES

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

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.

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.

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

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, on a systematic basis over its remaining useful life.

1.9 Employee benefits

Short-term employee benefits

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

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

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

1.9 Employee benefits (continued)

Defined contribution plans

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

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

Defined benefit plans

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.

1.10 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.

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

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:

ACCOUNTING POLICIES

1.10 Provisions and contingencies (continued)

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

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.7 and 1.8.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

1.11 Revenue from exchange transactions

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

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

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

Measurement

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

ACCOUNTING POLICIES

1.11 Revenue from exchange transactions (continued)

Interest

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

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

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

1.12 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 to another entity in exchange.

Fines are economic benefits or service potential received or receivable by Municipality, 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.

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.

1.13 Investment income

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

ACCOUNTING POLICIES

1.14 Borrowing costs

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

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

1.15 Comparative figures

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

1.16 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.17 Fruitless and wasteful expenditure

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

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

1.18 Irregular expenditure

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

1.19 Use of estimates

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

1.20 Presentation of currency

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

1.21 Offsetting

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

1.22 Conditional grants and receipts

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.

ACCOUNTING POLICIES

1.23 Budget information

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

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

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

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

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

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

1.24 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.

1.25 Valued Added Tax (VAT)

The Municipality accounts for VAT on accrual basis but pays over to / claims from SARS on payment basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012
• GRAP 104: Financial Instruments	01 April 2012
• GRAP 1 (as revised 2010): Presentation of Financial Statements	01 April 2011
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	01 April 2011
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	01 April 2011
• GRAP 12 (as revised 2010): Inventories	01 April 2011
• GRAP 13 (as revised 2010): Leases	01 April 2011
• GRAP 14 (as revised 2010): Events After the Reporting Date	01 April 2011
• GRAP 16 (as revised 2010): Investment Property	01 April 2011
• GRAP 17 (as revised 2010): Property, Plant and Equipment	01 April 2011
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	01 April 2011

2.2 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 .

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 25: Employee benefits	01 April 2013

3. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2013	2012
Other receivables	1 000 000	-
Property Rates	18 719 032	8 478 811
Impairment	(5 426 592)	-
	14 292 440	**8 478 811**

Ageing: Property Rates		
Current (0 -30 days)	302 395	(478 184)
31 - 60 days	175 260	362 659
61-90 days	201 849	583 513
91 -120 days	346 810	354 324
121 -150 days	17 692 718	7 656 498
	18 719 032	**8 478 810**

In 2012 the Municipality had to write off an amount of R11 878 193 as bad debts. The amount written off relates to both receivables from non -exchange transactions and exchange transactions. (Refer to note 23).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

4. VAT RECEIVABLE

VAT	2 986 993	947 306

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

5. RECIEVABLES FROM EXCHANGE TRANSACTIONS

	2013 R	Restated 2012 R
Gross balances		
Refuse	12 281 036	4 810 305
Property Rental and other services	14 997	-
Interest	2 958 196	-
	15 254 229	**4 810 305**
Less: Allowance for impairment		
Refuse	(3 557 248)	(5 057 348)
Property Rental and other services	(4 348)	-
Interest	(857 572)	-
	(4 419 168)	**(5 057 348)**
Net balance		
Refuse	8 723 788	(247 043)
Property Rental and other services	10 649	-
Other	2 100 624	-
	10 835 061	**(247 043)**
Ageing:		
Refuse		
Current (0 -30 days)	(18 764)	2 362
31 - 60 days	14 124	14 806
61 - 90 days	20 023	20 751
91 - 120 days	18 165	15 852
121 - 150 days	39 968	13 543
151 - > 365 days	12 207 520	4 742 992
	12 281 036	**4 810 306**
Housing rental		
Current (0 -30 days)	4 524	-
31 - 60 days	4 524	-
61 - 90 days	4 524	-
91 - 120 days	324	-
> 365 days	1 100	-
	14 996	**-**
Interest		
Current (0 -30 days)	315 048	-
31 - 60 days	312 934	-
61 - 90 days	310 646	-
91 - 120 days	308 612	-
121 - 150 days	611 134	-
151-> 365 days	1 099 822	-
	2 958 196	**-**

Summary of debtors by customer classification

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

5. RECIEVABLES FROM EXCHANGE TRANSACTIONS (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(5 057 348)	-
Contributions to allowance	(4 788 412)	(5 057 348)
	(9 845 760)	**(5 057 348)**

In 2012 the Municipality had to write off an amount of R11 878 193 as bad debts. The amount written off relates to both receivables from non -exchange transactions and exchange transactions. (Refer to note 23).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2013 R	Restated 2012 R
Cash on hand	1 942	-
Bank balances	9 062 551	-
Other cash and cash equivalents	15 279 941	10 695 167
Bank overdraft	-	(2 017 982)
	24 344 434	**8 677 185**
Current assets	24 344 434	10 695 167
Current liabilities	-	(2 017 982)
	24 344 434	**8 677 185**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
First National Bank - Public Sector Cheque Account - 62022000898 (MAIN BANK ACCOUNT)	9 062 551	(2 017 982)	(4 505 301)	9 062 551	(2 017 982)	(4 505 301)
First National Bank - Business Fixed Deposit - 74371588665	5 221 509	-	-	5 221 509	-	-
First National Bank - Equitable Share - 62270666616	28 595	766 746	1 000	28 595	766 746	1 000
First National Bank - Municipal Infrastructure Grant - 62270667531	6 857 143	6 826 312	3 369	6 857 143	6 826 312	3 369
First National Bank - Call Account -62048047494	2 250 820	2 187 390	2 118 413	2 250 820	2 187 390	2 118 413
First National Bank - Planning Account - 61684000098	98 532	97 308	96 097	98 532	97 308	96 097
First National Bank - Reserve Account - 62035920596	67 068	66 236	65 411	67 068	66 236	65 411
First National Bank - Small Town Revitalisation - 62352053301	756 274	751 176	-	756 274	751 176	-
Petty Cash	1 942	-	-	1 942	-	-
Total	**24 344 434**	**8 677 186**	**(2 221 011)**	**24 344 434**	**8 677 186**	**(2 221 011)**

7. INVESTMENT PROPERTY

	2013		**2012**	
	Cost / Valuation	**Carrying value**	**Cost / Valuation**	**Carrying value**
Investment property	5 430 000	5 430 000	5 430 000	5 430 000

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	5 430 000	5 430 000

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

7. INVESTMENT PROPERTY (continued)

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	5 430 000	5 430 000

Details of property

Erf 2220 Peddie - Land Extent 4340m2
Land is leased to Engen Petrolium for R1,050 per month with an escalation clause of 10%

Land - market value	2 880 000	2 880 000

Erf 447 Hamburg
Portion of the Caravan Park is leased to Mrs Dorego for R1,500 per month.

Land - market value	2 050 000	2 050 000
Building - market value	145 500	145 500
	2 195 500	**2 195 500**

Valuation of investment property was done and the valuation certificates was issued effective from 01 July 2012.

8. PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	45 974 316	-	45 974 316	45 974 316	-	45 974 316
Buildings	60 694 530	(6 895 947)	53 798 583	55 512 485	(4 945 492)	50 566 993
Plant and machinery	4 527 423	(1 613 579)	2 913 844	2 297 423	(1 192 420)	1 105 003
Furniture and fixtures	2 301 491	(1 368 884)	932 607	2 064 498	(1 068 997)	995 501
Motor vehicles	6 970 735	(2 219 012)	4 751 723	4 143 197	(2 291 887)	1 851 310
Office equipment	526 359	(414 248)	112 111	497 889	(350 270)	147 619
IT equipment	1 484 206	(915 694)	568 512	1 089 147	(769 053)	320 094
Infrastructure	83 748 649	(41 739 949)	42 008 700	83 694 319	(29 844 813)	53 849 506
Maintenance Equipment	393 098	(181 905)	211 193	343 752	(147 839)	195 913
Security Equipment	341 905	(270 656)	71 249	305 808	(224 432)	81 376
Other Assets	121 236	(73 029)	48 207	91 296	(54 778)	36 518
Capital Work in Progress	14 102 393	-	14 102 393	9 201 092	-	9 201 092
Park facilities	4 705 002	(1 276 035)	3 428 967	4 705 002	(957 026)	3 747 976
Total	**225 891 343**	**(56 968 938)**	**168 922 405**	**209 920 224**	**(41 847 007)**	**168 073 217**

	2013 R	Restated 2012 R

8. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Depreciation	Write off	Total
Land	45 974 316	-	-	-	-	45 974 316
Buildings	50 566 993	5 182 045	-	(1 950 455)	-	53 798 583
Plant and machinery	1 105 003	2 230 000	-	(421 159)	-	2 913 844
Furniture and fixtures	995 501	236 993	-	(299 887)	-	932 607
Motor vehicles	1 851 310	3 599 625	(48 225)	(650 987)	-	4 751 723
Office equipment	147 619	28 470	-	(63 978)	-	112 111
IT equipment	320 094	395 058	-	(146 640)	-	568 512
Infrastructure	53 849 506	54 330	-	(11 895 136)	-	42 008 700
Maintenance Equipment	195 913	49 346	-	(34 066)	-	211 193
Security equipment	81 376	36 096	-	(46 223)	-	71 249
Other Assets	36 518	29 940	-	(18 251)	-	48 207
Capital Work in Progress	9 201 092	4 976 301	-	-	(75 000)	14 102 393
Park facilities	3 747 976	-	-	(319 009)	-	3 428 967
	168 073 217	**16 818 204**	**(48 225)**	**(15 845 791)**	**(75 000)**	**168 922 405**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Retention	Depreciation	Write-offs	Total
Land	45 974 316	-	-	-	-	-	45 974 316
Buildings	44 880 262	-	7 438 641	-	(1 751 910)	-	50 566 993
Plant and machinery	1 276 654	56 217	-	-	(227 868)	-	1 105 003
Furniture and fixtures	1 194 675	90 490	-	-	(289 664)	-	995 501
Motor vehicles	2 090 140	200 439	-	-	(439 269)	-	1 851 310
Office equipment	219 823	4 917	-	-	(77 121)	-	147 619
IT equipment	396 157	172 489	-	-	(248 552)	-	320 094
Infrastructure	53 552 841	4 614 926	-	6 488 239	(10 806 501)	-	53 849 506
Maintenance equipment	230 288	-	-	-	(34 375)	-	195 913
Security equipment	125 925	803	-	-	(45 352)	-	81 376
Other Assets	54 777	-	-	-	(18 259)	-	36 518
Capital Work in Progress	13 206 234	10 631 827	(14 616 919)	74 950	-	(95 000)	9 201 092
Park facilities	4 066 985	-	-	-	(319 009)	-	3 747 976
	167 269 077	**15 772 108**	**(7 178 278)**	**6 563 189**	**(14 257 880)**	**(95 000)**	**168 073 217**

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.

9. INTANGIBLE ASSETS

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software and implementation	1 190 860	(13 292)	1 177 568	-	-	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

9. INTANGIBLE ASSETS (continued)

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	-	1 190 860	(13 292)	1 177 568

Reconciliation of intangible assets - 2012

	Opening balance	Total
Computer software	-	-

10. FINANCE LEASE OBLIGATION

	2013	2012
Minimum lease payments due		
- within one year	126 000	181 404
- in second to fifth year inclusive	73 500	199 500
	199 500	380 904
less: future finance charges	(14 207)	(45 874)
Present value of minimum lease payments	**185 293**	**335 030**
Present value of minimum lease payments due		
- within one year	113 949	149 740
- in second to fifth year inclusive	71 344	185 292
	185 293	**335 032**
Non-current liabilities	**71 345**	**185 293**
Current liabilities	**113 948**	**149 737**
	185 293	**335 030**

The average lease term is 5 years and the average effective borrowing rate is linked to prime rate. Interest rates are fixed at the contract date. Leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

11. PAYABLES FROM EXCHANGE TRANSACTIONS

	2013	2012
Trade payables	5 203 307	3 235 878
Retensions	245 789	74 949
	5 449 096	**3 310 827**

12. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants and receipts comprises of:

	2013	2012
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	22 370 426	7 260 990
Extended Public Works Programme (EPWP)	864 696	-
Financial Management Grant (FMG)	145 449	-
Local Economic Development (LED)	327 603	221 756
Small Town Revitalisation Grant	-	304 293
Human Resource Development Grant (HRD)	94 383	94 383
Base09ec Roads	1 000 100	-
	24 802 657	**7 881 422**

12. UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)

The amount of R1 000 100 for Base Road 09ec is still under investigation by the Municipality regarding its purpose.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

13. NON - CURRENT PROVISIONS

Reconciliation of non - current provisions - 2013

	Opening Balance	Unwinding of discount rate / interest	Utilised during the year	Current service cost	Acturial Loss/ (Gain)	Total
Provision for rehabilitation of land fill sites	172 238	3 084	-	-	-	175 322
Leave Pay Provision	862 888	1 366 483	-	-	-	2 229 371
Bonus Provision	724 482	114 058	-	-	-	838 540
Provision for long service awards	1 147 000	97 000	(135 000)	249 000	135 000	1 493 000
	2 906 608	**1 580 625**	**(135 000)**	**249 000**	**135 000**	**4 736 233**

Reconciliation of non - current provisions - 2012

	Opening Balance	Unwinding of discount rate / interest	Utilised during the year	Current service cost	Acturial Loss/ (Gain)	Total
Provision for rehabilitation of land fill sites	169 200	3 038	-	-	-	172 238
Leave Pay Provision	862 888	-	-	-	-	862 888
Bonus Provision	724 482	-	-	-	-	724 482
Provisions for long service awards	837 000	78 000	(102 000)	191 000	143 000	1 147 000
	2 593 570	**81 038**	**(102 000)**	**191 000**	**143 000**	**2 906 608**

Non-current liabilities	1 668 322	1 319 238
Current liabilities	3 067 911	1 587 370
	4 736 233	**2 906 608**

Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at an average rate of 2.07%, over an average period of 83 years. The amount for the provision was adjusted retrspectively in accordance withthe report produced by qualified engineers from the Department of Local Government. There has not been any change in circumstances or discount rate.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

13. NON - CURRENT PROVISIONS (continued)

Employee benefit cost provision

The long-service award is payable after every 5,10,15,20,25 years of continuous service. The provision is an estimate of the amounts likely to be paid based on an acturial valuation perfomed at the reporting date.

14. SERVICE CHARGES

	2013 R	Restated 2012 R
Refuse removal	451 021	417 386

15. RENTAL OF FACILITIES AND EQUIPMENT

	2013 R	Restated 2012 R
Premises		
Venue hire	15 789	105 644
Facilities and equipment		
Rental of equipment	56 498	-
	72 287	**105 644**

16. OTHER REVENUE

	2013 R	Restated 2012 R
Other Income	463 666	871 762

17. PROPERTY RATES

Rates received

	2013 R	Restated 2012 R
Residential	24 743 873	23 673 677
Less: Income foregone	(1 074 797)	-
	23 669 076	**23 673 677**

	2013 R	Restated 2012 R

18. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	62 426 000	55 140 000
Expanded Public Works Programme (EPWP)	135 304	-
Municipal Infrastructure Grant (MIG)	5 824 564	9 996 010
Local Economic Development Grant (LED)	265 398	377 972
Financial Management Grant (FMG)	1 354 551	1 450 001
Municipal Systems Improvement Grant (MSIG)	800 000	790 000
Small Town Revitalisation	744 924	436 160
Human Resource Development Grant (HRD)	-	61 529
	71 550 741	**68 251 672**

Equitable Share

In terms of the Municipal Finance Management Act (Act 56 of 2003), this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy which is funded from the grant. The grant is unconditional and fully utilised in the year of receipt.

The grant was received from National Treasury.

Municipal Infrustructure Grant (MIG)

Balance unspent at beginning of year	7 260 990	-
Current-year receipts	20 934 000	17 257 000
Conditions met - transferred to revenue	(5 824 564)	(9 996 010)
	22 370 426	**7 260 990**

The grant was received from National Treasury.

The grant was used for construction of community halls and extension of access roads.

Municipal Systems Improvement Grant (MSIG)

Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	**-**

The grant was received from Provincial COGTA.

The grant was used for stipend for ward Committees.

Expanded Public Works Programme (EPWP)

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(135 304)	-
	864 696	**-**

The grant was received from Provincial COGTA.

The grant was used to pay salaries.

Financial Management Grant (FMG)

Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 354 551)	(1 450 000)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

18. GOVERNMENT GRANTS AND SUBSIDIES (continued)

	145 449	**-**

The grant was received from National Treasury.

This grant was used to pay salaries and information technology infrastructure expenses.

Local Economic Development (LED)

Balance unspent at beginning of year	221 756	111 806
Current-year receipts	371 245	487 922
Conditions met - transferred to revenue	(265 398)	(377 972)
	327 603	**221 756**

The grant was received from Provincial COGTA.

These grants were used for personnel costs.

Small Town Revitalisation Grant.

Balance unspent at beginning of year	304 293	-
Current-year receipts	440 631	740 453
Conditions met - transferred to revenue	(744 924)	(436 160)
	-	**304 293**

The grant was received from Provincial COGTA.

The grants were used to pay personnel costs and the maintenance of roads.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

19. EMPLOYEE RELATED COSTS

	2013 R	Restated 2012 R
Employee related costs - salaries and wages	21 002 059	18 842 663
Bonuses	1 450 794	1 124 527
Contributions for UIF, pensions and medical aids	4 017 719	3 132 277
Redemption of leave	77 803	222 538
Travel, motor car, accommodation, subsistence and other allowances	2 302 153	1 913 403
Housing benefits and allowances	31 748	30 276
	28 882 276	**25 265 684**

The amounts below have been included above.

Remuneration of Municipal Manager

	2013 R	Restated 2012 R
Annual Remuneration	155 398	359 708
Travel, motor car, accomodation, subsistence and other allowances	43 925	63 000
Contributions to UIF, Medical Aid, Pension Fund	-	4 856
Cellephone allowance	10 000	-
	209 323	**427 564**

The Municipal Manager 's contract was terminated during 2012 /2013 and there was a new Acting Municipal Manager employed during the current financial period.

Remuneration of Chief Finance Officer

	2013 R	Restated 2012 R
Annual Remuneration	633 183	583 779
Travel, motor car, accommodation, subsistance and other allowance	120 000	126 000
Contribution to UIF,Medical and Pension funds	-	8 170
Cellphone allowance	6 000	-
	759 183	**717 949**

Remuneration of Executive Manager Community Services

	2013 R	Restated 2012 R
Annual Remuneration	633 464	583 779
Travel, motor car, accommodation, subsistance and other allowances	120 000	125 768
Contributions to UIF, Medical and Pension Funds	-	8 401
Acting Allowance	40 184	27 298
Cellphone allowance	6 000	-
	799 648	**745 246**

Remuneration of Executive Manager (Corporate Services)

	2013 R	Restated 2012 R
Annual Remuneration	633 464	583 779
Travel, motor car, accommodation, subsistance and other allowances	120 000	126 081
Contributions to UIF, Medical and Pension Funds	-	8 089
Acting allowance	-	43 592
Cellphone allowance	6 000	-
	759 464	**761 541**

Remuneration of Executive Manager Technical Services

	2013 R	Restated 2012 R
Annual Remuneration	175 226	535 131
Contributions to UIF, Medical and Pension Funds	-	7 659
Travel, motor car, accommodation, subsistance and other allowances	10 000	115 500
Cellphone	500	-
	185 726	**658 290**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

20. REMUNERATION OF COUNCILLORS

Executive Mayor	627 062	640 620
Mayoral Committee Members	262 603	1 445 458
Speaker	505 660	505 660
Councillors	3 298 369	3 260 293
Councillors' Pension, and Medical Aid Contributions	1 345 633	703 453
Other Allowances	194 392	57 995
	6 233 719	**6 613 479**

21. DEPRECIATION AND AMORTISATION

Property, plant and equipment	15 845 794	14 257 930
Intangible assets	13 292	-
	15 859 086	**14 257 930**

22. GRANTS AND SUBSIDIES PAID

EPWP	125 134	-
FMG	2 392 429	-
LED Grant	540 111	592 043
MSIG Grant	987 435	-
PMU Grant	53 430	-
	4 098 539	**592 043**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

23. GENERAL EXPENSES

Accomodation expenses	2 377 804	1 677 857
Administration	133 207	-
Advertising	512 727	132 336
Agriculture	1 819 785	940 458
Audit Fees	3 936 967	1 885 472
Audit committee expenses	675 078	178 275
Bad Debts	591 850	11 878 193
Bank charges	218 111	278 790
Beach festival	-	28 215
Books and publications	67 504	50 319
Bursaries	42 030	246 900
Communication and public relations	-	2 140 973
Computer expenses	84 007	33 539
Conferences and seminars	10 270	29 549
Consumables	21 529	16 663
DSTV	-	7 439
Disaster Management	20 280	15 200
Education Awareness	-	15 000
Electricity	1 622 183	3 661 150
Employee assistance programme	153 774	2 900
Entertainment	553 986	139 925
Environmental Awareness Programme	60 820	5 750
Financial recovery plan and strategy	574 943	1 791 965
Fuel and oil	965 465	636 909
Hire of equipment	184 625	-
IDP reviewal	973 824	499 789
Increase in provision of landfill sites	3 084	130 559
Insurance	276 045	301 803
Inter Governmental Relations	31 140	5 790
Inventory Items	162 550	105 738
Leave Pay	1 615 811	-
Legal expenses	1 549 716	3 547 595
Long Service Bonus	346 000	-
Loss on write off of assets	-	500 814
Motor vehicle expenses	182 681	7 850
Other expenses	302 477	296 990
Outreach programmes	197 276	213 320
PMS Review	245 000	17 040
PMU costs	-	143 811
Pest Control	-	4 904
Printing and stationery	371 511	334 927
Refuse	118 778	85 481
SPU	500 190	344 148
Security (Guarding of Municipal Property)	268 900	-
Small Town Revatilisation	888 463	429 361
Subscriptions and membership fees	4 415	5 030
Telephone	1 247 114	1 126 921
Tourism development	698 367	366 267
Training	76 524	644 319
Travel - local	363 465	496 205
Uniforms	196 935	167 582
Valuation costs	818 016	516 378
Ward Committees	244 987	-
Water Municipal Use	280 229	175 496
	26 590 443	**36 261 895**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

24. CASH GENERATED FROM OPERATIONS

Surplus	13 315 997	4 485 838
Adjustments for:		
Depreciation and amortisation	15 859 086	14 257 930
Loss on sale of assets and liabilities	(197 157)	(2 135 100)
Finance costs - Finance leases	20 367	36 738
Debt impairment	4 788 412	5 057 348
Movements in provisions	1 829 625	633 750
Loss on write off of assets	-	500 814
Other cash item	2 733 047	703 440
Changes in working capital:		
Receivables from non-exchange transactions	(5 813 629)	(1 960 794)
Receivables from exchange transactions	(15 870 516)	(4 757 777)
Payables from exchange transactions	2 138 269	(5 946 725)
VAT	(2 039 687)	310 568
Unspent conditional grants and receipts	16 921 235	7 881 422
Repayment of finance lease	(35 789)	(139 730)
Movement in PPE	-	5 614 926
	33 649 260	**24 542 648**

25. EVENTS AFTER THE REPORTING DATE

The Municipality disposed of some of the movable assets through a public auction that was held the 26 July 2013.

The Municipal Manager was appointed on the 11 September 2013.

26. UNAUTHORISED EXPENDITURE

Reconciliation of unauthorised expenditure

Opening balance	8 752 893	8 752 893
Unauthorised expenditure current year	(27 014 103)	-
	(18 261 210)	**8 752 893**

Finance costs	20 367	-
Depreciation / Amortisation	15 859 087	-
Debt impairment	4 788 412	-
Grants and subsidies paid	4 098 539	-
General expenses	2 247 698	-
	27 014 103	**-**

27. FRUITLESS AND WASTEFUL EXPENDITURE

Opening balance	633 699	606 399
Fruitless and wasteful expenditure current year	-	38 415
Less: Amounts approved for condonation	(72 540)	-
Less: Amounts recoverable (not condoned)	(177 326)	-
	383 833	**644 814**

Details of Fruitless and Wasteful Expenditure		
Accommodation for councillors	20 400	-
Accommodation for councillors	45 900	-
Subsistence and traveling	6 240	-
Interest - Auditor General	177 326	-
	249 866	**-**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

28. IRREGULAR EXPENDITURE

Opening balance	10 323 830	10 323 830
Add: Irregular Expenditure - current year	930 909	30 396 324
Less: Amounts approved by council and forwarded to condoning authority	(797 325)	(30 396 324)
	10 457 414	**10 323 830**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
Venus support -	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	51 243
Venus support	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	69 996
Supply & delivery of Motor Vehicles	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	414 000
Venus support	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	65 094
Balancing of trial balance to be submitted for annual financial statements	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	119 130
Venus support	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	49 704
Preparation of the budget	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	40 641
Preparation of the budget	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	37 221
Telephone book company	Acting Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	47 940
Telephone book company	Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	35 940
VAT review	Municipal Manager to make a follow up as per Section 32 of the MFMA and prepare a report	119 553
		1 050 462

Details of irregular expenditure condoned

	Approved for condonation (by condoning authority)	
Thakweni Consulting- venus support	Approved for condonation	51 243
Thakweni Consulting- venus support	Approved for condonation	69 996
Tavcor Motor Group -supply & delivery of Motor Vehicles	Approved for condonation	414 000
Thakweni Consulting - venus support for tb purposes	Approved for condonation	119 130
Daniel Study Centre- preparing of the budget	Approved for condonation	40 641
Daniel Study Centre- preparing of the budget	Approved for condonation	37 221
Thakweni Consulting- venus support	Approved for condonation	65 094
		797 325

	2013 R	Restated 2012 R

29. ADDITIONAL DISCLOSURE IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT

Audit fees

	2013 R	Restated 2012 R
Opening balance	2 124 975	1 790 437
Current year subscription / fee	3 936 967	2 220 010
Amount paid - current year	(3 936 967)	(1 885 472)
	2 124 975	**2 124 975**

PAYE and UIF

	2013 R	Restated 2012 R
Current year subscription / fee	4 412 116	4 026 051
Amount paid - current year	(4 412 116)	(4 026 051)
	-	-

Pension and Medical Aid Deductions

	2013 R	Restated 2012 R
Current year subscription / fee	6 978 969	2 833 310
Amount paid - current year	(6 978 969)	(2 833 310)
	-	-

VAT

	2013 R	Restated 2012 R
VAT receivable	2 986 993	947 306

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

No councillors had balances in the year under review.

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
SE Ndwayana	240	-	240

30. COMMITMENTS

Authorised capital expenditure

Already contracted for but not provided for	2013 R	Restated 2012 R
• Property, plant and equipment	16 743 390	-

This committed expenditure relates to infrastructure and will be financed by Municipal Infrastructure Grant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013 R	Restated 2012 R

31. CONTINGENCIES

A dispute of unfair labour practice has been lodged by Mr Gwintsa with SALGABC and Arbitration will be on the 22 August 2013. The matter was reffered to Wesley Pretorious. The potential liability associated with this case could not be ascertained.

Ngqushwa Municipality vs Qumbiso Construction

Ngqushwa Municipality vs Mlisa Security and Cleaning Services

Ngqushwa Municipality vs Magqabi Seth Zitha Attorneys

Ngqushwa Municipality vs Zoyisile Witness Kazi

Contingent liabilities

Warrant of execution eye Sizwe Consulting Engineers vs LM	73 180
Warrant of execution from MMV Attorneys vs Ngqushwa	495 954
	569 134

Contingent assets

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 27, civil proceedings have commenced against the employees concerned to recover the amounts according to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount and this recovery is virtually certain.

32. RELATED PARTIES

Relationships

Accounting Officer	Refer to accounting officer's report note
Members of key management	Ms V Mbelani (MM) Ms V. Fonoza (Acting CFO) Ms B.B. Maliza (Acting Corporate Services Manager) Mr N.M Mjo (Community Services Manager) Mr S.S. Mnweba (Acting Technical Services Manager)

The Depart of Local Government provides support to the Local Municipality through funding the part payment toward the salary of the Municipal Manager.

Member of the key management provides services to the Municipality which in turn pays their short and long term employee benefit costs.

Related party transactions

	2013	2012
Municipal Manager's part salary		
Salary for 6 months (20000 per month)	120 000	-
Compensation to accounting officer and other key management		
Short-term employee benefits	2 230 735	2 646 176

33. PRIOR PERIOD ERRORS

		Previously stated	Reclassification	Correction of error	Restated
Statement of Financial Position					
Current Assets					
Receivables from non-exchange transactions	3	1 570 334	-	367 794	1 938 128
Vat receivables	4	1 102 537	-	(155 231)	947 306
Receivables from exchange transactions	5	3 228 855	-	3 064 785	6 293 640
		5 901 726	-	3 277 348	9 179 074
Non-current assets					
Investment property	7	3 423 013	-	2 006 987	5 430 000
Property, plant and equipment	8	198 225 268	-	(30 152 051)	168 073 217
Intangeble assets	9	37 671	-	(37 671)	-
		201 685 952	-	(28 182 735)	173 503 217
Current liabilities					
Payables from exchange transaction	11	9 419 705	-	(6 108 878)	3 310 827
Bank Overdraft	6	1 248 569	-	769 413	2 017 982
Provisions	13	-	-	1 587 370	1 587 370
		10 668 274	-	(3 752 095)	6 916 179
Non-current liabilities					
Non-current provisions		2 375 838	-	(1 056 600)	1 319 238
Net assets					
Accumulated surplus		194 834 894	2 187 390	(9 933 266)	187 089 018
Housing development fund		2 187 390	(2 187 390)	-	-
		197 022 284	-	(9 933 266)	187 089 018
Statement of Financial Perfomance					
Revenue					
Property rates	17	11 795 484	-	11 878 193	23 673 677
Expenditure					
Employee related costs	19	(25 758 683)	-	493 000	(25 265 683)
Renumeration of councillors	20	(6 433 427)	-	(180 052)	(6 613 479)
Depreciation and amortisation	21	(9 573 489)	-	(4 684 441)	(14 257 930)
Finance costs		-	-	(36 738)	(36 738)
Debt impairment		-	-	(5 057 348)	(5 057 348)
Repairs and maintenance		(3 491 395)	-	(488 087)	(3 979 482)
Grants and subsidies paid	22	-	-	(592 043)	(592 043)
General expenses	23	(24 218 324)	-	(12 043 571)	(36 261 895)
		(69 475 318)	-	(22 589 280)	(92 064 598)
Cash Flows Statement					
Cash flow from operating activities					
Net cash flows from operating activities		26 024 128	-	5 868 751	31 892 879
Cash flow from investing activities					
Purchase of property plant and equipment	8	(14 322 944)	-	3 165 762	(11 157 182)
Proceeds from sale of fixed assets		-	-	1 634 286	1 634 286
Cash flows from financing activities					
Finance lease payments		-	-	(7 444)	(7 444)
Net cash and cash equivalents					
cash and cash equivalents at the end o the year	6	9 446 597	-	(769 412)	8 677 185

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

34. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	4 550 000	-	4 550 000	-		4 550 000	23 669 076		19 119 076	520 %	520 %
Service charges	356 000	-	356 000	-		356 000	451 021		95 021	127 %	127 %
Investment revenue	360 000	-	360 000	-		360 000	1 010 177		650 177	281 %	281 %
Other revenue	3 920 193	-	3 920 193	-		3 920 193	5 465 652		1 545 459	139 %	139 %
Total revenue (excluding capital transfers and contributions)	**9 186 193**	**-**	**9 186 193**	**-**		**9 186 193**	**30 595 926**		**21 409 733**	**333 %**	**333 %**
Employee costs	(32 277 401)	-	(32 277 401)	-	-	(32 277 401)	(28 882 276)	-	3 395 125		
Remuneration of councillors	(6 431 314)	-	(6 431 314)	-	-	(6 431 314)	(6 233 719)	-	197 595		
Debt impairment	-	-	-			-	(4 788 412)	-	(4 788 412)		
Depreciation and asset impairment	-	-	-			-	(15 859 086)	-	(15 859 086)		
Finance charges	-	-	-	-	-	-	(20 367)	-	(20 367)		
Transfers and grants	-	-	-	-	-	-	(4 098 539)	-	(4 098 539)		
General expenditure	(24 433 000)	-	(24 433 000)	-	968 266	(23 464 734)	(26 590 443)	-	(3 125 709)		
Total expenditure	**(63 141 715)**	**-**	**(63 141 715)**	**-**	**968 266**	**(62 173 449)**	**(86 472 842)**	**-**	**(24 299 393)**	**139 %**	**137 %**
Surplus/(Deficit) for the year	**(53 955 522)**	**-**	**(53 955 522)**	**-**		**(52 987 256)**	**(55 876 916)**		**(2 889 660)**	**105 %**	**104 %**

34. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Total capital expenditure	-	-	-	-	26 000	26 000	9 796 726		9 770 726	37 680 %	DIV/0 %

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand

34. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	34 962 000	-	34 962 000	-		34 962 000	33 649 260		(1 312 740)		
Net cash from (used) investing	(35 833 000)	-	(35 833 000)	-		(35 833 000)	(17 811 907)		18 021 093		
Net cash from (used) financing	-	-	-	-		-	(170 104)		(170 104)		
Net increase/(decrease) in cash and cash equivalents	**(871 000)**	**-**	**(871 000)**	**-**		**(871 000)**	**15 667 249**		**16 538 249**		
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	8 677 185		8 677 185	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**(871 000)**	**-**	**(871 000)**	**-**		**(871 000)**	**24 344 434**		**(25 215 434)**		

SCM DEVIATION REGISTER

1.

Transaction Description	Circumstances / Reasons which led to deviation from norm	Name of service provider	Finalization Date	Amount
Construction of Ngqwele community hall	Lack of capacity to the highest bidder	Tyume blocks	2012/08/15	944 603
Construction of Peddie Extension hall	Lack of capacity to the highest bidder	CJ & TJ jv	2012/11/13	856 280
Construction of Prudoh community hall	Lack of capacity to the highest bidder	Corefacts 1116cc	2012/10/17	976 750
Construction of Bhongweni community hall	Lack of capacity to the highest bidder	Hob Construction	2012/10/17	956 570
Professional services for Nyeleni-Qeto access roads	Lack of capacity to the highest bidder	ANM	2013/03/01	546 288
				4 280 491