



Inxuba Yethemba Municipality
Annual Financial Statements
for the year ended 30 June 2013

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Intsika Yethu Municipality is a local municipality performing the functions as set out in the Constitution (Act No. 108 of 1996).
Mayoral committee	
Executive Mayor	N C Goniwe S V Masawe T E Bobo L Davids N G Mzinzi L D Zizi
Councillors	R H Schulze C A Sammy C E B Miles T E Miners N E Ngcingolo Z Bani F N Erasmus S Goniwe E Kruger N E Maki N V Nontyi (resigned) J Saptoe
Grading of local authority	Grade 2 Low Capacity
Accounting Officer	M S Tantsi
Chief Finance Officer (CFO)	L S Tukwayo
Registered office	J A Calata CRADOCK 5880
Business address	J A Calata Street CRADOCK 5880
Postal address	P O Box 24 CRADOCK 5880
Bankers	First National Bank
Auditors	Office of the Auditor General (EC)

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

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The following supplementary information does not form part of the annual financial statements and is unaudited:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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

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

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or loss 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 municipality is largely dependent on the national and provincial government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the national and provincial governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on page 4 to 7 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Mr M S Tantsi Municipa Manager

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Position

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Inventories	4	707 224	796 999
Trade and other receivables from exchange transactions	5	13 796 817	30 281 655
Trade and other receivables from non exchange transactions	6	355 472	483 349
Cash and cash equivalents	7	14 265 014	11 249 151
Other receivables from non-exchange transactions	6	4 236 625	(7 200 387)
		33 361 152	35 610 767
Non-Current Assets			
Investment property	10	40 181 390	40 181 390
Property, plant and equipment	8	654 276 038	611 766 084
Intangible assets	9	277 670	122 700
Investments in controlled entities	11	100	100
Other financial assets	12	8 258	8 091
		694 743 456	652 078 365
Non-Current Assets		694 743 456	652 078 365
Current Assets		33 361 152	35 610 767
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		728 104 608	687 689 132
Liabilities			
Current Liabilities			
Bank overdraft	7	-	15 931 741
Other financial liabilities	13	382 236	339 962
Finance lease obligation	48	640 061	551 202
Trade and other payables	14	29 844 146	31 872 867
VAT payable	16	19 405 046	11 898 452
Consumer deposits	17	3 159 780	2 032 160
Unspent conditional grants and receipts	18	4 729 127	(259 434)
Provisions	20	2 514 193	-
		60 674 589	62 366 950
Non-Current Liabilities			
Other financial liabilities	13	911 950	1 294 186
Finance lease obligation	48	269 635	909 639
Employee benefit obligation	19	38 919 069	33 244 062
Provisions	20	25 857 022	296 114
		65 957 676	35 744 001
Non-Current Liabilities		65 957 676	35 744 001
Current Liabilities		60 674 589	62 366 950
Liabilities of disposal groups		-	-
Total Liabilities		126 632 265	98 110 951
Assets		728 104 608	687 689 132
Liabilities		(126 632 265)	(98 110 951)
Net Assets		601 472 343	589 578 181
Net Assets			
Accumulated surplus		601 472 343	589 578 183

Inxuba Yethemba Municipality

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Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue	23	172 815 787	173 639 232
Revenue		172 815 787	173 639 232
Cost of sales		-	-
Other income		2 095 795	2 501 698
Operating expenses		(154 509 904)	(261 624 147)
		172 815 787	173 639 232
		(152 414 109)	(259 122 449)
Operating surplus (deficit)		20 401 678	(85 483 217)
Investment revenue	31	6 748 270	7 491 027
Actuarial adjustments		-	602 250
Finance costs	32	(2 112 155)	(1 561 076)
Profit (loss) for the period from continuing operations		25 037 793	(78 951 016)
Profit (loss) from discontinued operations		-	-
Surplus (deficit) for the year		25 037 793	(78 951 016)

Inxuba Yethemba Municipality

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Statement of Changes in Net Assets

Figures in Rand	Revaluation Reserve	Accumulated surplus	Total net assets
Balance at 01 July 2011		658 550 374	658 550 374
Changes in net assets			
Surplus for the year		(78 951 016)	(78 951 016)
Total changes		(78 951 016)	(78 951 016)
Undefined Difference		9 978 825	9 978 825
Balance at 30 June 2013		589 578 183	589 578 183
Balance at 01 July 2012		576 434 550	576 434 550
Changes in net assets			
Deficit for the year		25 037 793	25 037 793
Total changes		25 037 793	25 037 793
Balance at 30 June 2013		601 472 343	601 472 343
Note(s)			

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Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		107 396 382	99 404 168
Grants		60 630 513	53 515 557
Other receipts		3 382 608	6 141 820
		<u>171 409 503</u>	<u>159 061 545</u>
Payments			
Employee costs		(65 079 115)	(58 454 545)
Suppliers		(15 054 894)	(49 874 000)
Other payments		(47 565 363)	(5 294 249)
Other cash item		(8 965 350)	32 172
		<u>(136 664 722)</u>	<u>(113 590 622)</u>
Total receipts		171 409 503	159 061 545
Total payments		(136 664 722)	(113 590 622)
Net cash flows from operating activities	38	<u>34 744 781</u>	<u>45 470 923</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(27 398 428)	(584 462)
Proceeds from sale of property, plant and equipment	8	(1 116)	275 953
Purchase of other intangible assets	9	(197 039)	-
Net movement of financial assets		(167)	(176)
Defined benefit pension fund actuarial gains		-	-
Other cash item		(1 033 150)	(1 033 150)
		<u>(28 629 900)</u>	<u>(1 341 835)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(339 962)	(213 044)
Finance lease payments		(638 218)	-
Interest income		-	6 382 807
Finance costs		-	(220 499)
		<u>(978 180)</u>	<u>5 949 264</u>
Net increase/(decrease) in cash and cash equivalents		19 171 257	2 602 425
Cash and cash equivalents at the beginning of the year		(4 682 590)	(2 080 165)
Cash and cash equivalents at the end of the year	7	<u>14 265 014</u>	<u>(4 682 590)</u>

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

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

The inventories assesses its trade receivables and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the inventories makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list municipality specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

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 20 - Provisions.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services, or for
- administrative purposes, or for
- 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, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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

Fair value

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

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

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.

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Accounting Policies

1.2 Mergers (continued)

If the entity 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.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- property that is held under an operating lease may be classified and accounted for as investment property if, the property would otherwise meet the definition of an investment property; and
- the municipality uses the fair value model.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

- property intended for sale in the ordinary course of operations or in the process of construction or development for such sale are classified as inventory;
- owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property are classified as property, plant and equipment;
- property that is being constructed or developed for future use as investment property. The Standard of GRAP on Property, Plant and Equipment applies to such property until construction or development is complete, at which time the property becomes investment property;
- property held to provide a social service and which also generates cashinflows are classified as property, plant and equipment.

Transitional provision

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

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2013 and investment property has accordingly been recognised at provisional amounts, as disclosed in note 10.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

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Accounting Policies

1.2 Mergers (continued)

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

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, its 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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

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Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.3 Property, plant and equipment (continued)

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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

Item	Average useful life
Buildings	20-60 years
Plant and machinery	3-10 years
Furniture and fixtures	3-10 years
Motor vehicles	3-20 years
Office equipment	3-7 years
Roads	20 years
Other property, plant and equipment	3-12 years
Electricity	10-50 years
Other equipment	3-10 years
Security measures	3 years

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

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

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

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

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2013. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality was not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment had accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expired on 30 June 2012.

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Accounting Policies

1.3 Property, plant and equipment (continued)

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality was not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2013 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8.

As the measurement period has expired and property, plant and equipment needs to be recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality needs to comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The expiry of an exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need to be complied with for property, plant and equipment to be measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an municipality 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 that are attributable to the asset will flow to the municipality; and
- the cost of the asset can be measured reliably.

property, plant and equipment are initially recognised at cost.

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

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Accounting Policies

1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. 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 every period-end.

Reassessing the useful life of an intangible asset with a definite 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	3 years

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Accounting Policies

1.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the subsidiary.

1.7 Financial instruments

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

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

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

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

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

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

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

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.7 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

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Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

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

Presentation

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

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

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

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

1.8 Leases

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

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

Finance leases – lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

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

Transitional provision

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.8 Leases (continued)

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

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on leases. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leases was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Inventory GRAP (19),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

Transitional provision

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

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Accounting Policies

1.9 Inventories (continued)

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2013 and inventories has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.10 Impairment of cash-generating assets

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

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

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

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:

1.11 Impairment of non-cash-generating assets

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

Inxuba Yethemba Municipality

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Accounting Policies

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:
[Specify criteria]

1.12 Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

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

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

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

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.12 Employee benefits (continued)

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

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

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Inxuba Yethemba Municipality

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Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.14 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.

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.14 Revenue from exchange transactions (continued)

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

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

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.15 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 municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another municipality in exchange.

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

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

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

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

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

Recognition

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

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

Measurement

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

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.

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

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

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

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

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised as revenue.

1.16 Investment income

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

1.17 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 a municipality 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.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.19 Unauthorised expenditure (continued)

- 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.

1.20 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.

1.21 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

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

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

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

1.22 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice 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.

1.23 Presentation of Currency

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Accounting Policies

1.24 Offsetting

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

1.25 Investments

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

1.26 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, unconditional grants are recognised as a liability (creditor - unutilised conditional grants). This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the unutilised conditional grant into the statement of financial performance as revenue.

1.27 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 46.

1.28 Value Added Tax

The municipality accounts for value added tax on the cash basis.

1.29 Related parties

Individuals as well as their close family members and/or entities are related parties if one party has the ability, directly or indirectly, to control, jointly control or exercise significant influence over the other party or key management personnel in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measurement withdrawn.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- IAS 19 Employee Benefits withdrawn but the municipality opted to continue until GRAP 25 becomes operative.
- Policy for Non-exchange Transactions based on GRAP 23 adopted.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
----------------------------------	--	-------------------------

3.2 Standards and interpretations issued, not yet effective but relevant

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
----------------------------------	--	-------------------------

3.3 Standards and interpretations not yet effective or relevant

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
4. Inventories		
Consumable stores	621 418	687 857
Water	-	28 924
Fuel (Diesel, Petrol)	85 806	80 218
	707 224	796 999
Transitional provisions		
Inventories recognised at provisional amounts		
In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain inventories with a carrying value of - (2012: -) was recognised at provisional amounts.		
5. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	7 512 607	7 673 072
Refuse	38 675 370	32 073 945
Water	77 036 129	70 318 988
Waste water	-	117 005
Sanitation	63 598 721	57 250 448
Other	5 274 353	-
	192 097 180	167 433 458
Less: Allowance for debt impairment		
Electricity	(2 009 131)	(3 309 996)
Water	(73 520 968)	(58 918 952)
Sewerage	(61 789 031)	(44 761 103)
Refuse	(36 584 682)	(30 161 752)
Other	(4 396 551)	-
	(178 300 363)	(137 151 803)
Net balance		
Electricity	5 503 476	4 363 076
Refuse	2 090 688	1 912 193
Water	3 515 161	11 400 036
Waste water	-	117 005
Sanitation	1 809 690	12 489 345
Other	877 802	-
	13 796 817	30 281 655
Electricity		
Current (0 -30 days)	2 931 608	3 290 540
31 - 60 days	378 943	457 252
61 - 90 days	182 617	303 565
91 - 120 days	144 580	291 566
121 - 365 days	134 209	236 190
> 365 days	1 736 967	2 880 578
	5 508 924	7 459 691

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
5. Trade and other receivables from exchange transactions (continued)		
Water		
Current (0 -30 days)	80 745	2 068 304
31 - 60 days	1 108 715	1 528 624
61 - 90 days	1 389 688	2 433 309
91 - 120 days	56 860	32 853
121 - 365 days	46 221	5 336 946
> 365 days	832 932	-
	3 515 161	11 400 036
Waste water		
Current (0 -30 days)	-	621 150
31 - 60 days	-	270 679
61 - 90 days	-	252 917
91 - 120 days	-	1 495
121 - 365 days	-	322 892
> 365 days	-	(1 352 128)
	-	117 005
Sewerage		
Current (0 -30 days)	253 442	293 969
544364	128 932	64 416
61 - 90 days	96 759	54 877
91 - 120 days	6 070	48 244
121 - 365 days	9 923	-
> 365 days	1 314 564	12 027 839
	1 809 690	12 489 345
Refuse		
Current (0 -30 days)	926 340	741 202
31 - 60 days	361 068	422 540
61 - 90 days	316 032	405 224
91 - 120 days	10 511	392 188
121 - 365 days	7 252	397 999
> 365 days	470 665	16 517 119
	2 091 868	18 876 272
Reconciliation of allowance for debt impairment		
Balance at beginning of the year	(137 151 803)	(33 257 928)
Contributions to provision (Including water & sanitation from CHDM)	(41 148 560)	(33 305 020)
Prior year CHDM provisions	-	(70 588 855)
	(178 300 363)	(137 151 803)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
6. Trade and other receivables from non exchange transactions		
Other receivables	369 058	362 797
Services paid in advance	3 502	(3 460)
Insurance debtor	(34 140)	106 929
Employee costs in advance	188	219
Entity (Mmotlie inv)	16 864	16 864
	355 472	483 349
Property rates		
Property rates	27 715 893	38 264 969
Provision for debt impairments	(23 498 768)	(35 557 540)
	4 217 125	2 707 429
Property rates		
Current (0 -30 days)	675 847	1 067 810
31-60 days	179 407	357 527
61-90 days	134 292	299 790
91-120 days	13 577	-
>120 days	3 214 002	982 302
	4 217 125	2 707 429
Provision for debt impairment: Property rates		
Impairment balance prior year	(35 557 540)	(32 541 212)
Contribution	(120 408)	(3 016 328)
	(35 677 948)	(35 557 540)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	6 585	4 585
Bank balances	2 278 280	-
Short-term deposits	11 980 149	11 244 566
Bank overdraft	-	(15 931 741)
	14 265 014	(4 682 590)
Current assets	14 265 014	11 249 151
Current liabilities	-	(15 931 741)
	14 265 014	(4 682 590)

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
First National Bank - Main account - acc no 51980028125	4 105 930	802 199	(22 172 442)	(13 735 265)
First National Bank - Eskom account - acc no 51981035195	36 111	44 590	-	2 207 690
Total	4 142 041	846 789	(22 172 442)	(11 527 575)

Investments unlisted - short-term

Nedbank	8 258	8 091
Standard Bank - Call 2885531871001 LED Funding	48 656	47 978
Standard Bank - Call 2885531871002 Vusubuntu Conference	929 032	1 228 925
FNB - Call 62374497115 VAT - Maxprof	1 813 035	-
FNB - Call 62053820364 Cradock Recycling Project	-	4 021
FNB - Call 62063367190 Financial Reforms	-	12 433
FNB - Call 62063367190	-	4 449
FNB - Call 62080558128 Spatial Development	-	5 162
FNB - Call 62121694104 MIG Funding	2 200 545	5 758
FNB - Call 62164349782 Performance Agreements	-	5 308
FNB - Call 62213206049 D.M.E. Substation Middelburg	-	1 723
FNB - Call 62262069597 GRAP Assets	-	3 463 085
FNB - Call - MSIG	107 021	102 812
ABSA Bank - Call 9247070027 Tourism Development Promo	53 974	51 828
FNB - Call 62404194368 Equitable Share	6 580 779	-
ABSA Bank - Call 92 6413 7991 Vehicles VAT	-	331 429
ABSA Bank - Call 92 7492 3100 Equitable Share	129 076	-
ABSA Bank - Call 92 6449 4272 Vehicles VAT	109 773	2 061 570
ABSA Bank 92 7086 4152 INEG	-	3 909 994
	11 980 149	11 244 566

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

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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
Landfill sites	26 062 050	(59 370)	26 002 680	474 957	(59 370)	415 587
Electricity	141 888 086	(4 779 439)	137 108 647	141 888 086	(3 249 414)	138 638 672
Roads	353 028 759	(10 508 591)	342 520 168	353 028 759	(22 204 639)	330 824 120
Cemetaries	13 316 856	-	13 316 856	-	-	-
Park facilities	88 124 743	1 278 362	89 403 105	88 124 743	(3 467 161)	84 657 582
Furniture and fixtures	2 527 712	(1 061 552)	1 466 160	2 517 492	(528 646)	1 988 846
Office equipment	699 330	(360 632)	338 698	679 403	(156 627)	522 776
Plant and machinery	294 270	(103 248)	191 022	291 736	(51 674)	240 062
Motor vehicles	10 288 906	(3 718 523)	6 570 383	6 490 190	(1 732 211)	4 757 979
IT equipment	1 672 913	(921 795)	751 118	1 672 913	(368 157)	1 304 756
Other property, plant and equipment	31 191 276	2 929 242	34 120 518	31 191 276	(1 098 777)	30 092 499
Other property, plant and equipment # 1	(4 570 649)	(1 066 758)	(5 637 407)	10 199 115	567 154	10 766 269
Other property, plant and equipment # 4	7 556 936	567 154	8 124 090	7 556 936	-	7 556 936
Total	672 081 188	(17 805 150)	654 276 038	644 115 606	(32 349 522)	611 766 084

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Depreciation	Total
Landfill sites	415 587	25 587 093	-	26 002 680
Plant and machinery	240 062	2 534	(51 574)	191 022
Furniture and fixtures	1 988 846	10 220	(532 906)	1 466 160
Motor vehicles	4 757 979	3 798 716	(1 986 312)	6 570 383
Office equipment	522 776	19 927	(204 005)	338 698
IT equipment	1 304 756	-	(553 638)	751 118
Roads	330 824 120	-	11 696 048	342 520 168
Other property, plant and equipment	30 092 499	-	4 028 019	34 120 518
Cemetaries	-	13 316 856	-	13 316 856
Electricity	138 638 672	-	(1 530 025)	137 108 647
Other property, plant and equipment # 1	10 766 269	(15 336 918)	(1 066 758)	(5 637 407)
Park facilities	84 657 582	-	4 745 523	89 403 105
Airport	7 556 936	-	567 154	8 124 090
	611 766 084	27 398 428	15 111 526	654 276 038

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Landfill sites	474 957	-	(59 370)	415 587
Plant and machinery	161 360	130 376	(51 674)	240 062
Furniture and fixtures	2 405 890	111 602	(528 646)	1 988 846
Motor vehicles	6 233 630	256 560	(1 732 211)	4 757 979
Office equipment	593 479	85 924	(156 627)	522 776
IT equipment	1 672 913	-	(368 157)	1 304 756
Roads	353 028 759	-	(22 204 639)	330 824 120
Other property, plant and equipment	31 191 276	-	(1 098 777)	30 092 499
Electricity	141 888 086	-	(3 249 414)	138 638 672
Work in Progress	10 766 269	-	-	10 766 269
Park facilities	88 124 743	-	(3 467 161)	84 657 582
Airport	7 556 936	-	-	7 556 936
	644 098 298	584 462	(32 916 676)	611 766 084

Pledged as security

No assets were pledged as security.

Transitional provisions

Due to initial adoption of GRAP 17

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17 is:

Infrastructure assets in respect of roads and electricity as at 30 June 2009 were determined by qualified engineers. Properties were valued but are not finalised yet. Moveable assets were determined and the additions have been accounted for.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

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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, internally generated	323 245	(45 575)	277 670	126 206	(3 506)	122 700

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software, internally generated	122 700	197 039	(42 069)	277 670

Reconciliation of intangible assets - 2010

	Opening balance	Other changes, movements	Amortisation	Total
Computer software, internally generated	126 206	-	(3 506)	122 700
Computer software	3 965	(1 983)	(1 982)	-
	130 171	(1 983)	(5 488)	122 700

10. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	40 181 390	-	40 181 390	40 181 390	-	40 181 390

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.

Transitional provisions

Investment property recognised at provisional amounts

Inxuba Yethemba municipality has adopted GRAP 17 for the first time. All the Investment Properties have been identified and brought into the financial statements at fair value.

11. Investments in controlled entities

Name of company	Held by	% holding 2013	% holding 2012	Carrying amount 2013	Carrying amount 2012
Mmottie investments (Pty) Ltd	Inxuba Yethemba	100.00 %	100.00 %	100	100

The carrying amounts of subsidiaries are shown net of impairment losses.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
12. Other financial assets		
Loans and receivables		
Loans and receivables	8 258	8 091
Collateral deposits	-	-
	-	-
	-	-
	8 258	8 091
Non-current assets		
Loans and receivables	8 258	8 091
Non-current assets	8 258	8 091
Current assets	-	-
<p>The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.</p> <p>The creation and release of provision for impairment receivables have been included in operating expenses in surplus or deficit (note 5). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.</p> <p>The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.</p>		
13. Other financial liabilities		
Held at amortised cost		
DBSA Loan	1 294 186	1 634 148
This loan bears interest at 12% per annum and is repayable over 5 years.	-	-
	1 294 186	1 634 148
Non-current liabilities		
At amortised cost	911 950	1 294 186
Current liabilities		
At amortised cost	382 236	339 962
	911 950	1 294 186
	382 236	339 962
	1 294 186	1 634 148
Fair value of the financial liabilities carried at amortised cost		
Bank loans	1 294 186	1 634 148
14. Trade and other payables		
Trade payables	4 330 900	5 708 225
Payments received in advanced - contract in process	105 284	(151)
Other payables	6 659 755	18 461 081
Accrued leave pay	2 013 156	2 478 708
Deposits received	639 426	403 617
Unallocated receipts	15 373 846	4 099 608
Employee related payables	721 779	721 779
	29 844 146	31 872 867

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
15. Chris Hani District Municipality Agency Account		
16. VAT payable		
Tax refunds payables	19 405 046	11 898 453
17. Consumer deposits		
Electricity	1 022 261	963 400
Water	2 137 519	1 068 760
	3 159 780	2 032 160
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises:		
Unspent conditional grants and receipts		
Unspent grant - PMU	-	(52 395)
Unspent grant Other Grants	-	(39 472)
Unspent grant Other	-	(30 882)
Unspent grant MSIG	-	131 416
LED Projects	-	(282 638)
Unspent grant INEP Grants	-	(390)
Unspent grant MIG Grants	4 729 127	14 927
	4 729 127	(259 434)
Non-current liabilities	-	-
Current liabilities	4 729 127	(259 434)
	4 729 127	(259 434)

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

19. Employee benefit obligations

Defined benefit plan

The defined benefit plan, to which -% (2012: -%) belong, consists of the (specify Pension Fund) governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position, however that it was recommended that the contribution should be increased by -% for - months. This recommendation is presently being implemented.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement medical aid plan

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	38 919 069	33 244 062
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Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand 2013 2012

19. Employee benefit obligations (continued)

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

Opening balance	33 244 062	32 102 752
Exchange differences	-	(269 158)
Benefits paid	(1 286 000)	(1 287 654)
Net expense recognised in the statement of financial performance	6 961 007	2 698 122
Closing balance	38 919 069	33 244 062

Net expense recognised in the statement of financial performance

Current service cost	1 131 000	2 186 800
Interest cost	1 844 007	1 113 572
Actuarial (gains) losses	3 986 000	(602 250)
Total included in employee related costs	6 961 007	2 698 122

Key assumptions used

Assumptions used at the reporting date:

Discount rate	8.00 %	5.41 %
Long term medical inflation	7.70 %	8.45 %
Medical cost trend rates	4.61 %	5.06 %
Expected increase in salaries	6.95 %	6.75 %
Expected increase in healthcare costs	9.50 %	9.42 %

The projected unit credit method valuation method were applied. This method is based on the idea that the post-retirement benefit is notionally built up over the employees working life.

The municipality did not make use of the "corridor method".

The amount of the liability shown in the balance sheet is the present value of the obligation less the fair value of any plan assets held in respect of the post-retirement medical scheme. There are no plan assets in this valuation.

Other assumptions

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

	2013	2012	2011	2010	2009
Defined benefit obligation	36 279 160	34 385 372	32 102 752	25 155 894	22 826 695

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

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Figures in Rand 2013 2012

19. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide medical aid retirement benefits to all its employees that qualify.

The municipality is under no obligation to cover any unfunded benefits.

The municipality has an obligation to contribute to any actuarial shortfalls of the pension fund.

The required information for employee benefit obligations was not available by 31 August 2011. As soon as this information is made available it will be incorporated into the financial statements.

20. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Total
Provision 14th Cheque	-	2 514 193	-	2 514 193
Performance bonus	301 427	(20 872)	-	280 555
Landfill site rehabilitation	(5 313)	25 592 406	(10 626)	25 576 467
	296 114	28 085 727	(10 626)	28 371 215

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	292 829	301 427	(219 692)	(73 137)	301 427
Provision 3	-	-	(5 313)	-	(5 313)
	292 829	301 427	(225 005)	(73 137)	296 114

Non-current liabilities	25 857 022	296 114
Current liabilities	2 514 193	-
	28 371 215	296 114

No provision for the rehabilitation of landfill sites were disclosed in terms of applying Directive 4, as issued by the Accounting Standards Board. Refer note 39 contingencies.

Provision 14th Cheque

At the introduction of the task grading there was a dispute raised by the unions on the remuneration proposed for the task grading or the wage curve. It was proposed between the two parties (SALGA & the two Unions IMATU & SAMWU), that a once off payment equivalent to a months salary up to R10 000 be made by the employer. To date nothing has been pronounced by the labour courts / arbitrator. There are a number of municipalities in the Chris Hani District that have already paid or made intentions to pay this ex-gratia amount. This has created a constructive obligation for the municipality to pay the ex-gratia amount due to the expectation raised by the other municipalities including Inxuba Yethemba's District municipality.

There was still uncertainty as to the date of this amount to be paid to the employees as at 30 June 2013. There was no decision made as to when this will be paid. A list of all the employees has been compiled and their remuneration that will give rise to this provision. Only the full time employees employed as at 30 June 2013 qualify for this.

The amount of any expected reimbursement, is expected to be R2,5 million.

21. Financial assets by category

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand

	2013	2012
--	------	------

21. Financial assets by category (continued)

2013

2012

22. Financial liabilities by category

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

2013

2012

23. Revenue

Property rates	21 776 883	17 638 421
Property rates – Penalties imposed and collection charges	808 646	-
Service charges	88 076 402	96 594 885
Rental of facilities & equipment	1 817 160	1 766 483
Fines	176 703	144 392
Licences and permits	1 444 644	1 356 335
Government grants & subsidies	58 715 349	56 138 716
	172 815 787	173 639 232

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	88 076 402	96 594 885
Rental of facilities & equipment	1 817 160	1 766 483
Licences and permits	1 444 644	1 356 335
	91 338 206	99 717 703

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	21 776 883	17 638 421
Property rates – Penalties imposed and collection charges	808 646	-
Fines	176 703	144 392

Transfer revenue

Government grants and subsidies	58 715 349	56 138 716
	81 477 581	73 921 529

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
24. Property Rates		
Rates received		
All	21 784 091	19 456 796
Less: Income forgone	(7 208)	(1 818 375)
	<hr/>	<hr/>
	21 776 883	17 638 421
Property rates - penalties imposed and collection charges	808 646	-
	<hr/>	<hr/>
	22 585 529	17 638 421

Valuations

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

A general rate is applied to property valuations to determine assessment rates which may vary according to the type of property. The assessment rates are as follows: Residential properties - 0.83%, Accommodation establishments - 0.94%, Business properties - 0.94%, Public service infrastructure - 0.21%, Learning institutions - 1.65%, State owned property - 0.99% and Agricultural properties - 0.06%. Rebates of R15 000 (2012:) are granted to residential property owners.

Rates are levied on an annual basis with the final date for payment being 30 September 2012 (30 September 2011). Interest at prime plus 1% per annum (2012: 1-%) is levied on late payments.

25. Service charges

Service charges	-	26
Sale of electricity	46 550 175	54 600 722
Sale of water	22 381 342	23 507 810
Sewerage and sanitation charges	16 828 972	16 022 799
Refuse removal	2 315 913	2 463 528
	<hr/>	<hr/>
	88 076 402	96 594 885

The information relating to distribution losses was not available by 31 August 2012. When this information becomes available it will be incorporated into the financial statements of the municipality.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Government grants and subsidies		
Equitable share	40 499 704	31 845 154
PMU	661 400	478 795
Financial Management Grant	1 500 000	1 500 000
Other Grants	55 116	356 629
CHDM Landfill Sites Licencing Grant	1 000 000	-
DSRAC Grants	2 510 000	1 509 951
Government grant (operating) 9	-	(2 054)
MSIG Grant	701 754	790 000
LED Projects	50 000	1 301 441
CHDM Agency	4 405 346	-
EPWP Operational Grant	1 000 000	-
Government grant (operating) 14	2 232 029	-
INEP Grant	2 600 000	8 000 000
EPWP Capital Grant - CHDM Lusaka Paving Project	1 500 000	-
MIG grant	-	10 358 800
	58 715 349	56 138 716

Equitable Share

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

PMU Grant

Current-year receipts	661 400	478 795
Conditions met - transferred to revenue	(661 400)	(478 795)
	-	-

Conditions still to be met - remain liabilities (see note 18)

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

Grant 2

Conditions still to be met - remain liabilities (see note 18)

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

Financial Management Grant

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

Conditions still to be met - remain liabilities (see note 18)

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

Other Grant (LGSETA)

Balance unspent at beginning of year	(39 472)	(70 540)
Current-year receipts	279 352	327 028
Conditions met - transferred to revenue	(279 352)	(295 960)
Other	39 472	-
	-	(39 472)

Conditions still to be met - remain liabilities (see note 18)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Government grants and subsidies (continued)		
Provide explanations of conditions still to be met and other relevant information		
CHDM Landfill Sites Licencing Grant		
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
DSRAC (Libraries) Grant		
Current-year receipts	2 510 000	1 509 951
Conditions met - transferred to revenue	(2 510 000)	(1 509 951)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
MSIG Grant		
Balance unspent at beginning of year	131 416	-
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(638 650)
Other	(131 416)	(19 934)
	<u>-</u>	<u>131 416</u>
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
LED Grants		
Balance unspent at beginning of year	(282 638)	(282 638)
Current-year receipts	-	1 940 000
Conditions met - transferred to revenue	-	(1 940 000)
Other	282 638	-
	<u>-</u>	<u>(282 638)</u>
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
CHDM Agency Grant		
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
EPWP Operational Grant		
Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Government grants and subsidies (continued)		
	-	-
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
National Treasury Above 1% Grant		
Current-year receipts	2 232 029	-
Conditions met - transferred to revenue	(2 232 029)	-
	-	-
Conditions still to be met - remain liabilities (see note 18).		
Provide explanations of conditions still to be met and other relevant information.		
INEP Grant		
Balance unspent at beginning of year	(390)	(390)
Current-year receipts	2 600 000	8 000 000
Conditions met - transferred to revenue	(2 600 000)	(8 000 000)
Other	390	-
	-	(390)
Conditions still to be met - remain liabilities (see note 18).		
Provide explanations of conditions still to be met and other relevant information.		
EPWP CHDM Lusaka Paving Grant		
Current-year receipts	1 500 000	-
Conditions met - transferred to revenue	(1 500 000)	-
	-	-
Conditions still to be met - remain liabilities (see note 18).		
Provide explanations of conditions still to be met and other relevant information.		
MIG Grant		
Balance unspent at beginning of year	14 927	-
Current-year receipts	13 228 000	10 904 000
Conditions met - transferred to revenue	(8 502 217)	(10 904 000)
Other	(11 583)	14 927
	4 729 127	14 927
Conditions still to be met - remain liabilities (see note 18).		
Provide explanations of conditions still to be met and other relevant information.		
DEDEA Vusubuntu Grant		
Balance unspent at beginning of year	-	2 251 344
Conditions met - transferred to revenue	-	(2 251 344)
	-	-

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
26. Government grants and subsidies (continued)		
Conditions still to be met - remain liabilities (see note 18).		
Provide explanations of conditions still to be met and other relevant information.		
27. Other revenue		
Fees earned	1 048 083	1 161 100
Commissions received	143 544	117 801
Other income	904 168	946 844
	2 095 795	2 225 745

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
28. General expenses		
Advertising	470 196	186 697
Assessment rates & municipal charges	200 000	-
Auditors remuneration	3 705 710	3 767 136
Bank charges	624 273	785 653
Chemicals	1 207 425	316 949
Commission paid	858 323	740 393
Conferences and seminars	12 108	3 552
Consulting and professional fees	197 680	432 035
Consumables	504 098	403 800
Departmental service levy	9 362	-
Entertainment	101 581	15 409
External Financing Fund	170 131	1 973
Hire	(545 869)	1 292 938
IT expenses	1 472 792	740 443
Indigents	1 563 867	124 407
Insurance	995 980	1 166 517
Lease rentals on operating lease	38 955	29 578
Levies	(32 655)	53 001
Motor vehicle expenses	2 574 260	2 977 796
Other expenses	4 359 480	2 269 634
Postage and courier	649 536	800 806
Printing and stationery	462 122	324 541
Promotions and sponsorships	-	14 984
Protective clothing	72 019	191 245
Subscriptions and membership fees	290 501	62 027
Telephone and fax	2 446 599	2 819 552
Tourism development	142 652	80 597
Training	217 710	133 190
Travel - local	1 079 994	597 641
Veterinary department	-	462 113
	23 848 830	20 794 607
Other expenses		
Admin Fees	209 973	-
Allowances - Audit Committee	24 417	77 311
Communication Section	2 293	5 999
Condemnation Pit	-	(9 014)
Deeds Transfers	3 825	2 189
Disaster Management	-	2 329
Election Expenses	(789)	-
FBE	1 702 528	1 276 267
Flush Masters	-	1 475
Grant Expenditure	1 138 896	-
Interest On Creditor Accounts	410 018	43 301
Licence Fees	655 348	598 043
Pauper Burials	22 477	28 403
Public Participation Costs	60 269	-
Special programmes	145 075	144 789
Supporting Services	-	(83 828)
Ward meetings	-	6 141
Website	1 650	-
	4 375 980	2 093 405

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
29. Employee related costs		
Basic	38 235 285	36 012 337
Medical aid - company contributions	4 711 918	5 602 071
UIF	420 449	377 951
SDL	573 394	800 291
Other payroll levies	604 790	1 054 508
Group Life Insurance	22 820	25 848
Levy Bargaining Council	22 209	19 646
Performance incentive	262 015	24 000
Post-employment benefits - Pension - Defined contribution plan	5 953 963	5 657 746
Overtime payments	3 615 084	3 047 482
13th Cheques	2 580 742	2 743 170
Car allowance	2 105 803	2 051 734
Housing benefits and allowances	122 280	121 061
Entertainment	2 086	6 771
Other allowance	122 192	128 242
Uniform	7 824	7 320
Share-based payment	-	5 304
	59 362 854	57 685 482
Remuneration of municipal manager		
Annual Remuneration	939 354	879 816
Performance Bonuses	52 789	49 763
	992 143	929 579
Remuneration of chief finance officer		
Annual Remuneration	759 595	711 564
Performance Bonuses	35 578	22 359
	795 173	733 923
Other directors		
Annual Remuneration	2 278 784	2 846 256
Performance Bonuses	106 734	147 571
	2 385 518	2 993 827
30. Remuneration of councillors		
Executive Mayor	685 380	650 529
Mayoral Committee Members	1 244 954	1 060 118
Speaker	536 304	433 441
Councillors	2 472 768	2 354 370
Councillors' pension contribution	1 014 870	965 560
	5 954 276	5 464 018
31. Investment revenue		
Interest revenue		
Unlisted financial assets	854 626	489 144
Interest charged on trade and other receivables	5 893 644	7 001 883
	6 748 270	7 491 027
	-	-
	6 748 270	7 491 027

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
32. Finance costs		
Non-current borrowings	181 082	421 271
Finance leases	87 073	-
Bank	-	26 233
Other interest paid	1 844 000	1 113 572
	2 112 155	1 561 076
33. Auditors' remuneration		
Fees	3 705 710	3 767 136
34. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	1 745 795	1 728 184
Rental of equipment	71 365	38 299
	1 817 160	1 766 483
Premises	-	-
Garages and parking	-	-
Facilities and equipment	1 817 160	1 766 483
35. Contracted Services		
Other Contractors	1 935 865	364 013
36. Grants and subsidies paid		
Other subsidies		
Grants	6 531 934	4 943 520
Grants in aid	-	129 773
	6 531 934	5 073 293
Grants paid to ME's	-	-
Other subsidies	6 531 934	5 073 293
37. Bulk purchases		
Electricity	47 305 396	41 441 898
Water	255 967	66 282
	47 561 363	41 508 180

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
38. Cash generated from operations		
Surplus (deficit)	25 037 793	(78 951 016)
Adjustments for:		
Depreciation and amortisation	(29 640 826)	77 003 753
Gain (loss) on sale of assets and liabilities	1 116	(878 203)
Finance costs - Finance leases	87 073	-
Finance costs	-	220 499
Debt impairment	32 317 368	50 136 096
Movements in retirement benefit assets and liabilities	(5 675 007)	(1 141 310)
Movements in provisions	28 075 101	35 476 419
Contribution to impairment allowance		
Adjustment to transactions incorrectly allocated	89 775	(40 088)
Adjustment of inventory balance	127 877	23 454 682
Movements in other financial liabilities	(11 437 012)	-
Consumer debtors	(15 832 530)	(46 950 014)
Trade and other payables	(2 028 721)	13 842 609
VAT	7 506 593	(412 904)
Taxes and transfers payable (non exchange)	-	(25 805 936)
Unspent conditional grants and receipts	4 988 561	(567 856)
Consumer deposits	1 127 620	84 192
	34 744 781	45 470 923

39. Contingencies

There were no contingencies during the financial year.

40. Related parties

Relationships

Mmottlie Investments Proprietary Limited

Refer to note 11

Related party balances

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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41. Prior period errors

Correction of transfers to Chris Hani District Municipality Agency account R0

The correction of the error(s) resulted in R0 after the opening balances of the Chris Hani Agency Account were adjusted to R0:

42. Comparative figures

Certain comparative figures have been reclassified.

Statement of financial position

Accumulated surplus	-	13 351 495
Plant Property and Equipment	-	502 166 548
Trade and Other Receivables from exchange transactions	-	22 330 530
Trade and Other Receivables from exchange transactions	-	26 829 550
Bank	-	1 529 567
Bank Overdraft	-	(3 546 691)
Trade and Other Payables	-	(18 030 258)
Retirement benefit obligation	-	(32 102 752)
Unspent conditional grant creditors	-	(308 422)
Short Term Portion Long Term Loan	-	(302 213)
Long Term Portion Long Term Loan	-	(1 634 047)

43. Risk management

Liquidity risk

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

Interest rate risk

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

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

Credit risk

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

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

44. Going concern

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

45. Events after the reporting date

There were no significant events identified after the reporting date that may have a significant impact on the June 2012 reporting.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
46. Reconciliation between budget and statement of financial performance		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus (deficit) per the statement of financial performance	25 037 793	(78 951 016)
Adjusted for:		
Underspent on expenditure	(23 464 203)	-
Allowance for debt impairment	41 457 130	-
Shortfall on income	32 891 989	-
Other movements and journals	(1 405 793)	-
Net surplus (deficit) per approved budget	74 516 916	(78 951 016)
47. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	78 464	-
Current year subscription / fee	571 086	657 953
Amount paid - current year	(632 170)	(579 489)
	17 380	78 464
Audit fees		
Opening balance	3 567 136	1 041 809
Current year subscription / fee	4 070 889	3 767 136
Amount paid - current year	(4 632 029)	(1 800 000)
Amount paid - previous years	-	558 191
	3 005 996	3 567 136
PAYE and UIF		
Opening balance	527 386	517 801
Current year subscription / fee	7 018 418	6 389 051
Amount paid - current year	(6 968 878)	(6 379 466)
	576 926	527 386
Pension and Medical Aid Deductions		
Opening balance	1 158 606	1 066 441
Current year subscription / fee	14 547 478	13 758 731
Amount paid - current year	(14 466 944)	(13 666 566)
	1 239 140	1 158 606
VAT		
VAT payable	19 405 046	11 898 453

All VAT returns were submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no accounts in arrears on 30 June 2013.

Supply chain management regulations

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
47. Additional disclosure in terms of Municipal Finance Management Act (continued)		
In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.		
Incident		
Accommodation and Travel	255 064	-
Vehicles repairs	1 068 325	-
Upgrading of electricity services	267 055	-
Upgrading of road infrastructure	388 844	-
Upgrading and maintenance of Water Infrastructure	667 147	-
Catering	126 747	-
Other	1 897 089	-
	4 670 271	-
48. Finance lease obligation		
Minimum lease payments due		
- within one year	860 478	748 242
- in second to fifth year inclusive	342 733	1 203 211
Present value of minimum lease payments	1 203 211	1 951 453
Present value of minimum lease payments due		
- within one year	640 061	551 202
- in second to fifth year inclusive	269 635	909 696
	909 696	1 460 898
Non-current liabilities	269 635	909 639
Current liabilities	640 061	551 202
	909 696	1 460 841
49. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	8 328 420	3 733 291
This committed expenditure relates to plant and equipment and will be financed by MIG Grants.		
50. Unauthorised expenditure		
There is no unauthorised expenditure that has been identified.		
51. Fruitless and wasteful expenditure		
Opening Balance	46 014	15 009
Fruitless and Wasteful Expenditure Not Recovered	376 211	31 005
	422 225	46 014

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
52. Irregular expenditure		
Opening balance	10 542 841	4 964 382
Add: Irregular Expenditure - current year	5 276 617	5 578 459
	15 819 458	10 542 841

Analysis of expenditure awaiting condonation per age classification

Details of Irregular Expenditure – Current year

-

Details of Irregular Expenditure not recoverable (not condoned)

Procurement of goods between R10 000 and R30 000 where there were deviations from the SCM regulations.	3 147 255
Procurement of goods above R30 000 where there were deviations from the SCM regulations.	2 951 611
	6 098 866

53. Actual operating expenditure versus budgeted operating expenditure

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Detailed Income statement

Figures in Rand	Note(s)	2013	2012
Revenue			
Property rates	24	21 776 883	17 638 421
Service charges	25	88 076 402	96 594 885
Property rates - penalties imposed and collection charges		808 646	-
Rental of facilities and equipment		1 817 160	1 766 483
Fines		176 703	144 392
Licences and permits		1 444 644	1 356 335
Government grants and subsidies	26	58 715 349	56 138 716
Fees earned		1 048 083	1 161 100
Commissions received		143 544	117 801
Other income		904 168	946 844
Interest received - investment	31	6 748 270	7 491 027
Gains on disposal of assets	31	-	275 953
Total Revenue		181 659 852	183 631 957
Expenditure			
Employee related costs	29	(59 362 854)	(57 685 482)
Remuneration of councillors	30	(5 954 276)	(5 464 018)
Depreciation and amortisation		29 640 826	(77 003 753)
Finance costs	32	(2 112 155)	(1 561 076)
Debt impairment		(32 317 368)	(50 136 096)
Repairs and maintenance		(6 637 124)	(3 594 705)
Bulk purchases	37	(47 561 363)	(41 508 180)
Contracted services	35	(1 935 865)	(364 013)
Grants and subsidies paid	36	(6 531 934)	(5 073 293)
Loss on disposal of assets	36	(1 116)	-
General Expenses	28	(23 848 830)	(20 794 607)
Total Expenditure		(156 622 059)	(263 185 223)
Actuarial adjustments		-	602 250
Revenue		181 659 852	183 631 957
Expenditure		(156 622 059)	(263 185 223)
Other		-	602 250
Surplus (deficit) for the year		25 037 793	(78 951 016)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Supplementary Information

1. Custom Schedule
2. Custom Schedule
3. Custom Schedule
4. Custom Schedule
5. Custom Schedule

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2013

Supplementary Information
