INTSIKA YETHU MUNICIPALITY

Annual Financial Statements
for the year ended 30 June 2013

General Information

Country of origin and legal form	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No. 117 of 1998)
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

Mayor	K Vimbayo
Speaker	AZ Mbotoloshi
Chief WIP	S Myataza
Councillors	WN Mdwayingana -Executive Councillor
	N Tshangana Nkota - Executive Councillor
	KF Mdleleni -Executive Councillor
	J Cengani - Executive Councillor
	K Ntsaluba - Executive Councillor
	NE Stata - Executive Councillor
	M Shasha - Chairperson of the MPAC
	NG Futiso (deceased July 2012)
	NG Baleka (replaced NG Futiso)
	MM Mbebe
	ML Papiyana
	Z Qayiya
	D Kapsile
	HM Hewu
	P Nqandela
	M Mahali
	NS Mafanya
	FN Dangazele
	M Yamile
	VG Matomela
	W Sobekwa
	N Magaga
	S Tame
	N Ntloko
	ZS Matshikiza
	N Bani
	N Jada
	NH Mgodeli
	NA Somdyala
	M Zulu
	HM Nobongoza
	NP Gadeni
	MA Mbotshane
	MI Bikitsha
	Z Mxi
	S Mkhunyana
	M Gulubela
	NA Rotyi
	N Mto
	NV Hexana

Grading of local authority	Grade 3

General Information

Chief Finance Officer (CFO)	Mr M Dyushu
Accounting Officer	Mr Zamuxolo Shasha
Business address	Building No. 201 Main Street Cofimvaba 5380
Postal address	Private Bag X 1251 Cofimvaba 5380
Bankers	First National Bank
Auditors	Office of the Auditor General (South Africa)

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

Abbreviations

IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
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
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MSIG	Municipal Systems Improvement Grant
FMG	Financial management grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
LG SETA	Local Government - Sector Education and Training Authority
CHDM	Chris Hani District Municipality
NHC	National Heritage Council
INEP	Intergrated National Electrification Program

Approval of the Annual Financial Statements

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2013, which are set out on pages 1 to 65 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. The annual financial statements have been prepared in accordance with GRAP.

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

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

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

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

Mr Zamuxolo Shasha
Municipal Manager

Cofimvaba

31 August 2013

Statement of Financial Position

Figures in Rand	Notes	2013	2012
Assets			
Current Assets			
Cash and cash equivalents	2	7 612 759	7 995 865
Inventories	3	91 076	212 049
Other receivables from non-exchange transactions	4	13 866 992	6 505 254
Trade receivables from exchange transactions	5	974 010	1 854 849
VAT receivable	6	790 028	3 435 802
		23 334 865	**20 003 819**
Non-Current Assets			
Property, plant and equipment	7	621 032 519	556 144 738
Intangible assets	8	190 524	355 473
		621 223 043	**556 500 211**
Non-Current Assets		621 223 043	556 500 211
Current Assets		23 334 865	20 003 819
Total Assets		**644 557 908**	**576 504 030**
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	13 255 033	14 861 150
Unspent conditional grants and receipts	15	5 888 230	-
Current Provisions	11	6 528 142	3 502 453
Non-current borrowings short term portion	9	468 582	367 233
		26 139 987	**18 730 836**
Non-Current Liabilities			
Non-current borrowings	9	8 404 013	8 414 150
Non-Current Liabilities		8 404 013	8 414 150
Current Liabilities		26 139 987	18 730 836
Total Liabilities		**34 544 000**	**27 144 986**
Assets		644 557 908	576 504 030
Liabilities		(34 544 000)	(27 144 986)
Net Assets		**610 013 908**	**549 359 044**
Reserves			
Revaluation reserve		31 971 014	23 593 461
Other NDR		456 352 537	450 545 168
Accumulated surplus		121 688 230	75 220 415
Total Net Assets		**610 011 781**	**549 359 044**

Intsika Yethu Municipality

Annual Financial Statements for the year ended 30 June 2013

Statement of Financial Performance

Figures in Rand	Notes	2013	2012
Revenue from Exchange transactions			
Sewerage services		1 953 816	1 773 244
Service charges	13	698 574	498 454
Water services		1 732 461	627 690
Rental of facilities and equipment		876 396	647 405
Licences and permits		1 519 915	1 320 384
Other income	14	1 464 273	5 737 584
Gains on disposal of assets		4 098	1 579
Revenue from Non-Exchange Transactions		-	-
Government grants & subsidies	15	175 528 542	138 419 640
Traffic Fines		397 911	250 712
Property rates	16	8 499 807	3 712 661
Interest - outstanding receivables		2 236 369	372 557
Interest - external investments		368 331	859 576
Total Revenue		**195 280 493**	**154 221 486**
Expenditure			
Personnel	17	(73 302 894)	(62 083 039)
Remuneration of councillors	18	(11 236 794)	(8 594 996)
Depreciation and amortisation	36	(32 590 944)	(36 542 078)
Finance costs	19	(114 570)	(525 035)
Bad debts	20	(2 188 477)	(1 738 311)
Repairs and maintenance		(5 795 367)	(6 595 611)
Bulk purchases	21	(1 121 816)	(2 870 538)
Contracted services	22	(224 237)	(430 490)
General Expenses	23	(44 228 541)	(78 612 972)
Total Expenditure		**(170 803 640)**	**(197 993 070)**
Revenue		195 280 493	154 221 486
Expenditure		(170 803 640)	(197 993 070)
Other		-	-
Surplus (deficit) for the year		**24 476 853**	**(43 771 584)**

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Other NDR	Total reserves	Accumulated surplus	Total net assets
Balance at 01 July 2011	**-**	**485 937 394**	**485 937 394**	**118 991 999**	**604 929 393**
Surplus for the year	-	-	-	(43 771 584)	(43 771 584)
Properties revalued	22 831 223	-	22 831 223	-	22 831 223
Asset Revaluation	-	(35 392 226)	(35 392 226)	-	(35 392 226)
Total changes	**22 831 223**	**(35 392 226)**	**(12 561 003)**	**(43 771 584)**	**(56 332 587)**
Prior year adjustments	762 238	-	762 238	-	762 238
Balance at 01 July 2012	**23 593 461**	**450 545 168**	**474 138 629**	**97 211 377**	**571 350 006**
Correction of prior year error	9 139 791	5 807 369	14 947 160	-	14 947 160
Net income (losses) recognised directly in net assets	9 139 791	5 807 369	14 947 160	-	14 947 160
Surplus for the year	-	-	-	24 476 853	24 476 853
Total changes	9 139 791	5 807 369	14 947 160	24 476 853	39 424 013
Balance at 30 June 2013	**32 733 252**	**456 352 537**	**489 085 789**	**121 688 230**	**610 774 019**

Cash Flow Statement

Figures in Rand	Notes	2013	2012
Cash flows from operating activities			
Receipts			
Other		-	14 369 770
Grants		175 528 542	138 430 580
Interest income		2 604 700	1 232 133
		178 133 242	154 032 483
Payments			
Employee costs		(73 870 806)	(70 678 035)
Cash paid to suppliers		(51 495 791)	(44 895 483)
Finance costs		(218 008)	(525 035)
Other payments		-	-
Interest received		112 805	-
		(125 471 800)	(116 098 553)
Total receipts		178 133 242	154 032 483
Total payments		(125 471 800)	(116 098 553)
Net cash flows from operating activities	25	**52 661 442**	**37 933 930**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(66 198 006)	(40 452 337)
Loss / Proceeds from sale of property, plant and equipment	7	12 881 173	(26 071)
Purchase of intangible assets	8	(34 370)	(335 333)
Net cash flows from investing activities		**(53 351 203)**	**(40 813 741)**
Cash flows from financing activities			
Repayment of non-curent borrowings		-	(543 904)
Repayment of Borrowings		306 655	-
Net cash flows from financing activities		**306 655**	**(543 904)**
Net increase/(decrease) in cash and cash equivalents		**(383 106)**	**(3 423 715)**
Cash and cash equivalents at the beginning of the year		7 995 865	11 419 474
Cash and cash equivalents at the end of the year	2	**7 612 759**	**7 995 759**

Accounting Policies

1. Preparation of Annual Financial Statements

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraph 8,10,11 of GRAP 3 as read with Directive 5.

The principal accounting policies, applied in the preparation of these annual finaancial statements, are set out below. These accounting policies are consistent with those applied in the prior year annual financial statements, unless specified otherwise. Details of any changes in the accounting policies are provided in the Note 37 " Changes in the accounting policies".

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

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements (as revised in 2010)
GRAP 2	Cash Flow Statements (as revised in 2010)
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010)
GRAP 4	The Effects of Changes in Foreign Exchange Rates (as revised in 2010)
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions (as revised in 2010)
GRAP 10	Financial Reporting in Hyperinflationary Economies (as revised in 2010)
GRAP 11	Construction Contracts (as revised in 2010)
GRAP 12	Inventories (as revised in 2010)
GRAP 13	Leases (as revised in 2010)
GRAP 14	Events After the Reporting Date (as revised in 2010)
GRAP 16	Investment Property (as revised in 2010)
GRAP 17	Property, Plant and Equipment (as revised in 2010)
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010)
GRAP 24	Presentation of Budget Information in Financial Statement
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosures
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IAS 12 (AC 102)	Income Taxes
SIC – 21 (AC 421)	Income Taxes – Recovery of Revalued Non-Depreciable Assets
SIC – 25 (AC 425)	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
SIC – 29 (AC 429)	Service Concession Arrangements – Disclosures
IFRIC 12 (AC 445)	Service Concession Arrangements
IPSAS 21	Impairment of non-cash generating assets
IFRS 7	Financial Instrument: Disclosure
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 39	Financial Instruments: Recognition and measurement
IFRIC 4	Determining whether an arrangement contains a lease

The standards prescribed are the effective Standards of GRAP, including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

Accounting Policies

1.1 Presentation of currency

These annual financial statements are presented in South African Rand which is functional currency of the municipality and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

1.2 Going concern assumption

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

1.3 Comparative figures

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to the annual financial statements.

The presentation and classification of items in the current year is consistent with prior periods. Where there has been reclassification or restatement, the nature and reasons for reclassification and restatement are disclosed in the note 44 "Restatement of comparative information" to the Financial statements.

1.4 Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued by the Accounting Standards Board, but will only be effective in future periods or have not been given an effective date by the Minister of Finance. The municipality has **not early- adopted** any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

- GRAP 20 Related Parties - issued June 2011
- GRAP 105 Transfers of Functions Between Entities Under Common Control
- GRAP 106 Transfers of Functions Between Entities **Not** Under Common Control
- GRAP 107 Mergers

GRAP 20 Related Parties

This Standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements.The precise impact of this on the financial statements of the entity is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.

This standard does not yet have an effective date.

GRAP 105 Transfer of functions between entities under common control

This standard requires the entity to recognise or derecognise assets acquired or transferred and liabilities assumed or relinquished at carrying amounts for transactions that involve transfer of functions between entities under common control.

The precise impact of this on the financial statements of the entity is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting.

This standard does not yet have an effective date.

1.4 Standards, amendments to standards and interpretations issued but not yet effective (continued)

GRAP 106 Transfer of functions between entities not under common control

This standard requires the entity to recognise identifiable assets acquired and liabilities assumed at fair value and the difference recognised in surplus or deficit for transactions that involve transfer of functions between entities that are not under common control.The precise impact of this on the financial statements of the entity is still being assessed but is not expected to be significant.

This standard does not yet have an effective date.

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 8. 10 and 11 of GRAP

The following standard of GRAP need not be applied by the Municipality;

GRAP 18 Segment Reporting

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

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

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

If fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or an intangible asset, an entity may estimate such fair value using depreciated replacement cost.The following GRAP standards have been issued but are not yet effective at the reporting date and have not been early adopted by the municipality:

The impact of the standards not yet effective on future financial statements is not expected to be significant.

Management has considered all the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

Standards, amendments to standards and interpretations issued and effective

The following accounting standards have been issued and are effective from1 April 2012 which were adopted by the entity during the current financial period;

- GRAP 21 Impairment of Non-Cash generating assets
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget information in financial statements
- GRAP104 Financial instruments

GRAP21 Impairment of Non-Cash generating Assets

This standard requires entities to annually assess at each reporting date, by considering internal and external factors,whether there is an indication that a non-cash-generating asset may be impaired If any such indications are triggered, the entity is required to estimate the recoverable service amount of that asset. A non-cash-generating asset will be impaired when its carrying amount exceeds its recoverable service amount.

Accounting Policies

1.4 Standards, amendments to standards and interpretations issued but not yet effective (continued)

GRAP 23 Revenue from Non-exchange Transaction (taxes and transfers)

The Standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners.It requires revenue from non-exchange transactions to be accounted for using the ‘assets and liabilities’ approach rather than using an ‘earnings’ approach which is followed for exchange revenue.

GRAP 24 Presentation of budget information in financial statements

The standard requires entities that make their budgets publicly available to present a comparison between:

the budget and actual amounts,

between the last budget approved by Parliament, the legislatures or municipal councils, and the final budget (which includes those changes made by management within the prescribed limits) and,

include an explanation of the material differences between the budget and actual amounts in the notes to the financial statements (unless these explanations are included in another document published at the same time as the financial statements).

GRAP 104 Financial instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments.It requires financial assets and financial liabilities to be initially recognised at fair value and subsequently measured either at fair value or, amortised cost or cost.

The standard also requires extensive disclosures on the significance of financial instruments for an entity’s statement of financial position and performance, as well as the nature and extent of the risks that an entity is exposed to as a result of its financial instruments.

Management has considered and assessed the precise impact of all the above-mentioned GRAP standards on the financial statements and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

It is expected that this will result in additional disclosures without affecting the underlying accounting. Management applied Directive 5 in determining its reporting framework and accounting policies.

Standards, amendments to standards and interpretations issued and effective but not relevant to the entity

The following standards have been issued and are effective from 1 April 2012 but are **not relevant to the operations of the entity**. These standards have not been used in formulating any accounting policy

- GRAP 26 Impairment of cash generating assets - issued March 2009
- GRAP 103 Heritage Assets - issued July 2008

1.5 Significant judgements and sources of estimation uncertainty

The use of judgements, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes which require material adjustment to the carrying amount of relevant asset of liability in future periods.

Judgements

In the process of applying these accounting policies, management has made the following judgements which may have a significant effect on the amounts recognised in the financial statements.

Estimates

Estimates are informed by historical experience , information currently available to management, assumptions and other factors which are believed to be reasonable under the circumstances. These estimates are reviewed on regular basis. Changes in estimates which are not due to errors are processed in the period of review and applied prospectively.

In the process of applying the entity's accounting policies the following estimates were made;

1. Provision for Rehabilitation of Landfill sites

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value at 5%, representing the time value of money.

2. Other provisions (Performance bonus)

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised.

This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions.

3. Post employment pension benefits

Post-employment medical benefits offered by the entity take the form of defined benefit plans.

The cost of the post employment medical benefits, and the present value of the obligation are determined using actuarial valuations.

An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future medical increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

All assumptions are reviewed at each reporting date

4. Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management’s estimation of the asset’s condition, expected condition at the end of the period of use, its current use, expected future use and the entity’s expectations about the availability of finance to replace the asset at the end of its useful life.

Accounting Policies

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

5. Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis.

The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile

6. Fair value determination of properties (excluding heritage assets)

In determining the fair value of investment property, the entity applies a valuation methodology to determine the fair value of the properties based on any one of, or a combination of the following factors:

- The market related selling price of the property; or
- The market related rental that can be earned for the property; or
- The market related selling price of similar properties in the area; or
- The rentals currently or previously earned by the property.

1.6 Investment property

Investment property includes property (land or a building or part of a building or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services or the sale of an asset in the ordinary course of operations.

Investment Property is initially recognised when future benefits are probable and the cost or fair value can be determined reliably.

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

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

The cost of self-constructed investment property is the cost at date of completion.

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

Accounting Policies

1.6 Investment property (continued)

Depreciation

Depreciation begins when the asset is available for use. Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Item	Useful life
Land	15 - 50
Municipal property (housing for rental)	25 - 50

The investment property's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end.

The assumptions for determining the fair value of the Investment property is set out in the relevant Note of the Annual Financial Statements.

Impairment

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an Investment Property 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.

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

An Investment Property is derecognised when there is a disposal or no future economic benefits are to be derived and all gains or losses are recognised in the Statement of Financial Performance.

1.7 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

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

1.7 Property, plant and equipment (continued)

Subsequent measurement - revaluation model (Land and buildings)

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses.

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

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Subsequent measurement - cost model

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

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

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives in line with National Treasury guidelines:

Item	**Average useful life**
Infrastructure	
• Roads and Paving	3 - 50 years
Community	
• Buildings	25 - 50 years
• Recreational facilities	25 - 30 years
• Halls	25 - 50 years
• Libraries	25 - 30 years
• Other assets	25 - 30 years
Others	
• Buildings	30 - 50 years
• Mobile offices	10 years
• Specialised vehicles	6 years
• Other vehicles	5 years
• Office equipment	5 years
• Furniture and fittings	6 years
• Specialised plant and equipment	10 years
• Other items of plant and equipment	5 years
• Landfill sites	30 - 55 years
• Emergency equipment	3 - 10 years
• Computer equipment	3 years
• Intangible assets (software)	3 years

The Municipality maintains and acquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual values are determined other than for certain Machinery and Equipment and Transport assets with significant carrying values.

For Machinery and Equipment and Transport (Above R5,000) the residual value and the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised prospectively as a change in accounting estimate in the Statement of Financial Performance.

1.7 Property, plant and equipment (continued)

Minor assets (Below R5,000) are recognised and depreciated annually down to R1 and is included in the asset register mainly for completeness and monitoring purposes.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

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

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives, as reflected in the table above.

Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 Intangible assets

Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalized. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:
- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project;
- it is probable that the municipality will receive future economic benefits or service potential; and
- The ability to measure reliably the expenditure during development.

Intangible assets are initially recognised at cost.

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

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

Subsequent measurement - cost model

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

Accounting Policies

1.8 Intangible assets (continued)

Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Item	Useful life
Computer software	3 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Derecognition

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.9 Leases

Operating leases - lessor

Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

Operating leases - lessee

Operating leases rentals are accrued on a straight-line basis over the term of the relevant lease.

1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Accounting Policies

1.10 Employee benefits (continued)

Composite social security programs are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and

- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present legal or constructive 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.

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 the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

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

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

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

The types of provisions the entity has are as follows;

Provision for bonus

Annual bonus

Annual bonus is payable in the employee's birthday month. The amount is equivalent to the basic salary of the employee.

Performance bonus

Performance bonus is payable to the section 57 managers only in August of the following year. This is calculated based on the ratings awarded to each manager based on their performance.

The computation of the scales and final rates is done by the external party. The maximum recommended percentage for bonus payable to the senior manager is 14%.

Long service awards

The long-service award is payable after every 5 years of continuous service. The provision is an estimate of the long-service based on historical staff turnover.

Provision for Rehabilitation of Landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted over an average period as determined by valuers.The discounting rate used is 2.83%.

1.12 Revenue from exchange transactions

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

Services charges relating to water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on the previous three months average usage.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each development property using the tariffs approved from Council and are levied monthly.

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

Revenue arising fro the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

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

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

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

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

The imputed rate of interest is the more clearly determinable of either:

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

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

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue.

The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.12 Revenue from exchange transactions (continued)

Measurement

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

Interest and dividends

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

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

1.13 Revenue from non-exchange transactions

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Grants, Transfers and Donations

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

1.14 Unauthorised expenditure

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

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

1.15 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.

1.16 Irregular expenditure

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

1.17 Impairment of assets

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

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

1.17 Impairment of assets (continued)

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.18 Tax

Value Added Tax

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

1.19 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 formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

1.20 Financial instruments

Initial recognition

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments).

To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

The entity classifies financial assets and financial liabilities into the following categories:

Initial measurement

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent Measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost All financial assets and financial liabilities are measured after initial recognition using the following categories:

a) **Financial instruments at fair value.**

- Derivatives.
- Compound instruments that are designated at fair value i.e. an instrument that includes a derivative and a non-derivative host contract.
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition
- An investment in a residual interest for which fair value can be measured reliably.
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

b) **Financial instruments at amortised cost.**

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.

c) **Financial instruments at cost.**

Investments in residual interests, which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

1.20 Financial instruments (continued)

Derecognition

A financial asset is derecognised at trade date, when;

- The cash flows from the asset expire, are settled or waived;
- Significant risks and rewards are transferred to another party; or
- Despite having retained significant risks and rewards, the entity has transferred control of the asset to another entity."

A financial liability is derecognised when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the terms of an existing financial liability are modified, it is also treated as the extinguishments of an existing liability and the recognition of a new liability.

Gains and losses

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

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

Offsetting

The entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right of set-off exists and the parties intend to settle on a net basis.

Impairment

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For financial assets held at amortised cost:

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

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 (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced 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 (such as an improvement in the debtor‘s credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall 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.

Accounting Policies

1.20 Financial instruments (continued)

For financial assets held 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.

Policies relating to specific financial instruments

Investments

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment and subsequently carried at amortised cost.

All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value.

The amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

Trade payables and borrowings

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

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets.

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

Accounting Policies

1.21 Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

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

1.22 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue.

Two types of events can be identified as follows:

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

The Municipality will adjust the amounts recognised in the Annual Financial Statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the Annual Financial Statements.

1.23 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.24 Preparation of budget information

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

General purpose financial reporting by municipalities 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 on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP.

The comparison of budget and actual amounts shall present separately for each level of legislative oversight as follows:

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

1.25 Contingent liabilities

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

Management judgement is required when recognising and measuring contingent liabilities.

Figures in Rand	2013	2012

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2013	2012
Primary bank account	1 894 290	3 981 268
Bank balances	4 875 491	2 963 089
Call investment deposits	840 507	991 805
Cash on hand	2 471	59 703
	7 612 759	**7 995 865**

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value. Outstanding cheque's forms part of the balances of Cash and Cash Equivalents.

Call investment deposits

Call investment deposits consist of the following accounts:

		2013	2012
FNB 62022329438 - CMIP	closed	-	88
FNB 94865858	closed	-	289 797
ABSA 961149096		643 410	605 063
FNB 62026740549 - Municipal Rank		28 471	10 463
FNB 62027099234	closed	-	241 956
FNB 62027101245		127 994	242 508
FNB 62160167500		40 632	133 761
FNB 74026742946 - Testing station	closed	-	(365)
		840 507	**1 523 271**

The bank balance and the primary bank are reconciled as follows;

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
FNB 62022331003 - Primary bank account	1 987 547	4 104 787	2 715 499	1 894 290	3 981 268	472 582
Total	**1 987 547**	**4 104 787**	**2 715 499**	**1 894 290**	**3 981 268**	**472 583**
FNB 62101651398	4 163 942	1 305 410	23 085	4 163 942	1 305 410	22 369
FNB 62022332316	333 000	58 120	26 387	221 666	58 120	26 597
4316463	44 089	21 723	4 092 537	44 089	723 550	4 316 463
FNB 62240443820	621 235	1 004 089	828 620	445 792	876 009	828 620
Total	**5 162 266**	**2 389 342**	**4 970 629**	**4 875 489**	**2 963 089**	**5 194 048**

3. Inventories

	2013	2012
Water	91 076	212 049
Carrying value of inventories carried at fair value less costs to sell	-	-

4. Other receivables from non-exchange transactions

	2013	2012
Other receivables	6 550 190	3 793 975
Prepayments	(101 741)	5 420
Rates	7 418 543	2 705 859
	13 866 992	**6 505 254**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

4. Other receivables from non-exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Gross balance	8 448 010	2 705 859
Provision for impairment	(7 474 000)	(1 110 764)
	974 010	**1 595 095**

5. Trade and Other Receivables from Exchange Transactions

Gross balances		
Water	3 136 551	3 384 552
Sewerage	3 751 969	2 117 977
Refuse	870 827	611 643
Housing rental	688 663	540 625
Other receivables	-	5 400
	8 448 010	**6 660 197**

Less: Provision for debt impairment		
Total	(7 474 000)	(4 805 348)

Net balance		
Water	3 136 551	3 384 552
Sewerage	3 751 969	2 117 977
Refuse	870 827	611 643
Housing rental	688 663	540 625
Other receivables	-	5 400
Provision for debt impairment	(7 474 000)	(4 805 348)
	974 010	**1 854 849**

Gross balance		
91 - 120 days	(7 474 000)	(4 805 348)

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

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

6. VAT receivable

Value Added Tax	790 028	3 435 802

VAT is payable / receivable on the payments basis.

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Municipal property	189 814 023	(8 433 896)	181 380 127	189 814 023	(6 325 422)	183 488 601
Buildings	932 891	(495 212)	437 679	16 821 608	(3 462 590)	13 359 018
Machinery and equipment	31 839 836	(13 010 469)	18 829 367	31 771 189	(10 562 847)	21 208 342
Transport assets	5 934 098	(2 667 613)	3 266 485	4 120 030	(1 172 120)	2 947 910
Furniture and office equipment	4 178 524	(1 930 317)	2 248 207	3 914 597	(1 259 137)	2 655 460
Computer equipment	1 952 560	(1 363 914)	588 646	1 584 476	(1 025 711)	558 765
Road transport	469 276 662	(105 880 823)	363 395 839	361 260 184	(80 215 103)	281 045 081
Community assets	12 242 952	(773 160)	11 469 792	11 264 451	(225 868)	11 038 583
Electricity	2 208 213	(397 480)	1 810 733	2 208 213	(298 110)	1 910 103
Parks and recreation	7 503 653	(990 600)	6 513 053	7 503 653	(742 950)	6 760 703
Solid waste	732 964	(296 834)	436 130	732 964	(217 253)	515 711
Work in progress	30 656 461	-	30 656 461	30 656 461	-	30 656 461
Total	**757 272 837**	**(136 240 318)**	**621 032 519**	**661 651 849**	**(105 507 111)**	**556 144 738**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Total
Municipal property	162 765 852	-	-	-	22 831 223	(2 108 474)	183 488 601
Buildings	13 536 562	198 315	-	-	-	(375 859)	13 359 018
Machinery and equipment	10 225 296	12 756 566	-	-	-	(1 773 520)	21 208 342
Transport assets	1 894 833	1 449 792	63 875	-	-	(460 590)	2 947 910
Furniture and office equipment	1 829 266	1 377 186	(25 591)	-	-	(525 401)	2 655 460
Computer equipment	236 507	541 476	(10 634)	-	-	(208 584)	558 765
Road transport	299 696 226	41 963 648	-	(33 599 756)	-	(27 015 037)	281 045 081
Community assets	5 802 516	5 385 075	-	-	-	(149 008)	11 038 583
Electricity	2 009 473	-	-	-	-	(99 370)	1 910 103
Parks and recreation	7 008 353	-	-	-	-	(247 650)	6 760 703
Solid waste	586 082	-	-	-	-	(70 371)	515 711
Work in progress	20 357 644	10 298 817	-	-	-	-	30 656 461
	525 948 610	**73 970 875**	**27 650**	**(33 599 756)**	**22 831 223**	**(33 033 864)**	**556 144 738**

Borrowing costs capitalised

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. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

There are no assets fully depreciated which are still in use or any assets held for disposal or any temporary idle assets as at the date of financial position. There was no impairment identified for Property, plant and equipment.

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Other Assets and Infrastructure Assets the depreciated replacement cost method was used to establish the deemed cost as on 1 July 2007.

Notes to the Annual Financial Statements

Figures in Rand

8. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	485 218	(294 694)	190 524	450 848	(95 375)	355 473

Reconciliation of intangible assets - 2013

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	355 473	34 370	(199 319)	190 524

Notes to the Annual Financial Statements

Figures in Rand

8. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	110 640	335 333	(90 500)	355 473

Other information

No intangible assets were assessed as having an indefinite useful life. There are no internally generated intangible assets at reporting date. There are no intangible assets whose title is restricted and no intangible assets pledged as security for liabilities.

9. Non-Current borrowings

Held at amortised cost		
DBSA Loan	8 872 595	8 781 383

The loan period is 20 years at a fixed interest rate of 5%. The capital is repayable in 40 equal six-monthly installments, commencing on the last day of the first half-year during which the first disbursement was advanced to the Borrower. Penalty interest shall be calculated with regard to actual period during which the amount payable remained unpaid, at fixed interest rate of the loan, 5 percent, PLUS 2 percent (per annum). Penalty interest shall be compounded six-monthly (01 April to 30 September, and/or, 01 October to 31 March during the next calendar year), and payable on demand.

Furthermore, paragraph 10.1 of the agreement states: "The DBSA shall be entitled, after giving the Borrower thirty days written notice, to suspend drawdowns from the Loan OR terminate this Agreement and to claim from the Borrower immediate payment of all the outstanding amounts should the Borrower commit any breach of this Agreement."

Figures in Rand	2013	2012

9. Non-Current borrowings (continued)

	-	-
	8 872 595	8 781 383
Non-current liabilities		
At amortised cost	8 404 013	8 414 150
Current liabilities		
At amortised cost	(468 582)	(367 233)
	8 404 013	8 414 150
	468 582	367 233
	8 872 595	**8 781 383**
Present value of loan obligations		
Payable within one year	367 233	367 233
Payable within two to five years	2 057 779	1 723 025
Payable after five years	6 511 496	6 755 038
Less: Future finance obligations	(63 913)	(63 913)
	8 872 595	**8 781 383**

10. Payables from exchange transactions

Trade payables	4 753 199	8 682 511
Accruals	5 497 290	6 178 639
Other payables	3 004 544	-
	13 255 033	**14 861 150**

Payables are being recognised net of any discounts.

The credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of payables on initial recognition is not deemed necessary.

The carrying value of payables approximates its fair value.

Retention

Retention represents payment owed to the service providers. This is determined at 10% of the contract amount for all construction contracts as per the Supply Chain Management.

There are two services provider charged retention fee totalling to R40,000.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

11. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Movement	Total
Leave Provision	3 644 507	317 159	3 961 666
Landfill site	498 161	5 728	503 889
Bonus provision	3 004 292	(941 705)	2 062 587
	7 146 960	**(618 818)**	**6 528 142**

Reconciliation of provisions - 2012

	Opening Balance	Movement	Total
Leave provision	2 924 793	719 714	3 644 507
Landfill site	209 275	288 886	498 161
Bonus provision	1 437 100	1 567 192	3 004 292
	4 571 168	**2 575 792**	**7 146 960**

12. Revenue

	2013	2012
Sewerage services	1 953 816	1 773 244
Property rates	8 499 807	3 712 661
Service charges	698 574	498 454
Water services	1 732 461	627 690
Rental of facilities & equipment	876 396	647 405
Fines	397 911	250 712
Licences and permits	1 519 915	1 320 384
Government grants & subsidies	175 528 542	138 419 640
Interest earned - outstanding debtors	2 236 369	372 557
Interest earned - external investments	368 331	859 576
Other income	9 674 712	5 737 584
Gains on disposals of assets	4 098	1 579
	203 490 932	**154 221 486**

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

	2013	2012
Sewerage services	1 953 816	1 773 244
Service charges	698 574	498 454
Water services	1 732 461	627 690
Rental of facilities & equipment	876 396	647 405
Licences and permits	1 519 915	1 320 384
	6 781 162	**4 867 177**

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

	2013	2012
Taxation revenue		
Property rates	8 499 807	3 712 661
Fines	397 911	250 712
Transfer revenue		
Grants and Subsidies Received	175 528 542	138 419 640
Interest earned - outstanding receivables	2 236 369	372 557
Interest earned - external investments	368 331	859 576
	187 030 960	**143 615 146**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Service charges

Water	137 070	16 976
Sewerage and sanitation charges	73 333	28 701
Refuse removal	488 171	452 777
	698 574	**498 454**

14. Other income

Cemetry	14 154	9 124
Miscellaneous Income	39 208	-
Plan approval fees	56 018	35 906
Pound Fees	138 119	96 179
Pound Auction Charges	87 333	37 192
Toilet fees	-	57 909
Sports field	6 991	526
Tender receipts	81 894	71 264
Business Licences	825	-
Pound auction fees	135 328	-
Charges - WSP	700 000	-
Funds received from CHDM	165 485	5 217 373
Vending and hawkers	-	107
VAT refund revenue	-	48 927
Rent of facilities and equipment	12 128	26 613
Administration fees	-	400
Refunds - telephone	-	31 663
Refunds - medical aid	-	24 451
Cell C - poles	26 790	79 950
	1 464 273	**5 737 584**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Government grants and subsidies

Equitable share	88 676 000	78 404 000
FMG	1 500 000	1 500 000
MIG	31 461 000	25 935 000
INEP	19 111 770	-
MSIG	800 000	790 000
LG Seta	452 715	86 050
NHC	-	85 000
Other grants	6 857 570	-
CHDM Water and Sanitation grant	25 669 487	31 619 590
EPWP	1 000 000	-
	175 528 542	**138 419 640**

Equitable Share

Current-year receipts	88 676 000	78 414 940
No conditions as per DORA	(88 676 000)	(78 414 940)
	-	-

MIG Grant

Current-year receipts	31 461 000	25 935 000
Conditions met - transferred to revenue	(31 461 000)	(25 935 000)
	-	-

MSIG Grant

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

FMG Grant

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

INEP

Current-year receipts	25 000 000	-
Conditions met - transferred to revenue	(19 111 770)	-
Unspent conditional grant	(5 888 230)	-
	-	-

Conditions still to be met - remain liabilities .

The INEP grant is still to be used for electrification of Cofimvaba community. The municipality has committed to some electrification projects for which the balance will be utilized.

LG Seta

Current-year receipts	452 715	86 050
Conditions met - transferred to revenue	(452 715)	(86 050)
	-	-

Figures in Rand	2013	2012

15. Government grants and subsidies (continued)

NHC

Current-year receipts	-	85 000
Conditions met - transferred to revenue	-	(85 000)
	-	-

CHDM Water and Sanitation

Current-year receipts	25 669 487	31 619 590
Conditions met - transferred to revenue	(25 669 487)	(31 619 590)
	-	-

Conditions still to be met - remain liabilities

Unspect grant reconciliation

The unspect grant is made up of;	-	-

Other Grant

Current-year receipts	6 857 570	-
Conditions met - transferred to revenue	(6 857 570)	-
	-	-

16. Property rates

Rates received

Property rates	8 499 807	3 712 661

The property rates are charged and collected on a monthly and annual basis.
In the current year the Municipality implemented the Supplementary Valuation Roll which resulted in significant increased billing.

Figures in Rand	2013	2012

17. Employee related costs

Employee related costs - Salaries and Wages	51 906 188	41 830 671
Performance and other Bonuses	3 513 157	3 798 318
Employee related costs - Contributions for UIF, Pensions and Medical aids	2 176 580	2 351 855
WCA	141 008	-
Other payroll levies	12 013	6 660
Leave pay provision charge	247 877	1 098 223
Post-employment benefits - Pension - Defined contribution plan	4 724 398	4 980 266
Travel, motor car, accommodation, subsistence and other allowances	1 318 459	1 246 987
Overtime payments	1 239 513	1 539 941
Acting allowances	2 798 763	1 481 626
Car allowance	3 337 847	2 185 739
Housing benefits and allowances	128 805	126 068
Night shift allowance	1 290 795	920 299
Cell phone allowance	467 491	516 386
	73 302 894	**62 083 039**

The amounts disclosed below are included in the totals for employee related costs above.

Remuneration of municipal manager - Mr Z Shasha

Annual Remuneration	589 815	516 251
Performance Bonuses	-	52 168
Company contributions to UIF, Medical and Pension Funds	15 717	-
Travel,motor car, accommodation, subsistence and other allowances	438 601	203 600
Backpay, Leave pay and refund	100 891	-
	1 145 024	**772 019**

Remuneration of Chief Finance Officer - Mr M Dyushu

Annual Remuneration	521 813	459 042
Performance Bonuses	-	67 089
Company Contributions to UIF, Medical and Pension Funds	25 026	-
Travel,motor car, accommodation, subsistence and other allowances	448 820	211 858
Back-pay, leave and refund	57 862	-
	1 053 521	**737 989**

Remuneration of Community Services Director - Ms Y Mniki

Annual Remuneration	521 813	459 042
Performance Bonus	-	46 962
Company contributions to UIF, Medical and Pension Funds	1 497	-
Travel,accommodation, subsistence and other allowances	385 027	182 432
Back-pay, leave and refund	70 762	-
	979 099	**688 436**

Remuneration of Corporate Service Director - Ms N Mahlati

Annual Remuneration	521 813	459 042
Performance Bonuses	-	46 962
Company contributions to UIF, Medical and Pension Funds	16 358	-
Travel, accommodation, subsistence and other allowances	403 640	182 432
Back-pay, leave and refund	74 299	-
	1 016 110	**688 436**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

17. Employee related costs (continued)

Remuneration of Technical Service Director - Mr S Koyo

Annual Remuneration	521 813	459 042
Performance Bonuses	-	46 962
Travel,accommodation, subsistence and other allowances	440 391	182 432
Company contributions to UIF, Medical and Pension Funds	19 029	-
Back-pay, leave and refund	87 135	-
	1 068 368	**688 436**

Remuneration for Local Economic Development Director - Mr K Maceba

Annual Remuneration	521 813	459 042
Performance Bonuses	-	46 962
Travel, accommodation, subsistence and other allowances	412 878	223 040
Back-pay, leave and refund	41 559	-
Company contributions to UIF, Medical and Pension Funds	18 561	-
	994 811	**729 044**

18. Remuneration of councillors

Heading		
Annual Remuneration	8 286 960	4 685 097
Travel and other allowances	2 361 852	3 871 177
Pension fund contributions	-	38 722
	10 648 812	**8 594 996**

Salaries	4 685 097	6 192 002
Travel and other allowances	3 871 177	4 659 414
Pension fund contributions	38 722	25 951
	8 594 996	**10 877 367**

19. Finance costs

Current borrowings	109 008	525 035
Other interest paid	5 562	-
	114 570	**525 035**

20. Debt impairment

Debt impairment	-	110 378
Debts impaired	2 188 477	1 627 933
	2 188 477	**1 738 311**

There was no debt impairment on in the current year

21. Bulk purchases

Electricity	1 121 816	1 747 139
Water	-	1 123 399
	1 121 816	**2 870 538**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

22. Contracted services

Red Guard Security	224 237	430 490

23. General expenses

Advertising	661 139	1 295 957
Auditors remuneration	5 977 502	1 938 774
Bank charges	268 768	293 104
Cleaning	118 355	141 208
Computer expenses	1 493 633	1 009 983
Consulting and professional fees	2 528 743	5 211 618
Legal expenses	1 104 362	958 375
Conferences and delegations	932 764	1 391 491
Entertainment	248 760	1 272 078
Free electricity	137 395	36 408
Economic development	1 479 322	308 415
Insurance	649 042	394 580
Lease rentals on operating lease	388 505	954 333
Levies	-	76 039
Subscription and publication	135 391	121 651
Motor vehicle expenses	5 189 650	3 646 459
Transfer of assets to Engcobo	-	33 725 196
Postage and courier	(80 732)	1 242
Printing and stationery	589 165	1 260 880
Protective clothing	108	510 863
Staff welfare	287 678	113 295
Telephone and fax	691 418	1 963 217
Training	1 701 267	1 489 950
Travel - local	2 299 504	3 819 735
Uniforms and overalls	212 675	419 640
Membership fees	466 436	339 813
Other rentals	1 299 866	1 510 936
Stocks and material	1 155 071	2 564 963
Admin Mayor's office	2 443 707	2 444 521
Project maintenance costs	6 118 090	7 193 479
Licences	139 048	319 820
Skills development levy	838 272	472 788
Other expenses	4 753 637	1 412 161
	44 228 541	**78 612 972**

24. Auditors' remuneration

Fees	5 977 502	1 938 774
Adjustment for previous year	(2 416 810)	478 036
	3 560 692	**2 416 810**

Figures in Rand	2013	2012

25. Cash generated from operations

Surplus (deficit)	24 476 853	(43 771 584)
Adjustments for:		
Depreciation and amortisation	32 590 944	36 542 078
Loss on sale of assets and liabilities	(4 098)	(1 579)
Debt impairment	2 188 477	1 738 311
Movements in provisions	(3 374 352)	(1 068 715)
Other non-cash items	33 608	36 127 550
Stale cheque from prior period	-	1 704 150
Changes in working capital:		
Inventories	120 973	(212 049)
Other receivables from non-exchange transactions	(7 361 738)	969 627
Consumer debtors	(2 937 112)	(2 937 112)
Payables from exchange transactions	(1 606 117)	7 170 568
VAT	2 645 774	1 672 685
Unspent conditional grants and receipts	5 888 230	-
	52 661 442	**37 933 930**

26. Related parties

Relationships

Councilor - Mr. WN Mdwayingana	S. Mdwayingana, son to Councillor WM Mdwayingana works as a Traffic warden.
Councillor NF Dangazele	M Dangazele, son to Councillor NF Dangazele is an intern LED.
Councilor - M Gulubele	V Gulubele, a wife to Councillor works as a general worker
Councillor S Mkhunyana	L Mkhunyana: Student (ICT) - is a sister to Councillor Mkhunyana.
Councillor N Somdyala	N Somdyala: Public Participation Officer- a sister to Councillor Somdyala.
Councillor S Myataza	B Myataza, Student (finance)-daughter and O Myataza Student (ICT) - son to the councillor.
Mr Z. Shasha - Municipal Manager	The following personnel are related to the Municipal Manager: 1. Mr M. Shasha - Councilor- brother 2. Mrs Shasha: Store controller - brother's wife
Mr Koyo	Mr L. Koyo is related to Mr Koyo
Cllr Rhotyi	Mr Z. Rhotyi is a son to Cllr Rhotyi
Cllr Vimbayo	Ms N Vimbayo who works for the Municipality is a sister to Councillor Vimbayo.
Mrs N Mahlati-Nkuhlu - Corporate Service Manager	Mr S Mahlati a son to Mrs Nkuhlu works as a plumber within the Municipality

Related party transactions

There were no related party transactions which took place in the current year.

Compensation to accounting officer and other key management

Post-employment benefits - Pension - Defined contribution plan	2 537 258	1 416 417

27. Irregular expenditure

Add: Irregular Expenditure - current year	4 364 287	4 448 708
Less: Amounts condoned	(4 364 287)	(4 448 708)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

27. Irregular expenditure (continued)

Details of irregular expenditure condoned

Condoned by council (19 June 2013)	4 364 287	4 448 708

Details of irregular expenditure – current year

Refer to Appendix (A) for the details of the	4 364 287
irregular expenditure	-
	4 364 287

28. Fruitless and wasteful expenditure

Interest paid on late submission of PAYE/UIF/SDL	74 990	620 333

29. Deviation from supply chain management regulations

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

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

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

30. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure	17 749 619	10 353 732
Approved but not yet contracted for		
• Infrastructure	-	-

- **This expenditure will be financed from:**

External Loans	NIL
Government Grants	R 5,888,,230
Own resources	R 11,240,158
District Council Grants	R 621,231

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	40 299	-

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	260 279	-
- within 2 to 5 years inclusive	1 537	-
	261 816	**-**

Operating Leases consists of the following:

Certain of the municipality's land and building are held to generate rental income. Lease agreements are non-cancellable and have terms of 5 years.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

31. Contingencies

Contingent Liability

Estimation of legal fees for court cases	883 103	-

The contingent liability relates to the legal fees for the following cases;

- Tax matters - IYM/Sello Motupi and 15 others
- Land issues - IYM vs Residents
- Collection matters - IYM vs Gqiba Land Surveyors and Bhubhesi Concrete CC
- Money owing - IYM vs Vincemus Investments and Vulindlela Mbhotoli
- Damages - IYM vs Ntombizakhe Seyisi
- Legal Opinion - IYM vs B.BG Buyaphi
- Review of judgement - IYM vs Mathemba Mbotho

The Municipality is being sued by the different residents of Cofimvaba for land related issues. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from Equitable share.

32. Risk management

Financial risk management

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

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

Liquidity risk

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

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

The information below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Later than one month and not later than one year (2013: R468,582) and later than one year and not later than twenty years (2013: R8,872,959)

Later than one month and not later than one year (2012: R367 233) and Later than one year and not later than twenty years (2012: R8,781,383)

32. Risk management (continued)

Interest rate risk

Financial assets and liabilities that are sensitive to interest rate risk are cash and cash equivalents, non-current investments and loan payables.

The Municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for cash and cash equivalents and non-current investments as the interest rate on loan payables are fixed.

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

Credit risk

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

Credit risk arises mainly from cash and cash equivalents, instruments and deposits with banks and financial institutions, as well as credit exposures to consumer debtors.

Debtors are disclosed net after provisions are made for impairment and bad debts. Debtors comprise of a large number of consumers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these receivalbes. Credit risk pertaining to debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer receivables the Municipality effectively has the right to terminate services to customers, but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

At year end, financial instruments exposed to interest rate risk were as follows:

Financial instrument	2013	2012
Call deposits	759 243	1 357 420
Development Bank of South Africa	8 872 595	8 781 383

Foreign exchange risk

The Municipality does not engage in foreign currency transactions.

Price risk

The Municipality is not exposed to price risk.

33. 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.

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	258 671	76 039
Amount paid - current year	(258 671)	(76 039)
	-	-

Figures in Rand	2013	2012

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

PAYE and UIF

Current year subscription / fee	9 136 030	-
Amount paid - current year	(9 136 030)	-
	-	**-**

The balance represents PAYE and UIF deducted from the June 2013 and June 2012 payroll. These amounts were paid during July 2013 and July 2012 respectively.

Pension and Medical Aid Deductions

Current year subscription / fee	5 545 930	2 883 873
Amount paid - current year	(5 545 930)	-
	-	**2 883 873**

VAT

VAT receivable	722 959	3 435 802

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

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

35. Changes in accounting policy

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

The accoutning policies have been consistently applied, except as indicated below.

The municipality changes an accounting policy only if the change:
a) is required by a Standard of GRAP; or
b) results in the financial statements providing reliable and more relevant information about the effects of transactions other events or conditions on the performance or cash flow.

IIn addition, GRAP 3 (paragraph 21) states that a change in accounting policy is adjusted for retrospectively or if it is an initial application of a standard in terms of the transitional provisions in Directive 4.

The municipality has been applying the requirements of the following GRAP statements in terms of the transitional provisions in Directive 4:

GRAP 16	Investment Properties
GRAP 21	Impairment of Non-Cash generating assets
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget information in financial statement.
GRAP 104	Financial instruments

There were no adjustments made to amounts previously reported in the annual financial statements of the municipality arising from the recognition of items as required for the disclosure of GRAP compliant annual financial statements as they were applying the policies before.

Events after the reporting date

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

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

35. Changes in accounting policy (continued)

In-Kind donations and assistance

In order to conform with National Treasury under the CFO Support programme has seconded a MFMA advisor to assist with compliance and reporting matters..

Private Public Partnerships

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

36. Depreciation and amortisation

Property, plant and equipment	32 590 944	36 542 078

37. Reconsciliation of budget and statement of financial performance- refer to the next page

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