

SAKHISIZWE

MUNICIPALITY



FINANCIAL STATEMENTS

30 JUNE 2013

SAKHISIZWE LOCAL MUNICIPALITY

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SAKHISIZWE LOCAL MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

GENERAL INFORMATION

NATURE OF BUSINESS

SAKHISIZWE Municipality is a grade 1 local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

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)

JURISDICTION

The SAKHISIZWE Municipality includes the following areas:

*Elliot
Cala*

MUNICIPAL MANAGER

Mr T Samuel

CHIEF FINANCIAL OFFICER

Mr P Steyn

REGISTERED OFFICE

Erf 458, Umthatha Road, Cala, 5460

AUDITORS

Office of the Auditor General (EC)

PRINCIPLE BANKERS

First National Bank, Elliot

RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Municipal Planning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)
Supply Chain Management Regulations, 2005
Collective Agreements
Infrastructure Grants
SALBC Leave Regulations

SAKHISIZWE LOCAL MUNICIPALITY

MEMBERS OF THE SAKHISIZWE LOCAL MUNICIPALITY

COUNCILLORS

Clr M. S. Jentile	Mayor / Exco member
Clr N. P. Mananga	Speaker
Clr M. Mxhonywa	Exco member
Clr S. P. Ntakana	Exco member
Clr N. Stofile	Exco member
Clr S. Bavuma	PR (COPE)
Clr Z. D. Dyonase	PR (APC)
Clr M. J. Andrews	PR (DA)
Clr S. Suka	African National Congress
Clr T. T. Doda	African National Congress
Clr T. Hoza	African National Congress
Clr B. E. Ponoshe	African National Congress
Clr Z. A. Mose	African National Congress
Clr T. Jamjam	African National Congress
Clr N. M. Mahlombe	African National Congress
Clr N. F. Ngondo	African National Congress
Clr M. M. Tshona	African National Congress
Chief S. Z. Stokwe	EmaQwatini Traditional Council
S/Headman Z. H. Gungqa	EMaQwatini Traditional Council
S/Headman M. W. Maawu	IQolombeni Traditional Council

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements year ended 30 June 2013, which are set out on pages 1 to 72 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 am 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.

T. Samuel
Municipal Manager

30 August 2013
Date

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013

	Notes	2013 R (Actual)	2012 R (Restated)
NET ASSETS AND LIABILITIES			
Net Assets		133 330 759	124 082 304
Accumulated Surplus		133 330 759	124 082 304
Non-Current Liabilities		8 132 203	10 729 418
Long-term Liabilities	3	3 549 861	6 038 197
Employee benefits	4	2 259 142	2 368 021
Non-Current Provisions	5	2 323 200	2 323 200
Current Liabilities		15 855 601	17 290 370
Consumer Deposits	6	358 823	344 469
Current Employee benefits	7	391 406	247 280
Provisions	8	1 443 400	-
Payables from exchange transactions	9	6 845 138	6 117 988
Unspent Conditional Government Grants and Receipts	10	2 971 703	8 377 946
Unspent Public Contributions	11	-	-
Taxes	12.1	1 356 793	-
Operating Lease Liability	24.1	-	-
Cash and Cash Equivalents	25	-	-
Current Portion of Long-term Liabilities	3	2 488 338	2 202 687
Total Net Assets and Liabilities		157 318 563	152 102 092
ASSETS			
Non-Current Assets		134 459 807	129 273 476
Property, Plant and Equipment	13	99 870 133	94 494 440
Investment Property	14	34 589 674	34 779 036
Intangible Assets	15	-	-
Heritage Assets	16	-	-
Capitalised Restoration Costs	17	-	-
Non-Current Investments	18	-	-
Biological Assets	19	-	-
Long-Term Receivables	20	-	-
Current Assets		22 858 756	22 828 616
Inventory	21	76 101	21 749
Receivables from exchange transactions	22	5 639 525	3 373 805
Receivables from non-exchange transactions	23	4 146 280	3 451 511
Unpaid Conditional Government Grants and Receipts	10	-	-
Operating Lease Asset	24.2	-	-
Taxes	12	-	4 238 270
Current Portion of Long-term Receivables	20	-	-
Cash and Cash Equivalents	25	12 996 850	11 743 281
Total Assets		157 318 563	152 102 092

SAKHISIZWE LOCAL MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

	Notes	2013 (Actual) R	2012 (Restated) R
REVENUE			
Revenue from Non-exchange Transactions		63 328 286	53 199 288
Taxation Revenue		3 683 699	2 867 068
Property taxes	26	3 683 699	2 867 068
Transfer Revenue		59 644 587	50 332 220
Government Grants and Subsidies - Capital	27	26 617 587	17 244 220
Government Grants and Subsidies - Operating	27	33 027 000	33 088 000
Public Contributions and Donations		-	-
Other Revenue		-	-
Actuarial Gains	4	-	-
Third Party Payments		-	-
Fines		-	-
Revenue from Exchange Transactions		27 339 213	28 693 467
Service Charges	28	11 934 152	9 832 604
Rental of Facilities and Equipment		-	-
Interest Earned - external investments		530 330	661 566
Interest Earned - outstanding debtors		4 238 688	4 242 775
Licences and Permits		-	-
Agency Services		-	-
Other Income	29	10 636 043	13 956 522
Gain on disposal of Property, Plant and Equipment		-	-
Total Revenue		90 667 499	81 892 755
EXPENDITURE			
Employee related costs	31	32 183 919	27 716 623
Remuneration of Councillors	32	4 893 102	4 459 214
Debt Impairment	33	6 804 411	5 739 832
Depreciation and Amortisation	34	9 450 626	9 103 618
Impairments	35	-	-
Repairs and Maintenance		2 084 173	2 581 768
Actuarial losses	4	127 908	-
Finance Charges	36	1 161 033	1 393 637
Bulk Purchases	37	6 038 685	7 090 874
Contracted services		-	-
Grants and Subsidies	38	2 959 222	3 032 380
Stock Adjustments		-	-
Operating Grant Expenditure	39	-	-
General Expenses	40	15 974 281	15 454 513
Loss on disposal of Property, Plant and Equipment		-	12 743
Fair Value Adjustments	30	-	-
Total Expenditure		81 677 360	76 585 202
NET SURPLUS/(DEFICIT) FOR THE YEAR		8 990 139	5 307 553

SAKHISIZWE LOCAL MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2013

	Accumulated Surplus/ (Deficit)	Total
Note	R	R
Balance at 1 JULY 2011: as previously reported	120 206 706	120 206 706
Adjustments:		
Change in accounting policy		-
Correction of prior period errors	(1 431 955)	(1 431 955)
Restated Balance at 1 JULY 2011	118 774 751	118 774 751
Net Surplus for the year	5 307 553	5 307 553
Balance at 30 JUNE 2012	124 082 304	124 082 304
VAT prior year adjustment	(2 239 645)	(2 239 645)
Chris Hani prior year debtor adjustment	2 497 961	2 497 961
Net Surplus for the year	8 990 139	8 990 139
Balance at 30 JUNE 2013	133 330 759	133 330 759

SAKHISIZWE LOCAL MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

	Notes	30 JUNE 2013 R	30 JUNE 2012 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts		87 638 170	85 953 728
Ratepayers and other		18 947 194	12 583 231
Government		54 238 344	54 254 512
Interest		4 238 688	4 242 775
Other receipts		9 955 628	14 873 210
Prior year adjustments		258 316	-
Payments		(69 123 149)	(65 248 617)
Employee costs		(37 250 667)	(31 289 366)
Suppliers costs		(15 092 590)	(14 132 905)
Finance charges	36	(208 893)	(147 994)
Other payments		(16 570 999)	(18 246 397)
Prior year adjustments		-	(1 431 955)
Cash generated by operations	44	18 515 021	20 705 111
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	13	(14 636 957)	(16 188 796)
Purchase of Investment property			-
Proceeds on Disposal of Fixed Assets			-
Purchase of Intangible Assets			-
Increase in Long-term Receivables	20		-
Decrease/(Increase) in Non-current Investments	18		-
Net Cash from Investing Activities		(14 636 957)	(16 188 796)
CASH FLOW FROM FINANCING ACTIVITIES			
Loans repaid			
Finance lease payments		(2 202 685)	(2 156 295)
Interest income		530 330	661 566
Finance costs		(952 140)	(1 245 643)
New loans raised			
Increase in Consumer Deposits			
Net Cash from Financing Activities		(2 624 495)	(2 740 372)
NET INCREASE IN CASH AND CASH EQUIVALENTS		1 253 569	1 775 943
Cash and Cash Equivalents at the beginning of the year		11 743 281	9 967 338
Cash and Cash Equivalents at the end of the year	45	12 996 850	11 743 281
NET INCREASE IN CASH AND CASH EQUIVALENTS		1 253 569	1 775 943

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013
COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
ASSETS				
Current assets				
Cash		-	-	
Call investment deposits	12 996 850	5 270 000	7 726 850	
Consumer debtors		2 588 000	(2 588 000)	
Other Receivables		-	-	
Current portion of long-term receivables		1 796 000	(1 796 000)	
Inventory		-	-	
Total current assets	<u>12 996 850</u>	<u>9 654 000</u>	<u>3 342 850</u>	
Non current assets				
Long-term receivables	9 785 805	-	9 785 805	
Investments		-	-	
Investment property	34 589 674	-	34 589 674	
Property, plant and equipment	99 870 133	101 438 000	(1 567 867)	
Biological Assets		-	-	
Intangible Assets		-	-	
Heritage Assets		-	-	
Total non current assets	<u>144 245 612</u>	<u>101 438 000</u>	<u>42 807 612</u>	
TOTAL ASSETS	<u><u>157 242 462</u></u>	<u><u>111 092 000</u></u>	<u><u>46 150 462</u></u>	
LIABILITIES				
Current liabilities				
Bank overdraft		-	-	
Borrowing	3 549 861	8 000 000	(4 450 139)	
Consumer deposits	358 823	341 000	17 823	
Trade and other payables	11 173 634	10 423 000	750 634	
Provisions and Employee Benefits	2 714 606	1 001 000	1 713 606	
Total current liabilities	<u>17 796 924</u>	<u>19 765 000</u>	<u>(1 968 076)</u>	
Non current liabilities				
Borrowing	2 488 338	-	2 488 338	
Provisions and Employee Benefits	2 259 142	4 231 000	(1 971 858)	
Total non current liabilities	<u>4 747 480</u>	<u>4 231 000</u>	<u>516 480</u>	
TOTAL LIABILITIES	<u><u>22 544 404</u></u>	<u><u>23 996 000</u></u>	<u><u>(1 451 596)</u></u>	
NET ASSETS	<u><u>134 698 058</u></u>	<u><u>87 096 000</u></u>	<u><u>47 602 058</u></u>	
COMMUNITY WEALTH				
Accumulated Surplus/(Deficit)	133 330 759	95 822 000	37 508 759	
Reserves		-	-	
TOTAL COMMUNITY WEALTH/EQUITY	<u><u>133 330 759</u></u>	<u><u>95 822 000</u></u>	<u><u>37 508 759</u></u>	

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2013

ADJUSTMENTS TO APPROVED BUDGET

	2013 R	2013 R	2013 R	
	(Approved Budget)	(Adjustments)	(Final Budget)	Explanations for material adjustments
ASSETS				
Current assets				
Cash	-	-	-	
Call investment deposits	5 270 000	-	5 270 000	
Consumer debtors	2 588 000	-	2 588 000	
Other Receivables	-	-	-	
Current portion of long-term receivables	1 796 000	-	1 796 000	
Inventory	-	-	-	
Total current assets	9 654 000	-	9 654 000	
Non current assets				
Long-term receivables	-	-	-	
Investments	-	-	-	
Investment property	-	-	-	
Property, plant and equipment	101 438 000	-	101 438 000	
Biological Assets	-	-	-	
Intangible Assets	-	-	-	
Heritage Assets	-	-	-	
Total non current assets	101 438 000	-	101 438 000	
TOTAL ASSETS	111 092 000	-	111 092 000	
LIABILITIES				
Current liabilities				
Bank overdraft	-	-	-	
Borrowing	8 000 000	-	8 000 000	
Consumer deposits	341 000	-	341 000	
Trade and other payables	10 423 000	-	10 423 000	
Provisions and Employee Benefits	1 001 000	-	1 001 000	
Total current liabilities	19 765 000	-	19 765 000	
Non current liabilities				
Borrowing	-	-	-	
Provisions and Employee Benefits	4 231 000	-	4 231 000	
Total non current liabilities	4 231 000	-	4 231 000	
TOTAL LIABILITIES	23 996 000	-	23 996 000	
NET ASSETS	87 096 000	-	87 096 000	
COMMUNITY WEALTH				
Accumulated Surplus/(Deficit)	95 822 000	-	95 822 000	
Reserves	-	-	-	
TOTAL COMMUNITY WEALTH/EQUITY	95 822 000	-	95 822 000	

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013
COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
REVENUE BY SOURCE				
Property rates	3 683 699	3 785 000	(101 301)	
Property rates - penalties & collection charges		-	-	
Service charges	11 934 152	14 640 000	(2 705 848)	
Rental of facilities and equipment	-	1 028 000	(1 028 000)	
Interest earned - external investments	530 330	636 000	(105 670)	
Interest earned - outstanding debtors	4 238 688	2 130 000	2 108 688	
Dividends received		-	-	
Fines	-	30 000	(30 000)	
Licences and permits	-	-	-	
Agency services	-	4 071 000	(4 071 000)	
Government Grants and Subsidies - Operating	59 644 587	66 730 000	(7 085 413)	
Other revenue	10 636 043	18 483 000	(7 846 957)	
Gains on disposal of PPE		-	-	
Total Operating Revenue	90 667 499	111 533 000	(20 865 501)	
EXPENDITURE BY TYPE				
Employee related costs	32 183 919	27 468 000	4 715 919	
Remuneration of councillors	4 893 102	5 000 000	(106 898)	
Debt impairment	6 804 411	4 976 000	1 828 411	
Depreciation & asset impairment	9 450 626	4 604 000	4 846 626	
Finance charges	1 161 033	1 178 000	(16 967)	
Bulk purchases	6 038 685	8 900 000	(2 861 315)	
Other materials	2 084 173	6 354 000	(4 269 827)	
Contracted services	-	255 000	(255 000)	
Grants and subsidies paid	2 959 222	3 501 000	(541 778)	
Other expenditure	15 974 281	23 996 000	(8 021 719)	
Loss on disposal of PPE		-	-	
Total Operating Expenditure	81 549 452	86 232 000	(4 682 548)	
Operating Surplus for the year	9 118 047	25 301 000	(16 182 953)	
Government Grants and Subsidies - Capital	-	-	-	
Net Surplus for the year	9 118 047	25 301 000	(16 182 953)	

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013

ADJUSTMENTS TO APPROVED BUDGET

	2013 R (Approved Budget)	2013 R (Adjustments)	2013 R (Final Budget)	Reasons for material adjustments
REVENUE BY SOURCE				
Property rates	3 785 000	-	3 785 000	
Property rates - penalties & collection charges	-	-	-	
Service charges	14 580 000	60 000	14 640 000	
Rental of facilities and equipment	1 009 000	19 000	1 028 000	
Interest earned - external investments	630 000	6 000	636 000	
Interest earned - outstanding debtors	2 130 000	-	2 130 000	
Dividends received	-	-	-	
Fines	60 000	(30 000)	30 000	
Licences and permits	-	-	-	
Agency services	3 982 000	89 000	4 071 000	
Government Grants and Subsidies - Operating	62 541 000	4 189 000	66 730 000	
Other revenue	19 163 000	(680 000)	18 483 000	
Gains on disposal of PPE	-	-	-	
Total Operating Revenue	107 880 000	3 653 000	111 533 000	
EXPENDITURE BY TYPE				
Employee related costs	26 796 000	672 000	27 468 000	
Remuneration of councillors	4 780 000	220 000	5 000 000	
Debt impairment	4 976 000	-	4 976 000	
Depreciation & asset impairment	5 098 000	(494 000)	4 604 000	
Finance charges	1 168 000	10 000	1 178 000	
Bulk purchases	8 900 000	-	8 900 000	
Other materials	5 974 000	380 000	6 354 000	
Contracted services	319 000	(64 000)	255 000	
Grants and subsidies paid	3 892 000	(391 000)	3 501 000	
Other expenditure	25 907 000	(1 911 000)	23 996 000	
Loss on disposal of PPE	-	-	-	
Total Operating Expenditure	87 810 000	-1 578 000	86 232 000	
Operating Surplus for the year	20 070 000	5 231 000	25 301 000	
Government Grants and Subsidies - Capital	-	-	-	
Net Surplus for the year	20 070 000	5 231 000	25 301 000	

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	18 947 194	9 557 000	9 390 194	
Government - operating	54 238 344	66 730 000	(12 491 656)	
Government - capital		-	-	
Interest	4 238 688	7 344 000	(3 105 312)	
Dividends		-	-	
Other Receipts	10 213 944		10 213 944	
Payments				
Suppliers and Employees	(52 343 257)	(25 652 000)	(26 691 257)	
Finance charges	(208 893)	(10 659 000)	10 450 107	
Transfers and Grants	(16 570 999)	(27 455 000)	10 884 001	
NET CASH FROM/(USED) OPERATING ACTIVITIES	18 515 021	19 865 000	(1 349 979)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of Assets		-	-	
Decrease/(increase) in non-current receivables		-	-	
Decrease/(increase) in non-current investments		-	-	
Payments				
Capital assets	(14 636 957)	(18 442 000)	3 805 043	
NET CASH FROM/(USED) INVESTING ACTIVITIES	-14 636 957	(18 442 000)	3 805 043	
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Borrowing	530 330	-	530 330	
Increase/(decrease) in consumer deposits		(1 343 000)	1 343 000	
Payments				
Repayment of borrowing	(3 154 825)	10 856 000	-	
NET CASH FROM/(USED) FINANCING ACTIVITIES	-2 624 495	9 513 000	1 873 330	
NET INCREASE/(DECREASE) IN CASH HELD	1 253 569	10 936 000	4 328 394	
Cash and Cash Equivalents at the beginning of the year	11 743 281	(1 253 000)	12 996 281	
Cash and Cash Equivalents at the end of the year	12 996 850	9 683 000	3 313 850	

SAKHISIZWE LOCAL MUNICIPALITY
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2013

ADJUSTMENTS TO APPROVED BUDGET

	2013 R (Approved Budget)	2013 R (Adjustments)	2013 R (Final Budget)	Reasons for material adjustments
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Ratepayers and other	9 557 000	-	9 557 000	
Government - operating	62 541 000	4 189 000	66 730 000	
Government - capital	-	-	-	
Interest	7 344 000	-	7 344 000	
Dividends	-	-	-	
Payments				
Suppliers and Employees	(25 652 000)	-	(25 652 000)	
Finance charges	(10 659 000)	-	(10 659 000)	
Transfers and Grants	(27 455 000)	-	(27 455 000)	
NET CASH FROM/(USED) OPERATING ACTIVITIES	15 676 000	4 189 000	19 865 000	
CASH FLOWS FROM INVESTING ACTIVITIES				
Receipts				
Proceeds on disposal of Assets	-	-	-	
Decrease/(increase) in non-current receivables	-	-	-	
Decrease/(increase) in non-current investments	-	-	-	
Payments				
Capital assets	(18 442 000)	-	(18 442 000)	
NET CASH FROM/(USED) INVESTING ACTIVITIES	(18 442 000)	-	(18 442 000)	
CASH FLOWS FROM FINANCING ACTIVITIES				
Receipts				
Borrowing	-	-	-	
Increase/(decrease) in consumer deposits	(1 343 000)	-	(1 343 000)	
Payments				
Repayment of borrowing	10 856 000	-	10 856 000	
NET CASH FROM/(USED) FINANCING ACTIVITIES	9 513 000	-	9 513 000	
NET INCREASE/(DECREASE) IN CASH HELD	6 747 000	4 189 000	10 936 000	
Cash and Cash Equivalents at the beginning of the year	(1 253 000)	-	(1 253 000)	
Cash and Cash Equivalents at the end of the year	5 494 000	4 189 000	9 683 000	

SAKHISIZWE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

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

The financial statements have been prepared in accordance with the Municipal Finance Management Act (MFMA) and 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).

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework, have been developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 (Revised – March 2012) and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

Standard	Description	Effective Date
GRAP 1 (Revised – Mar 2012)	Presentation of Financial Statements	1 April 2013
GRAP 3 (Revised – Mar 2012)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2013
GRAP 9 (Revised – Mar 2012)	Revenue from Exchange Transactions	1 April 2013
GRAP 12 (Revised – Mar 2012)	Inventories	1 April 2013
GRAP 13 (Revised – Mar 2012)	Leases	1 April 2013
GRAP 16 (Revised – Mar 2012)	Investment Property	1 April 2013
GRAP 17 (Revised – Mar 2012)	Property, Plant and Equipment	1 April 2013
GRAP 25 (Original – Nov 2009)	Employee Benefits	1 April 2013
GRAP 27 (Revised – Mar 2012)	Agriculture	1 April 2013
GRAP 31 (Revised – Mar 2012)	Intangible Assets	1 April 2013
IGRAP 16 (Issued – Mar 2012)	Intangible Assets – Website Costs	1 April 2013

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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 otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the 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 have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include errors.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The comparison of budget and actual amounts are disclosed as separate additional financial statements, namely Statements of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2012 to 30 June 2013. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24. No amendments or disclosure requirements in terms of GRAP 3 (Revised – March 2012) has been made.

1.8. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 6 (Revised – Nov 2010)	Consolidated and Separate Financial Statements The objective of this Standard is to prescribe the circumstances in which consolidated and separate financial statements are to be prepared and the information to be included in those financial statements so that the consolidated financial statements reflect the financial performance, financial position and cash flows of an economic entity as a single entity. No significant impact is expected as the Municipality does not have any entities at this stage to be consolidated.	Unknown

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Standard	Description	Effective Date
GRAP 7 (Revised – Mar 2012)	<p>Investments in Associate</p> <p>This Standard prescribes the accounting treatment for investments in associates where the investment in the associate leads to the holding of an ownership interest in the form of a shareholding or other form of interest in the net assets.</p> <p>No significant impact is expected as the Municipality does have any interest in associates.</p>	1 April 2013
GRAP 8 (Revised – Nov 2010)	<p>Interest in Joint Ventures</p> <p>The objective of this Standard is to prescribe the accounting treatment of jointly controlled operations, jointly controlled assets and jointly controlled entities and to provide alternatives for the recognition of interests in jointly controlled entities.</p> <p>No significant impact is expected as the Municipality is not involved in any joint ventures.</p>	Unknown
GRAP 18 (Original – Feb 2011)	<p>Segment Reporting</p> <p>The objective of this Standard is to establish principles for reporting financial information by segments.</p> <p>No significant impact is expected as information to a large extent is already included in the appendices to the financial statements which do not form part of the audited financial statements.</p>	Unknown
GRAP 20 (Original – June 2011)	<p>Related Party Disclosure</p> <p>The objective of this Standard is to ensure that a Municipality's financial statements contains the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.</p> <p>The Municipality resolved to adopt the disclosure requirements as per GRAP 20. The information is therefore included in the financial statements.</p>	Unknown

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

<p>GRAP 105 (Original – Nov 2010)</p>	<p>Transfer of Functions Between Entities Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>Standard</p>	<p>Description</p>	<p>Effective Date</p>
<p>GRAP 106 (Original – Nov 2010)</p>	<p>Transfer of Functions Between Entities Not Under Common Control</p> <p>The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>GRAP 107 (Original – Nov 2010)</p>	<p>Mergers</p> <p>The objective of this Standard is to establish accounting principles for the combined entity and combining entities in a merger.</p> <p>No significant impact expected as no such transactions or events are expected in the foreseeable future.</p>	<p>Unknown</p>
<p>IGRAP 11</p>	<p>Consolidation - Special Purpose Entities (SPE)</p> <p>The objective of this Interpretation of the Standard is to prescribe under what circumstances an entity should consolidate a SPE.</p> <p>No significant impact is expected as the Municipality does not have any SPE's at this stage.</p>	<p>Unknown</p>
<p>IGRAP 12</p>	<p>Jointly Controlled Entities non-monetary contributions</p> <p>The objective of this Interpretation of the Standard is to prescribe the treatment of profit/loss when an asset is sold or contributed by the venturer to a Jointly Controlled Entity (JCE).</p> <p>No significant impact is expected as the Municipality</p>	<p>Unknown</p>

SAKHISIZWE MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

	does not have any JCE's at this stage.	
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These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.9. LEASES

1.9.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9.2 Municipality as Lessor

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

1.10. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.11. PROVISIONS

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. 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.

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

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.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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- (a) The Municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
 - the principal locations affected;
 - the location, function and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented.
- (b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

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 is de-recognised.

1.12. EMPLOYEE BENEFITS

Defined contribution plans are post-employment benefit plans under which the Municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

1.12.1 Post Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.12.2 Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.12.3 Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

1.12.4 Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

1.12.5 Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

employment contract stipulations as well as previous performance bonus payment trends.

1.13. PROPERTY, PLANT AND EQUIPMENT

1.13.1 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. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost or fair value of the item can be measured reliably. 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, plant 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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is 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.

1.13.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated 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 or service potential associated with the asset.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.13.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Roads and paving	25 - 50	Buildings	30
Pedestrian Malls	30	Plant and machinery	5 – 10
Electricity	15 – 50	Motor vehicles	5
		IT Equipment	5 - 7
		Office equipment	5 - 7
		Furniture and fittings	5 - 7
<u>Community</u>			
Improvements	30		
Recreational Facilities	20 - 30		
Security	5		
Investment property	30		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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 an impairment is recognised in the Statement of Financial Performance.

1.13.4 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.14. INTANGIBLE ASSETS

1.14.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Municipality intends to do so; or
- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

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 capitalised. 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 Municipality can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

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 is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.14.2 Subsequent Measurement – Cost Model

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

1.14.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

<u>Intangible Assets</u>	Years
Computer Software	5-10

1.14.4 De-recognition

Intangible assets are derecognised when the asset is disposed 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.

1.15. INVESTMENT PROPERTY

1.15.1 Initial Recognition

Investment property is recognised as an asset when, and only when:

- it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Municipality, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and 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. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, 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. The cost of self-constructed investment property is measured at cost.

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.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.15.2 Subsequent Measurement – Cost Model

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

<u>Investment property</u>	<u>Years</u>
Property - land	Indefinite
Property - buildings	30 years

1.15.3 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.16.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information
 - During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Municipality operates or in the market to which an asset is dedicated.
 - Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

- (b) Internal sources of information
 - Evidence is available of obsolescence or physical damage of an asset.
 - Significant changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount

that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.16.2 Non-cash-generating assets

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

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

- (a) External sources of information

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

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- Cessation, or near cessation, of the demand or need for services provided by the asset.
 - Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

(b) Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's 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 is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

- *depreciation replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.
- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset

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before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

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

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

1.17. INVENTORIES

1.17.1 Initial Recognition

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Municipality, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Water inventory is being measured by multiplying the cost per kilo litre of purified water by the amount of water in storage.

Where inventory 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 the item on the date acquired.

1.17.2 Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in

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net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

The basis of allocating cost to inventory items is the first-in-first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.18. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both from exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.18.1 Initial Recognition

Financial instruments are initially recognised when the Municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Municipality, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.18.2 Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.18.2.1 Receivables

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Municipality 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

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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 a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.18.2.2 *Payables and Annuity Loans*

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

1.18.2.3 *Cash and Cash Equivalents*

Cash includes cash on hand (including petty cash) and cash with banks. 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, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

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 carried at amortised cost.

1.18.2.4 *Non-Current Investments*

Investments which include fixed deposits invested in registered commercial banks, are stated 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 Statement of Financial Performance in the period that the impairment is identified.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is recognised in the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

1.18.3 De-recognition of Financial Instruments

1.18.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Municipality has transferred substantially all the risks and rewards of the asset, or (b) the Municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Municipality's continuing involvement is the amount of the transferred asset that the Municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.18.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.18.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously

1.19. REVENUE

1.19.1 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.

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 recognised 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.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. At the time of initial recognition the full amount of revenue is recognised. If the Municipality does not enforce its obligation to collect the revenue, this would be considered as a subsequent event. Collection charges are recognised when such amounts are legally enforceable. Rebates and discounts are offset against the related revenue, in terms of iGRAP 1, as there is no intention of collecting this revenue.

Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

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.

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Revenue is measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a 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 present 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 will be recognised as revenue.

1.19.2 Revenue from Exchange Transactions

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

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

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

At the time of initial recognition the full amount of revenue is recognised where the Municipality has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Municipality does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Service charges relating to electricity and 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. Where the Municipality was unable to take the actual month's reading of certain consumers, a provisional estimate of consumption for that month will be created. . 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.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. It is estimated that pre-paid electricity is consumed within 5 to 7 days after date of purchase.

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. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

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Interest revenue is recognised using the effective interest rate method.

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

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff.

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

Revenue is measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the Municipality 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 Municipality.

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;
- 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.

1.20. RELATED PARTIES

The Municipality resolved to adopt the disclosure requirements as per GRAP 20 – “Related Party Disclosures”.

A related party is a person or an entity:

- with the ability to control or jointly control the other party,
- or exercise significant influence over the other party, or vice versa,

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- or an entity that is subject to common control, or joint control.

The following are regarded as related parties of the Municipality:

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Municipality. A person is considered to be a close member of the family of another person if they:

- (a) are married or live together in a relationship similar to a marriage; or
- (b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Municipality, including:

- (a) all members of the governing body of the Municipality;
- (b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Municipality;
- (c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Municipality; and
- (d) the senior management team of the Municipality, including the chief executive officer or permanent head of the Municipality, unless already included in (a).

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Management personnel include:

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

1.21. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22. 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), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 Municipality. 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 measured with sufficient reliability.

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

Management judgement is required when recognising and measuring contingent liabilities.

1.25. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

1.25.1 *Post retirement medical obligations and Long service awards*

The cost of post retirement medical obligations and long service awards are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Major assumptions used are disclosed in note 4 of the financial statements. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

1.25.2 *Impairment of Receivables*

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.25.3 *Property, Plant and Equipment*

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

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Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.
- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

1.25.4 Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Municipality and other municipalities to determine the useful life of the assets.

1.25.5 Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

1.25.6 Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

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1.25.7 Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.), specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.25.8 Provision for Landfill Sites

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

1.25.9 Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

1.25.10 Provision for Performance bonuses

The provision for performance bonuses represents the best estimate of the obligation at year end and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

1.25.11 Pre-paid electricity estimation

Pre-paid electricity is recognised as income when the electricity is sold.

1.25.12 Componentisation of Infrastructure assets

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1.26. TAXES – 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.

1.27. CAPITAL COMMITMENTS

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.28. 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 financial statements are authorised for issue. Two types of events can be identified:

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

If non-adjusting events after the reporting date are material, the Municipality discloses the nature and an estimate of the financial effect.

	2013 R	2012 R
2		
NET ASSET RESERVES		
Capital Replacement Reserve	-	-
Capitalisation Reserve	-	-
Employee Benefits Reserve	-	-
Government Grant Reserve	-	-
Housing Development Fund	-	-
Non-Current Provisions Reserve	-	-
Public Contributions Reserve	-	-
Revaluations Reserve	-	-
Social Contributions Reserve	-	-
Valuation Roll Reserve	-	-
Total Net Asset Reserves	-	-

	2013 R	2012 R
3		
LONG-TERM LIABILITIES		
Annuity Loans - At amortised cost	-	-
Capitalised Lease Liability - At amortised cost	6 038 199	8 240 884
Hire Purchase	-	-
Stock loans	-	-
	6 038 199	8 240 884
Current Portion transferred to Current Liabilities	2 488 338	2 202 687
Annuity Loans - At amortised cost	-	-
Capitalised Lease Liability - At amortised cost	2 488 338	2 202 687
Hire Purchase	-	-
Stock loans	-	-
	3 549 861	6 038 197
Unamortised charges on loans	-	-
Balance 1 July	-	-
Adjustment for the period	-	-
Total Long-term Liabilities - At amortised cost using the effective interest rate method	3 549 861	6 038 197

The obligations under finance leases are scheduled below:

	Minimum lease payments	
Amounts payable under finance leases:		
Payable within one year	3 125 398	3 155 490
Payable within two to five years	3 845 545	6 970 943
Payable after five years	-	-
	6 970 943	10 126 433
Less: Future finance obligations	(932 745)	(1 885 549)
Present value of lease obligations	6 038 198	8 240 884

Leases are secured by property, plant and equipment - Note 13

The municipality has plant & equipment assets to the value of R9,819,637 (2012: R9,819,637) subject to a finance lease.

It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid for the current year is R952'140 (2012: R1,245,643)

4	EMPLOYEE BENEFITS	2013 R	2012 R	
	Post Retirement Defined Benefit Plan - Refer to Note 4.1	859 034	1 094 048	
	Long Service Awards - Refer to Note 4.2	1 400 108	1 273 973	
	Total Non-current Employee Benefit Liabilities	2 259 142	2 368 021	
	 <u>Post Retirement Defined Benefit Benefits Plan</u>	2013 R	2012 R	
	Balance 1 July	1 161 597	1 580 836	
	Contribution for the year	-	-	
	Interest Cost	63 791	93 724	
	Expenditure for the year	(67 549)	(92 063)	
	Actuarial Gain	(234 005)	(420 900)	
	Total post retirement benefits 30 June	923 834	1 161 597	
	Less: Transfer of Current Portion - Note 7	(64 800)	(67 549)	
	Balance 30 June	859 034	1 094 048	
	 <u>Long Service Awards</u>			
	Balance 1 July	1 453 704	1 228 998	
	Contribution for the year	232 771	166 700	
	Interest Cost	92 062	90 447	
	Expenditure for the year	(179 731)	(204 128)	
	Actuarial Loss	127 908	171 687	
	Total long service 30 June	1 726 714	1 453 704	
	Less: Transfer of Current Portion - Note 7	(326 606)	(179 731)	
	Balance 30 June	1 400 108	1 273 973	
	 <u>TOTAL NON-CURRENT EMPLOYEE BENEFITS</u>			
	Balance 1 July	2 615 301	2 809 834	
	Contribution for the year	232 771	166 700	
	Interest cost	155 853	184 171	
	Expenditure for the year	(247 280)	(296 191)	
	Actuarial Loss/(Gain)	(106 097)	(249 213)	
	Total employee benefits 30 June	2 650 548	2 615 301	
	Less: Transfer of Current Portion - Note 7	(391 406)	(247 280)	
	Balance 30 June	2 259 142	2 368 021	
4	EMPLOYEE BENEFITS (CONTINUE)			
4.1	Post Retirement Defined Benefits Medical Aid Plan			
	The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:			
	In-service (employee) members	-	-	
	In-service (employee) non-members	-	-	
	Continuation members (e.g. Retirees, widows, orphans)	2	2	
	Total Members	2	2	
	The liability in respect of past service has been estimated to be as follows:			
	In-service members	-	-	
	Continuation members	923 834	1 161 597	
	Total Liability	923 834	1 161 597	
	The liability in respect of periods commencing prior to the comparative year has been estimated as follows:			
		2011 R	2010 R	2009 R
	In-service members	-	-	-
	Continuation members	1 580 836	1 714 738	1 809 261
	Total Liability	1 580 836	1 714 738	1 809 261

The municipality performed their first actuarial valuation on 30 June 2008.

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

Hosmed
Kei Health
LA Health
Bonitas
SAMWUMED

Key actuarial assumptions used:

	2013 %	2012 %
i) Rate of interest		
Discount rate	7.65%	Zero-coupon SA Bond yield curve
Health Care Cost Inflation Rate	7.21%	1% lower than discount rate
Net Effective Discount Rate	0.41%	1.00%

The discount rate used in 2013 is a composite of all government bonds and is calculated using a technique is known as "bootstrapping"

ii) Mortality rates

The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.

iii) Normal retirement age

It has been assumed that the normal retirement age of the Sakhisizwe Municipality employees is 60 years for males and 60 years for females.

	2013 R	2012 R
The amounts recognised in the Statement of Financial Position are as follows:		
Present value of fund obligations	859 034	1 094 048
Total Liability	859 034	1 094 048

The fund is wholly unfunded.

The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year	1 161 597	1 580 836
Total expenses	(3 758)	1 681
Current service cost	-	-
Interest Cost	63 791	93 724
Benefits Paid	(67 549)	(92 063)
Actuarial gains	(234 005)	(420 900)
Present value of fund obligation at the end of the year	923 834	1 161 597
Less: Transfer of Current Portion - Note 7	(64 800)	(67 549)
Balance 30 June	859 034	1 094 048

Sensitivity Analysis on the Accrued Liability

Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Central Assumptions		0.924		

The effect of movements in the assumptions are as follows:

Assumption	Change	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Health care inflation	1%		1.014		10%
Health care inflation	-1%		0.845		-9%
Post-retirement mortality	-1 yr		0.965		4%
Average retirement age					
Withdrawal Rate					

Assumption	Change	Current-service Cost (R)	Interest Cost (R)	Total (R)	% change
Central Assumption			63 791		
Health care inflation	1%		66 653		4%
Health care inflation	-1%		60 851		-5%
Post-retirement mortality			71 400		

Sakhisizwe Municipality will contribute 70% of the total premium payable, subject to a maximum of R3,158 (2012: R2,851). The municipality only subsidises the employee, spouse or life partner, biological children, and legally adopted children, up to the age of 21 years. An assumption is therefore made that should a child dependant turn 21 years of age, he/she is no longer eligible for subsidy benefits.

Membership profile:

The calculation is based on 2 members (2012: 2) with an average age of 68.8 (2012: 67.8), and 0.5 average dependants (2012: 1.5) and an average monthly contribution of R2,700 (R2,751)

Assumptions used at the reporting date: Valuation assumptions

We used realistic assumptions in the central basis.

In this section, we discuss the central basis, on which the main results are based. We also performed sensitivity tests in a separate section below where we changed the central basis to allow for other factors and examined the effects on the results. These adjusted bases are discussed below where the results of the sensitivity tests are shown.

Investment returns

There is general agreement amongst the actuarial profession that IAS 19 (AC 116) requires the valuation discount rate to be equal to actual long bond yields at the date of the valuation (par. 78-82 of IAS 19 (AC 116)). The statement stipulates that:

The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the postemployment benefit obligations.

We have used the entire zero-coupon South African Bond Yield curve as at 29 June 2013 in the PRMA valuation of Sakhisizwe Municipality. Therefore, a single assumption for the discount rate is not shown. The full yield curve used in this valuation is given in Appendix A.

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. IAS19/GRAP25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.65% per annum has been used. The corresponding index-linked yield at this term is 1.36%. These rates do not reflect any adjustment for taxation.

This rate was deduced from the JSE Zero Coupon bond yield after the market close on 28 June 2013.

The rate is calculated by using the yields of the liability. Yields were determined by looking at the average term of the liability and finding the fixed-interest and index-linked yields at the relevant duration of JSE (Best Decency) Zero Coupon bond yield curve.

Health Care Cost Inflation Rate: This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.21% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.71%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 0.41% which derives from $(7.65\% - 7.21\%) / 1.0721$.

The expected inflation assumption of 5.71% was obtained from the differential between market yields on index-linked bonds and bonds consistent with the estimated term of the liabilities (1.36%) and those of nominal bonds (7.65%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: $(7.65\% - 0.50\% - 1.36\%) / 1.0136$.

Demographic assumptions are required to estimate the changing profile of retirees who are eligible for post-employment benefits.

Post-retirement Mortality

PA(90) ultimate table.

Family Profile (retirees)

For current retiree members, actual marital status was used and the potential for remarriage was ignored.

Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable, and will continue.

4.2 Long Service Bonuses

The Long Service Bonus plans are defined benefit plans.

As at year end, the following number of employees were eligible for Long Service Bonuses.

	2013	2012
	196	196

Key actuarial assumptions used:

i) Rate of interest

	2013 %	2012 %
Discount rate	7.00%	7.00%
General Salary Inflation (long-term)	6.70%	6.70%
Net Effective Discount Rate applied to salary-related Long Service Bonuses	0.28%	0.28%

The amounts recognised in the Statement of Financial Position are as follows:

	2013 R	2012 R
Present value of fund obligations	1 400 108	1 273 973
Net liability	1 400 108	1 273 973

Reconciliation of present value of fund obligation:

	2013 R	2012 R
Present value of fund obligation at the beginning of the year	1 453 704	1 228 998
Total expenses	145 102	53 019
Current service cost	232 771	166 700
Interest Cost	92 062	90 447
Benefits Paid	(179 731)	(204 128)
Actuarial losses	127 908	171 687
Present value of fund obligation at the end of the year	1 726 714	1 453 704
Less: Transfer of Current Portion - Note 7	(326 606)	(179 731)
Balance 30 June	1 400 108	1 273 973

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	Change	Liability (R)	% change
Central assumptions		1,727	
General salary inflation	1%	1,822	6%
General salary inflation	-1%	1,639	-5%
Average retirement age	- 2 years	1,561	-10%
Average retirement age	+ 2 years	1,983	15%
Withdrawal rates	-50%	1,967	14%

5 NON-CURRENT PROVISIONS

Provision for Rehabilitation of Landfill-sites

	2013 R	2012 R
	2 323 200	2 323 200

Landfill Sites

	2013 R	2012 R
Balance 1 July	2 323 200	2 112 000
Balance previously reported	2 323 200	2 112 000
Unwinding of discounted interest	-	211 200
Balance previously reported	-	211 200
Total provision 30 June	2 323 200	2 323 200
Less: Transfer of Current Portion to Current Provisions - Refer to note 8	-	-
Balance 30 June	2 323 200	2 323 200

The estimated rehabilitation costs for each of the existing sites are based on the current rates for construction costs. The assumptions used are as follows:

The legislation does not dictate the time frame in which the rehabilitation must be undertaken. Allowance has been made for all landfill sites that are required to be closed in terms of Department of Water Affairs minimum requirements to be closed. The area where the landfill operations complete must be closed and capped. Although the classification has been advised as being "C" - Communal. The minimum Requirements for Waste Disposal by landfill states that where the Minimum Rate of Deposition (MRD) is borderline, the higher class must be used.

For the purpose of this document, the conservative approach will be followed, as no formal study has been made of the sites of the current or projected MRD, or of the significance of the Climate Water Balance (B). The closure design will be based on "S" - Small sites, with a significant Climate Water Balance (B+), and it is accepted that the design may be reduced if the study indicates the site is indeed Communal, or if the Climate Water Balance (B) is sporadic rather than significant.

In calculating the provision for rehabilitation, the following four items have been included:

1. Direct Contract Cost
2. Indirect Professional Fees
3. Indirect disbursements
4. Escalation

The costs in the construction industry have escalated at approximately 10% to 12% per annum. The estimate for the closure of the landfill sites was compiled by Munitech, who have specialist experience closure of landfill sites.

6	CONSUMER DEPOSITS		
	Electricity	358 823	344 469
	Total Consumer Deposits	358 823	344 469
	Guarantees held in lieu of Electricity Deposits	-	-

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

7	CURRENT EMPLOYEE BENEFITS		
	Current Portion of Post Retirement Benefits - Note 4	64 800	67 549
	Current Portion of Long-Service Provisions - Note 4	326 606	179 731
	Total Current Employee Benefits	391 406	247 280

8	PROVISIONS		
	Employee costs: Performance Bonus	1 443 400	-
	Total Provisions	1 443 400	-

9	PAYABLES FROM EXCHANGE TRANSACTIONS	2013	2012
		R	R
	Trade Payables	2 024 400	1 936 639
	Accrual for Leave	2 551 467	2 551 467
	Accrued expenses: Provision 13th cheque	621 097	510 743
	Accrued expenses: Workmens compensation	891 861	363 534
	Payments received in advance: Debtors in credit balance	733 362	742 284
	Sundry Deposits received: Dam & Hall Deposits	22 951	13 321
	Total Trade Payables	6 845 138	6 117 988

Payables are being recognised net of any discounts.

An immaterial amount of payables were not paid within 30 days as prescribed by the MFMA. 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 payables on initial recognition is not deemed necessary.

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

Sundry deposits include dam and hall deposits.

10	UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS		
	Unspent Grants	2 971 703	8 377 946
	National Government Grants	1 547 523	7 691 049
	Provincial Government Grants	900 000	-
	District Municipality	-	-
	Other Grant Providers	524 180	686 897
	Total Conditional Grants and Receipts	2 971 703	8 377 946

See appendix 'E' for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

The funds will remain a liability as long as the conditions are still to be met. Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends.

11	UNSPENT PUBLIC CONTRIBUTIONS		
	Description of unspent contribution	-	-
	Description of unspent contribution	-	-
	Total Unspent Public Contributions	<u>-</u>	<u>-</u>
	Reconciliation of public contributions		
	<u>Description of unspent contribution</u>		
	Opening balance	-	-
	Contributions received	-	-
	Conditions met - Transferred to revenue	-	-
	Closing balance	<u>-</u>	<u>-</u>
	Brief description of contribution and conditions attached		
	<u>Description of unspent contribution</u>		
	Opening balance	-	-
	Contributions received	-	-
	Conditions met - Transferred to revenue	-	-
	Closing balance	<u>-</u>	<u>-</u>
	Brief description of contribution and conditions attached		
12	TAXES		
12.1	NET VAT RECEIVABLE/(PAYABLE)	<u>(1 356 793)</u>	<u>4 238 270</u>
	VAT is receivable/payable on the cash basis.		
13	PROPERTY, PLANT AND EQUIPMENT		
	<u>See attached sheet</u>		
13	Assets pledged as security:	2013	2012
	There were no assets pledged as security.	-	-
14	INVESTMENT PROPERTY	2013	2012
		R	R
	Net Carrying amount at 1 July	34 779 036	34 968 398
	Cost	35 157 760	35 157 760
	Under Construction	-	-
	Accumulated Depreciation	(378 724)	(189 362)
	Accumulated Impairment	-	-
	Acquisitions	-	-
	Disposals	-	-
	Depreciation for the year	(189 362)	(189 362)
	Impairment	-	-
	Transfers from Inventory	-	-
	Transfers from Property, Plant and equipment	-	-
	Net Carrying amount at 30 June	34 589 674	34 779 036
	Cost	35 157 760	35 157 760
	Accumulated Depreciation	(568 086)	(378 724)
	Accumulated Impairment	-	-

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

There was no revenue derived from the rental of investment properties.

15	INTANGIBLE ASSETS	2013 R	2012 R
	Computer Software		
	Net Carrying amount at 1 July	-	-
	Cost	-	-
	Accumulated Amortisation	-	-
	Accumulated Impairment	-	-
	Additions	-	-
	Amortisation	-	-
	Impairments	-	-
	Disposals	-	-
	Net Carrying amount at 30 June	-	-
	Cost	-	-
	Accumulated Amortisation	-	-
	Accumulated Impairment	-	-
	Computer software:	-	-
	Accumulated amortisation	-	-
	Total not previously recognised now restated retrospectively	-	-
	The following material intangible assets are included in the carrying value above		
		Carrying Value	
	<u>Description</u>	2013	2012
		R	R
	Microsoft Office and Windows software		
	No intangible asset were assessed having an indefinite useful life.		
	There are no internally generated intangible assets at reporting date.		
	There are no intangible assets whose title is restricted.		
	There are no intangible assets pledged as security for liabilities		
	There are no contractual commitments for the acquisition of intangible assets.		
16	HERITAGE ASSETS	2013 R	2012 R
	Net Carrying amount at 1 July	-	-
	Acquisitions	-	-
	Disposals	-	-
	Impairments	-	-
	Reversal of Impairment losses	-	-
	Transfers from Property, Plant and equipment	-	-
	Net Carrying amount at 30 June	-	-
	Cost	-	-
	Accumulated Impairment	-	-
	There are no restrictions on the realisability of Heritage Assets or the remittance of revenue and proceeds of disposal.		
	There are no contractual obligations to purchase, construct or develop Heritage Assets or for repairs, maintenance or enhancements.		
	There are no Heritage Assets pledged as security for liabilities		
	Third party payments received for losses and impairments incurred:		
	Payments received (Excluding VAT)	-	-
	Carrying value of assets written off/lost/impairment	-	-
	Surplus/Deficit	-	-

17	CAPITALISED RESTORATION COST		
	Net Carrying amount at 1 July	-	-
	Balance previously reported	-	-
	Correction of error - Refer to note	-	-
	Depreciation	-	-
	Balance previously reported	-	-
	Correction of error - Refer to note	-	-
	Impairment	-	-
	Balance previously reported	-	-
	Correction of error - Refer to note	-	-
	Net Carrying amount at 30 June	-	-
	Cost	-	-
	Accumulated Depreciation	-	-
	Accumulated Impairments	-	-
		-	-
18	NON-CURRENT INVESTMENTS	2013	2012
		R	R
	Fixed Deposits	-	-
	Total Non-Current Investments	-	-

19	BIOLOGICAL ASSETS	Quantity (Units)	Fair Value R	2013 R	2012 R
	Springbuck			-	-
	Ostrich			-	-
	Blesbuck			-	-
	Swart Wildebeest			-	-
	Zebra			-	-
	Rib buck			-	-
				-	-

Fair value of biological assets is based on selling prices less costs to sell in an open active market.

Reconciliation of fair value:

Opening Fair Value	-	-
Acquisitions	-	-
Fair Value adjustments - Price changes	-	-
Fair Value adjustments - Physical changes	-	-
Fair Value adjustments - Disposals	-	-
Closing Fair Value	-	-

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the acquisition of biological assets.

All biological assets are located in the Victoria West Nature Reserve. The primary activities revolving around biological assets are as follows:

- Ensure that the game life of the municipal area are conserved for future generations.
- Ensure that game numbers are managed adequately. When the need arises to reduce the game number, prospective hunters are invited to submit tenders for the purchase game, resulting in an inflow of resources to the municipality.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets.
- Regular monitoring of game quantities by municipal staff.

All biological assets are considered to be consumable biological assets in term of GRAP 27

20	LONG-TERM RECEIVABLES		
	Officials' Housing Loans - At amortised cost	-	-
	Rates	-	-
	Councillors Allowances	-	-
		-	-
	Less: Current portion transferred to current receivables	-	-
	Officials Housing Loans - At amortised cost	-	-
	Councillors Allowances	-	-
		-	-
	Less: Provision for Impairment	-	-
	Total Long Term Receivables	-	-

The carrying amount of these assets approximates their fair value.

The provision for impairment could be allocated to the different classes of Long Term Receivables as follows:

Officials' Housing Loans - At amortised cost	-	-
Consumers and Rates	-	-
Councillors Allowances	-	-
Provision for impairment	-	-

HOUSING LOANS

The housing loan is receivable from P Minies. Due to the lack of payments received, a council resolution was passed to institute legal actions against P Minies to collect the outstanding debt or possible eviction from the property. The entire balance have been impaired.

RATES

Rates included under debtors represent all balances for which the debtors has made arrangements to settle their balances beyond normal credit terms. No provision for impairment has been made for these debtors.

COUNCILLORS ALLOWANCES

Outstanding balances relates mainly to former councillors. All balances relating to these councillors have been impaired.

21	INVENTORY		
	Maintenance Materials - At cost	-	-
	Water – at cost	76 101	21 749
	Total Inventory	76 101	21 749
22	RECEIVABLES FROM EXCHANGE TRANSACTIONS		
	Electricity	3 048 090	2 128 786
	Water	21 481 299	20 702 678
	Refuse	16 881 959	14 976 897
	Sewerage	12 653 883	11 162 861
	Other Trade Debtors	39 075	34 485
	Other Receivables	1 123 238	50 999
	Irregular expenditure: Refundable	115 337	30 587
	Total Receivables from Exchange Transactions	55 342 881	49 087 293
	Less: Allowance for Doubtful Debts	49 703 356	45 713 488
	Electricity	1 936 042	697 379
	Water	20 575 482	19 695 580
	Refuse	16 149 154	14 625 403
	Sewerage	12 083 346	10 691 251
	Other Trade Debtors	(1 040 668)	3 875
	Other Receivables	-	-
	Total Net Receivables from Exchange Transactions	5 639 525	3 373 805
	Electricity	1 112 048	1 431 407
	Water	905 817	1 007 098
	Refuse	732 805	351 494
	Sewerage	570 537	471 610
	Other Trade Debtors	1 079 743	30 610
	Other Receivables	1 123 238	50 999
	Irregular expenditure: Refundable	115 337	30 587

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

Ageing of Receivables from Exchange Transactions:

(Electricity): Ageing

Current (0 - 30 days)	445 274	763 330
31 - 60 Days	157 293	158 489
61 - 90 Days	31 147	107 506
+ 90 Days	489 854	402 082
Total	1 123 568	1 431 407

(Water): Ageing

Current (0 - 30 days)	748 860	269 938
31 - 60 Days	45 114	52 874
61 - 90 Days	21 488	40 815
+ 90 Days	916 223	643 471
Total	1 731 685	1 007 098

(Refuse): Ageing

Current (0 - 30 days)	33 111	213 631
31 - 60 Days	11 362	13 473
61 - 90 Days	2 965	7 499
+ 90 Days	400 439	116 891
Total	447 877	351 494

(Sewerage): Ageing

Current (0 - 30 days)	29 514	168 956
31 - 60 Days	10 812	19 238
61 - 90 Days	3 133	10 906
+ 90 Days	440 398	272 510
Total	483 857	471 610

(Other Receivables): Ageing

Current (0 - 30 days)	1 123 238	50 999
Total	1 123 238	50 999

(Irregular expenditure: Refundable): Ageing

Current (0 - 30 days)	115 337	30 587
Total	115 337	30 587

(Other Trade Debtors): Ageing

Current (0 - 30 days)	1 079 743	7 540
31 - 60 Days	-	1 170
61 - 90 Days	-	251
+ 90 Days	-	21 649
Total	1 079 743	30 610

(Total): Ageing

Current (0 - 30 days)	3 575 077	1 504 981
31 - 60 Days	224 581	245 244
61 - 90 Days	58 733	166 977
+ 90 Days	2 246 914	1 456 603
Total	6 105 305	3 373 805

Reconciliation of Provision for Bad Debts

Balance at beginning of year	45 713 488	14 181 472
Contribution to provision	3 989 868	1 150 101
Water & Sanitation reallocation from agency account	-	30 381 915
Bad Debts Written Off	-	-
Balance at end of year	49 703 356	45 713 488

Concentrations or credit risk with respect to trade 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.

23 RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2013 R	2012 R
Rates	16 777 421	13 963 352
Total Receivables from Non-Exchange Transactions	16 777 421	13 963 352
Less: Allowance for Doubtful Debts	(12 631 141)	(10 511 841)
Rates	(12 631 141)	(10 511 841)
Total Net Receivables from Non-Exchange Transactions	4 146 280	3 451 511

Rates 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 rates debtors are not performed in terms of GRAP 104 on initial recognition.

The entire provision for bad debts relates to the outstanding rates balance.

Concentrations or credit risk with respect to trade 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.

24 OPERATING LEASE ARRANGEMENTS

24.1 The Municipality as Lessee (Liability)

Balance on 1 July	-	-
Movement during the year	-	-
Balance on 30 June	-	-

At the Statement of Financial Position date, where the municipality acts as a lessee under operating leases, it will have operating lease expenditure as follows:

Up to 1 Year	-	-
1 to 5 Years	-	-
More than 5 Years	-	-
Total Operating Lease Arrangements	-	-

The municipality does not engage in any sub-lease arrangements.

The municipality did not pay any contingent rent during the year

24.2 The Municipality as Lessor (Asset)

Balance on 1 July	-	-
Movement during the year	-	-
Balance on 30 June	-	-

At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:

Up to 1 Year	-	-
1 to 5 Years	-	-
More than 5 Years	-	-
Total Operating Lease Arrangements	-	-

This lease income was determined from contracts that have a specific conditional income and does not include lease income which has a undetermined conditional income.

The leases are in respect of land and buildings being leased out for previous ranging until 2017.

The municipality does not engage in any sub-lease arrangements.

The municipality did not receive any contingent rent during the year

25 CASH AND CASH EQUIVALENTS

Assets

Bank Accounts	837 684	601 857
Short-term deposits	12 159 166	11 141 424
Cash Floats	-	-
Total Cash and Cash Equivalents - Assets	12 996 850	11 743 281

Liabilities

Primary Bank Account	-	-
Total Cash and Cash Equivalents - Liabilities	-	-

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.

The municipality has the following bank account:

Current Accounts

First National Bank - Current Account - 6207-652-3135 (Primary Bank Account):	837 684	601 857
	837 684	601 857

First National Bank - Current Account - 6207-652-3135 (Primary Bank Account):

Cash book balance at beginning of year	601 857	648 056
Cash book balance at end of year	837 684	601 857

Bank statement balance at beginning of year	949 789	871 244
Bank statement balance at end of year	774 314	949 789

Short-term Investment Deposits

The Municipality had the following Short-term Investment Accounts

	2013 Bank Statement Balance	2012 Bank Statement Balance	2013 Cash Book Balance	2012 Cash Book Balance
MSP - 6207-652-2294	40 873	42 702	40 873	42 702
MIG - 6207-657-7091	1 526 523	5 625 897	1 526 523	5 625 897
Disaster fund - 6207-659-5902	-	-	-	-
Elliot Housing - 6207-745-0056	1 110	1 109	1 110	1 110
Survey Account - 6207-659-621	7 884	8 648	7 884	8 648
Extension 13&14 - 6207-745-1278	1 000	1 000	1 000	1 000
Extension 15 - 6207-740-8203	2 213	2 213	2 213	2 213
FMG - 6216 - 538 - 9464	10 000	10 000	10 000	10 000
General Valuation - 6207-745-832	1 010	1 000	1 000	1 000
IDP plan - 6207-744-9603	53 618	53 618	53 618	53 618
MSIG - 6216-538-9555	10 000	10 000	10 000	10 000
PMF review account - 6216-534-1993	12 640	172 764	12 640	172 764
DNE - 6220-960-0776	10 000	2 045 152	1 000	2 045 152
IEC - 6221-824-3418	47 423	47 422	47 423	47 423
Skills Development - 6217-582-8189	31 320	31 319	31 320	31 320
FNB Operating Call - 6216-534-1943	10 412 562	3 088 577	10 412 562	3 088 577
	12 168 175	11 141 421	12 159 166	11 141 424

26 **PROPERTY RATES**

Actual

Rateable Land and Buildings

Residential, Commercial Property, State

Total Assessment Rates

2013 R	2012 R
3 683 699	2 867 068
3 683 699	2 867 068

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009.

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

27 **GOVERNMENT GRANTS AND SUBSIDIES**

Unconditional Grants

Equitable Share

Conditional Grants

Grants and donations: National

Grants and donations: Other

Subsidies

Total Government Grants and Subsidies

Government Grants and Subsidies - Capital
Government Grants and Subsidies - Operating

Revenue recognised per vote as required by Section 123 (c) of the MFMA

Equitable share

Executive & Council
Finance & Administration: Budget & Treasury
Finance & Administration: Corporate Services
Planning & Development: IPED
Project Management Unit: PMU
Planning & Development
Health: Clinics
Community Services: Libraries

2013	2012
33 027 000	33 088 000
33 027 000	33 088 000
26 617 587	17 244 220
25 563 161	16 072 259
1 054 426	1 171 961
-	-
59 644 587	50 332 220
(20 391 374)	16 485 918
(39 633 869)	33 088 000
(60 025 243)	49 573 918
35 127 000	33 088 000
-	-
2 300 000	2 307 855
158 764	-
193 857	123 010
21 219 009	7 998 441
276 957	5 793 914
-	-
369 000	-
59 644 587	49 309 220

The municipality does not expect any significant changes to the level of grants.

27.1	Equitable Share		
	Opening balance	-	-
	Grants received	35 127 000	33 088 000
	Conditions met - Operating	(35 127 000)	(33 088 000)
	Conditions met - Capital	-	-
	Conditions still to be met	-	-
		<u>-</u>	<u>-</u>
	The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
27.2	Local Government Financial Management Grant (FMG)		
	Opening balance	10 000	24 789
	Grants received	1 500 000	1 532 176
	Conditions met - Operating	(1 500 000)	-
	Conditions met - Capital	-	(1 546 965)
	Conditions still to be met	10 000	10 000
		<u>10 000</u>	<u>10 000</u>
	Health subsidies was used fund primary health care services in the municipal area.		
27.3	Integrated National Electrification Programme (Eskom) Grant		
	Opening balance	2 045 152	3 813 116
	Grants received	-	4 238 674
	Conditions met - Operating	(2 044 152)	-
	Conditions met - Capital	-	(6 006 638)
	Conditions still to be met	1 000	2 045 152
		<u>1 000</u>	<u>2 045 152</u>
	The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns)		
27.4	Municipal Infrastructure Grant (MIG)		
	Opening balance	5 625 897	185 656
	Grants received	16 292 000	13 497 181
	Conditions met - Operating	-	-
	Conditions met - Capital	(20 391 374)	(8 056 940)
	Conditions still to be met	1 526 523	5 625 897
		<u>1 526 523</u>	<u>5 625 897</u>
	The MSIG was used for building in-house capacity to perform municipal functions and stabilise institutional and governance systems.		
27.5	Municipal Systems Improvement Grant (MSIG)		
	Opening balance	10 000	13 065
	Grants received	800 000	803 527
	Conditions met - Operating	(800 000)	-
	Conditions met - Capital	-	(806 592)
	Grant expenditure to be recovered	10 000	10 000
		<u>10 000</u>	<u>10 000</u>
	The grant was used to upgrade infrastructure in previously disadvantaged areas.		
27.6	Other Grant Providers		
	Opening balance	686 897	419 028
	Grants received	900 000	336 652
	Conditions met - Operating	(162 717)	-
	Conditions met - Capital	-	(68 783)
	Conditions still to be met	1 424 180	686 897
		<u>1 424 180</u>	<u>686 897</u>
	Various grants were received from other spheres of government (e.g. Skills Development Grant)		
27.7	Total Grants		
	Opening balance	8 377 946	4 455 654
	Grants received	54 619 000	53 498 210
	Conditions met - Operating	(39 633 869)	(33 088 000)
	Conditions met - Capital	(20 391 374)	(16 485 918)
	Write off - Irrecoverable grant expenditure	-	-
	Conditions still to be met/(Grant expenditure to be recovered)	2 971 703	8 377 946
		<u>2 971 703</u>	<u>8 377 946</u>
	Disclosed as follows:		
	Unspent Conditional Government Grants and Receipts	2 971 703	8 377 946
		<u>2 971 703</u>	<u>8 377 946</u>

28	SERVICE CHARGES		
	Electricity	7 325 972	5 529 336
	Water	2 004 430	1 681 960
	Refuse removal	1 445 801	1 443 149
	Sewerage and Sanitation Charges	1 157 949	1 178 159
		<u>11 934 152</u>	<u>9 832 604</u>
	Total Service Charges	11 934 152	9 832 604
29	OTHER INCOME		
	Rental income	109 669	137 915
	Traffic department income	1 834 229	2 269 263
	Sundry income (detailed in note on Sundry Income below)	8 692 145	11 549 344
	Total Other Income	10 636 043	13 956 522
	Sundry Income		
	Electricity re-connection fee	31 992	34 342
	Commission on collection	45 631	31 866
	Building plan & inspection fees	4 967	13 289
	Registration data base	-	3 912
	Other income	417 986	596 753
	Rates clearance certificates	8 778	5 666
	Site payments	55 140	63 147
	Trading licences	13 281	9 357
	Defined Benefit: Medical Aid actuarial gain	301 554	512 963
	Water income	4 666 069	7 024 390
	Sanitation income	3 069 000	2 811 663
	Rental Income	57 747	-
	Debt relief from Chris Hani	-	441 996
		<u>8 692 145</u>	<u>11 549 344</u>
30	FAIR VALUE ADJUSTMENTS		
	Biological Assets	-	-
		<u>-</u>	<u>-</u>
31	EMPLOYEE RELATED COSTS		
	Basic Salaries & Wages	17 716 209	16 355 744
	Bonus	1 148 964	979 634
	Medical aid: company contributions	1 278 120	1 179 467
	UIF	168 218	137 599
	SDL	260 063	228 853
	Acting Allowances	-	6 672
	Contribution Bargaining Council	11 578	7 438
	Workmens Compensation	891 861	-
	Leave pay provision charge	640 274	1 113 605
	Long-service awards	182 599	7 999
	Overtime payments	2 357 465	1 690 101
	Post-employment benefits: Defined benefit medical aid	1 979 664	1 660 649
	Telephone allowances	42 984	9 600
	Transitional & other allowances	24 840	21 700
		<u>26 702 839</u>	<u>23 399 061</u>
	Total Employee Related Costs	26 702 839	23 399 061
	KEY MANAGEMENT PERSONNEL		

Municipal Manager is appointed on a 5-year and all other Directors on a 5-year fixed contract. There are no post-employment or termination benefits payable to them at the end of the contract period.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Municipal Manager		
Annual Remuneration	701 715	633 863
Performance Bonuses	357 957	-
Car Allowance	84 000	84 000
Housing & telephone allowances	81 708	81 708
Contributions to UIF, Medical, Pension Funds and Bargaining Council	149 747	149 615
Subsistence & other allowances	58 689	37 862
Total	1 433 816	978 048
Remuneration of the Chief Finance Officer (CFO)		
Annual Remuneration	573 321	507 505
Performance Bonuses	275 465	-
Car Allowance	60 000	60 000
Telephone allowance	-	-
Contributions to UIF, Medical, Pension Funds and Bargaining Council	152 633	143 885
Subsistence & other allowances	51 126	47 190
Total	1 112 545	758 580
Remuneration of the Community Services Manager		
Annual Remuneration	710 282	283 555
Performance Bonuses	-	-
Travelling Allowance	71	9 277
Telephone allowance	-	-
Contributions to UIF, Medical, Pension Funds and Bargaining Council	1 713	749
Subsistence & other allowances	-	-
Total	712 066	293 581
Remuneration of the Corporate Services Manager		
Annual Remuneration	619 267	573 869
Performance Bonuses	269 993	-
Car Allowance	99 000	108 000
Telephone allowance	-	-
Contributions to UIF, Medical, Pension Funds and Bargaining Council	31 637	31 935
Subsistence & other allowances	21 196	22 347
Total	1 041 093	736 151
Remuneration of the IPED Manager		
Annual Remuneration	259 714	601 531
Performance Bonuses	269 993	-
Car Allowance	36 000	108 000
Telephone allowance	-	-
Contributions to UIF, Medical, Pension Funds and Bargaining Council	5 076	14 623
Subsistence & other allowances	12 437	37 211
Total	583 220	761 365
Remuneration of the Technical Services Manager		
Annual Remuneration	280 891	623 935
Performance Bonuses	269 993	-
Car Allowance	37 000	108 000
Telephone allowance	-	-
Contributions to UIF, Medical, Pension Funds and Bargaining Council	672	9 671
Subsistence & other allowances	9 784	48 231
Total	598 340	789 837
Remuneration of the Managers (summary)		
Annual Remuneration	3 145 190	3 224 258
Performance Bonuses	1 443 401	-
Car Allowance	316 071	477 277
Telephone allowance	81 708	81 708
Contributions to UIF, Medical, Pension Funds and Bargaining Council	341 478	341 478
Subsistence & other allowances	153 232	192 841
Total	5 481 080	4 317 562

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REMUNERATION OF COUNCILLORS

Councillors Salaries	3 010 875	2 636 523
Mayor Salary	542 170	605 440
Medical, travel & other allowances	1 340 057	1 217 251
Total Councillors' Remuneration	4 893 102	4 459 214

In-kind Benefits

The Executive Mayor and all the committee members are part-time. The Mayor is provided with secretarial support and an office at the cost of the Council.

33	DEBT IMPAIRMENT		
	Long term Receivables - Note 20	-	-
	Trade Receivables from exchange transactions - Note 22	5 409 057	1 150 101
	Trade Receivables from non-exchange transactions - Note 23	2 347 970	1 553 959
	Trade Receivables from exchange transactions (Bad Debts)	-	3 165 304
	Unpaid Conditional Government Grants and Receipts - Note	-	-
	Chris Han Agency Account: Impairment loss	-	202 440
	Total Contribution to Debt Impairment	7 757 028	6 071 804
	Less: Portion Relating to VAT	(952 617)	(331 972)
	Debt impairment recognised in statement of financial performance	6 804 411	5 739 832
34	DEPRECIATION AND AMORTISATION		
	Property Plant and Equipment	9 261 264	8 914 256
	Investment Property	189 362	189 362
	Intangible Assets	-	-
	Total	9 450 626	9 103 618
35	IMPAIRMENTS		
	Property Plant & Equipment	-	202 440
	Total	-	202 440
36	FINANCE CHARGES		
	Finance leases	952 140	1 245 643
	Post Employment Health	63 791	93 724
	Long service awards	92 062	-
	Other interest paid	53 040	54 270
	Total finance charges	1 161 033	1 393 637
37	BULK PURCHASES		
	Electricity	6 038 685	7 090 874
	Total Bulk Purchases	6 038 685	7 090 874
38	EXPENDITURE THROUGH GRANTS AND SUBSIDIES		
	Fund: Finance Management Grant (FMG)	1 062 423	1 504 482
	Fund: MSIG expenditure	1 093 379	914 475
	Fund: LED	-	50 163
	Fund: Repairs & Maintenance - Roads	23 668	224 826
	Fund: Repairs & Maintenance - Pounds	23 827	5 700
	Fund: Repairs & Maintenance - Street Lights	72 400	15 253
	Fund: DE/DEA	428 675	154 850
	Fund: IDP	103 137	162 631
	Fund: Disaster Support	-	-
	Fund: Skills Development	700	-
	Fund: MSP	9 700	-
	Fund: General Valuation	853	-
	Fund: Performance Management	140 460	-
	Total Grants and Subsidies	2 959 222	3 032 380
39	OPERATING GRANT EXPENDITURE		
	Operating grant expenditure per vote		
	Executive & Council	-	-
	Budget & Treasury	-	-
	Corporate Services	-	-
	Planning & Development	-	-
	Health	-	-
	Community & Social Services	-	-
	Housing	-	-
	Public Safety	-	-
	Sport & Recreation	-	-
	Environmental Protection	-	-
	Waste Management	-	-
	Waste Water Management	-	-
	Road Transport	-	-
	Water	-	-
	Electricity	-	-
	Total Operating grant expenditure	-	-
		2013	2012
		R	R

40	GENERAL EXPENSES		
	Advertising	312 147	108 134
	Water operating expenditure	822 810	364 985
	Auditors Remuneration	1 666 999	2 415 494
	Bank Charges	137 243	138 752
	Catering & Entertainment	204 302	190 399
	Consulting & Professional Fees	123 086	276 686
	Consumables	139 975	125 054
	Council Inauguration	-	170 793
	Sundry expenditure	664	-
	Electricity Purchases	160 412	101 041
	Fuel & Oil	2 283 231	2 269 539
	Insurance	460 089	447 853
	IT Expenses	131 855	129 812
	Licence Fees	600 689	344 686
	Magazines, books & publications	3 717	-
	Mayors Fund	3 500	61 634
	Plant Hire	-	34 898
	Pound Expenditure	64 673	24 243
	Printing & Stationery	320 821	403 027
	Promotions & Sponsorships	548 822	452 143
	Protective Clothing	261 202	283 343
	Public Participation	117 923	-
	Refuse Bags	11 723	4 600
	Registration fees	68 975	-
	Remuneration Ward Committees	1 098 000	709 000
	Rent - office equipment	81 414	53 856
	Security Services	844 546	439 280
	Subscription & Membership Fees	841 967	236 096
	Team Building	-	107 542
	Telephone, postage & fax	632 673	1 232 267
	Tools & Accessories - non-capital	192 466	378 821
	Training	552 823	288 338
	Travel Expenses	1 985 073	1 966 595
	Valuation Roll	612 308	1 116 968
	VIP Suckage	215 580	49 880
	Water Cartage	-	64 891
	Water Purification	375 367	438 213
	Water week expenditure	97 396	48 650
	Total General Expenses	15 974 281	15 454 513
			2012
			R
41	CHANGE IN ACCOUNTING POLICY IN TERMS OF GRAP 3		
42	CORRECTION OF ERROR IN TERMS OF GRAP 3		
42.1	Provision for Long-Term Bonuses		
	Raising of provision for Long-term bonuses for the prior year		(1 453 704)
	A provision for long-term bonuses for 2012 was only calculated and raised in the current year		
			(1 453 704)
42.2	Inventory - Water		
	Raising of water inventory for the prior year		21 749
	Raising of water inventory for the prior year as the water was only costed in the current year		
			21 749
42.3	Chris Hani Debtors		
	Adjustment to the opening balance of Chris Hani Debtors account		2 497 961
	Adjustment made to the opening balance of the Chris Hani Debtors account		
			2 497 961
42.4	VAT on the impairment of Debtors		
	Adjustment to the VAT on the Impairment of Debtors for the prior year		(2 239 645)
	Adjustment to the VAT on the Impairment of Debtors for the prior year		
			(2 239 645)
42.5	Accumulated surplus/ (Deficit)		
	Raising of provision for Long-term bonuses for the prior year		1 453 704
	Raising of water inventory for the prior year		(21 749)
	Adjustment to the opening balance of Chris Hani Debtors account		(2 497 961)
	Adjustment to the VAT on the Impairment of Debtors for the prior year		2 239 645
			1 173 639
43	STATEMENT OF FINANCIAL PERFORMANCE		
	Balance previously reported		-
	Raising of provision for Long-term bonuses for the prior year		1 453 704
	Raising of water inventory for the prior year		(21 749)
	Total		1 431 955
		2013	2012
		R	R
44	RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS		
	Surplus/(Deficit) for the year	8 990 139	5 307 553
	Adjustments for:		
	Depreciation	9 450 626	9 103 618
	Loss on disposal of property, plant and equipment	-	12 743
	Interest income (cash)	(530 330)	(661 566)
	Interest income (non-cash)	(4 238 688)	(4 242 775)
	Finance costs (cash)	952 140	1 245 643
	Finance costs (non-cash)	208 893	147 994
	Movement in retirement benefit assets and liabilities	(173 646)	886 471
	Movement in provisions	1 443 400	211 200
	Prior year adjustments	258 316	(1 431 955)
	Unspent conditional grants and receipts	(5 406 243)	3 922 292
	Operating Surplus/(Deficit) before changes in working capital	10 954 607	14 501 218
	Changes in working capital	7 560 414	6 203 893
	Increase/(Decrease) in Trade and Other Payables	727 150	1 182 620
	Increase/(Decrease) in Taxes	5 595 063	1 639 174
	(Increase)/Decrease in Inventory	(54 352)	(21 749)
	Consumer deposits	14 354	30 935
	Unspent conditional grants and receipts		
	(Increase)/Decrease in Trade and other receivables (exchange)	1 972 968	2 487 160
	(Increase)/Decrease in Trade and other receivables (non-exchange)	(694 769)	885 753

	Cash generated/(absorbed) by operations	18 515 021	20 705 111
45	CASH AND CASH EQUIVALENTS		
	Cash and cash equivalents included in the cash flow statement comprise the following:		
	Call Investments Deposits - Note 25	12 159 166	11 141 424
	Cash Floats - Note 25	-	-
	Bank - Note 25	837 684	601 857
	Bank overdraft - Note 25	-	-
	Total cash and cash equivalents	12 996 850	11 743 281
46	RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES		
	Cash and Cash Equivalents - Note 45	12 996 850	11 743 281
	Investments - Note 18	-	-
	Less:	12 996 850	11 743 281
	Unspent Committed Conditional Grants - Note 10	4 328 496	8 377 946
	VAT - Note 12	2 971 703	8 377 946
		1 356 793	-
	Resources available for working capital requirements	8 668 354	3 365 335
47	UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
	Long-term Liabilities - Note 3	6 038 199	8 240 884
	Used to finance property, plant and equipment - at cost	(6 038 199)	(8 240 884)
	Cash set aside for the repayment of long-term liabilities	-	-
	Cash invested for repayment of long-term liabilities	-	-
	Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act.		

48	BUDGET COMPARISONS	2013 R (Actual)	2013 R (Budget)	2013 R (Variance)	2013 (%)
48.1	Operational				
	Revenue by source				
	Property Rates	3 683 699	3 785 000	(101 301)	-3%
	Government Grants and Subsidies - Capital	26 617 587	23 977 400	2 640 187	11%
	Government Grants and Subsidies - Operating	33 027 000	42 753 000	(9 726 000)	-23%
	Public Contributions and Donations	-	-	-	0%
	Actuarial Gains	-	-	-	0%
	Third Party Payments	-	-	-	0%
	Fines	-	30 350	(30 350)	-100%
	Service Charges	11 934 152	14 640 000	(2 705 848)	-18%
	Rental of Facilities and Equipment	-	1 028 000	(1 028 000)	-100%
	Interest Earned - external investments	530 330	636 000	(105 670)	-17%
	Interest Earned - outstanding debtors	4 238 688	2 130 000	2 108 688	99%
	Licences and Permits	-	-	-	0%
	Agency Services	-	4 071 228	(4 071 228)	-100%
	Other Income	10 636 043	18 483 491	(7 847 448)	-42%
	Gain on disposal of Property, Plant and Equipment	-	-	-	0%
		90 667 499	111 534 469	(20 866 970)	-19%
	Expenditure by nature				
	Employee Related Costs	32 183 919	27 468 252	(4 715 667)	17%
	Remuneration of Councillors	4 893 102	5 000 028	106 926	-2%
	Debt Impairment	6 804 411	4 976 120	(1 828 291)	37%
	Depreciation and Amortisation	9 450 626	4 604 400	(4 846 226)	105%
	Impairments	-	-	-	0%
	Repairs and Maintenance	2 084 173	6 354 000	4 269 827	-67%
	Stock Adjustments	-	-	-	0%
	Finance Charges	1 161 033	1 178 153	17 120	-1%
	Bulk Purchases	6 038 685	8 900 000	2 861 315	-32%
	Contracted services	-	255 000	255 000	-100%
	Grants and Subsidies	2 959 222	3 501 000	541 778	-15%
	Operating Grant Expenditure	-	-	-	0%
	General Expenses	15 974 281	23 996 316	8 022 035	-33%
	Loss on disposal of Property,Plant and Equipment	-	-	-	0%
	Fair Value Adjustments	-	-	-	0%
		81 549 452	86 233 269	4 683 817	-5%
	Net Surplus for the year	9 118 047	25 301 200	(16 183 153)	-64%
48.2	Expenditure by Vote				
	Executive & Council	16 530 837	14 675 524	1 855 313	13%
	Budget & Treasury	18 126 742	15 832 701	2 294 041	14%
	Corporate Services	-	-	-	0%
	Planning & Development	5 492 342	3 004 279	2 488 063	83%
	Health	-	-	-	0%
	Community & Social Services	1 451 766	2 359 940	(908 174)	-38%
	Housing	230 692	307 036	(16 344)	-5%
	Public Safety	2 152 004	2 323 096	(171 092)	-7%
	Sport & Recreation	139 644	230 765	(91 121)	-39%
	Environmental Protection	-	-	-	0%
	Waste Management	6 799 842	7 427 079	(627 237)	-8%
	Waste Water Management	5 205 385	9 119 045	(3 912 660)	-43%
	Road Transport	11 805 531	8 604 375	3 201 156	37%
	Water	9 267 554	10 203 997	(936 443)	-9%
	Electricity	9 691 591	12 146 433	(2 454 842)	-20%
	Less Inter-Departmental Charges	-	-	-	0%
		86 953 930	86 233 270	720 660	1%
48.3	Capital expenditure by vote				
	Executive & Council	505 380	600 000	(94 620)	-16%
	Budget & Treasury	-	50 000	(50 000)	-100%
	Corporate Services	-	-	-	0%
	Planning & Development	-	-	-	0%
	Health	-	-	-	0%
	Community & Social Services	3 996 281	2 000 000	1 996 281	100%
	Housing	-	-	-	0%
	Public Safety	-	-	-	0%
	Sport & Recreation	-	-	-	0%
	Environmental Protection	-	-	-	0%
	Waste Management	2 696 211	6 125 000	(3 428 789)	-56%
	Waste Water Management	-	-	-	0%
	Road Transport	6 273 512	12 108 000	(5 834 488)	-48%
	Water	231 282	-	231 282	100%
	Electricity	934 291	5 100 000	(4 165 709)	-82%
		14 636 957	25 983 000	(11 346 043)	-44%

49	UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED	2013 R	2012 R
49.1	<u>Unauthorised expenditure</u>		
	Reconciliation of unauthorised expenditure:		
	Opening balance	10 417 460	4 001 515
	Unauthorised expenditure current year - capital	2 227 563	-
	Unauthorised expenditure current year - operating	9 838 573	-
	Unauthorised expenditure current year	-	6 415 945
	Written off by council	-	-
	Transfer to receivables for recovery	-	-
	Unauthorised expenditure awaiting authorisation	<u>22 483 596</u>	<u>10 417 460</u>

Unauthorised expenditure in 2013 for R 9'838'573 (2012: R6'415'945) was due mainly to the overspending on the budget. Included in the 2012 year overspending was additional depreciation of R3'316'098 due to the budgeted depreciation being based on the previous asset register which did not add up correctly and additional depreciation of R1'115'612 that resulted from the change in the useful lives of roads.

Incident	Disciplinary steps/criminal proceedings
Over expenditure on votes	None

	2013 R (Actual)	2013 R (Budget)	2013 R (Variance)	2013 R (Unauthorised)
Unauthorised expenditure current year - operating				
Executive & Council	16 530 837	14 675 524	1 855 313	1 855 313
Budget & Treasury	18 126 742	15 832 701	2 294 041	2 294 041
Corporate Services	-	-	-	-
Planning & Development	5 492 342	3 004 279	2 488 063	2 488 063
Health	-	-	-	-
Community & Social Services	1 451 766	2 359 940	(908 174)	-
Housing	290 692	307 036	(16 344)	-
Public Safety	2 152 004	2 323 096	(171 092)	-
Sport & Recreation	139 644	230 765	(91 121)	-
Environmental Protection	-	-	-	-
Waste Management	6 799 842	7 427 079	(627 237)	-
Waste Water Management	5 205 385	9 119 045	(3 912 660)	-
Road Transport	11 805 531	8 604 375	3 201 156	3 201 156
Water	9 267 554	10 203 997	(936 443)	-
Electricity	9 691 591	12 146 433	(2 454 842)	-
	<u>86 953 930</u>	<u>86 233 270</u>	<u>720 660</u>	<u>9 838 573</u>

	2013 R (Actual)	2013 R (Budget)	2013 R (Variance)	2013 R (Unauthorised)
Unauthorised expenditure current year - capital				
Executive & Council	505 380	600 000	(94 620)	-
Budget & Treasury	-	50 000	(50 000)	-
Corporate Services	-	-	-	-
Planning & Development	-	-	-	-
Health	-	-	-	-
Community & Social Services	3 996 281	2 000 000	1 996 281	1 996 281
Housing	-	-	-	-
Public Safety	-	-	-	-
Sport & Recreation	-	-	-	-
Environmental Protection	-	-	-	-
Waste Management	2 696 211	6 125 000	(3 428 789)	-
Waste Water Management	-	-	-	-
Road Transport	6 273 512	12 108 000	(5 834 488)	-
Water	231 282	-	231 282	231 282
Electricity	934 291	5 100 000	(4 165 709)	-
	<u>14 636 957</u>	<u>25 983 000</u>	<u>(11 346 043)</u>	<u>2 227 563</u>

	2013 R	2012 R
UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED (CONTINUE)		
49.2 Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure:		
Opening balance	769 292	62 284
Fruitless and wasteful expenditure current year	-	(39 146)
Overpayment of expenditure refunded	-	62 430
Overpayment of expenditure	-	683 724
MTN contract unauthorised by management	-	-
Written off by council	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting further action	<u>769 292</u>	<u>769 292</u>

2013: There was no fruitless and wasteful expenditure noted for the current financial year
 2012: A contract was entered into between MTN Cellular Service Provider and Sakhisizwe Municipality, whereby the municipality stands as surety for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not conducted and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones. The payment to MTN in the current financial year is regarded as fruitless and wasteful expenditure. An amount of R6'000 was overpaid to a supplier due to a casting error on their invoice submitted. An amount of R56'430 was overpaid to the supplier for car hire.

2011: Licencing & service fees totalling R23'138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2012. A duplicate payment was incorrectly made to Eskom on 26 August 2010 for R39'146. The payment was refunded during the 2012 financial year.

49.3 Irregular expenditure		
Reconciliation of irregular expenditure:		
Opening balance	22 077 021	13 321 328
Irregular expenditure current year	6 605 507	8 755 693
Condonement supported by council	-	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting further action	<u>28 682 528</u>	<u>22 077 021</u>
Irregular expenditure awaiting condonement from National Treasury	-	-

2011: During the 2011 financial year it was noted that under banking to the amount of R14'807 (2010: R21'713) occurred at the Cala Receiving office. No explanation could be provided and no authorisation was given for the under banking of the cash receipts.

Expenditure to the value of R 6'605'507 (2012: R8'755'693, 2011: R13'306'521) was incurred during the current financial year, for which the minimum required documentation was not available in order to comply with the required procurement procedures. As a result, the expenditure is considered irregular and it will be investigated further.

Recoverability of all irregular expenditure will be evaluated by Council in terms of section 32 of MFMA. No steps have been taken at this stage to recover any monies.

49.4 Material Losses		
Water distribution losses		
- Kilo litres disinfected/purified/purchased	-	-
- Kilo litres lost during distribution	-	-
- Percentage lost during distribution	-	-
Electricity distribution losses		
- Units purchased (Kwh)	-	-
- Units lost during distribution (Kwh)	-	-
- Percentage lost during distribution	-	-

Water losses: as at the time of submission of the financial statements, the municipality was unable to determine water losses as no bulk meters were in place. The installation of bulk water meters is in its planning stage.

Electricity losses: as at the time of the submission of the financial statements, the municipality was unable to determine electricity losses as no bulk meters were in place. The installation of bulk electricity meters is in its planning stage.

	2013 R	2012 R
50 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT		
50.1 Contributions to organised local government - [MFMA 125 (1)(b)] - SALGA CONTRIBUTIONS		
Opening balance	-	-
Council subscriptions	826 282	134 000
Amount paid - current year	(826 282)	(134 000)
Amount paid - previous years	-	-
Balance unpaid (included in creditors)	-	-
	2013 R	2012 R
50.2 Audit fees - [MFMA 125 (1)(b)]		
Opening balance	2 415 494	-
Current year audit fee	1 467 818	2 415 494
External Audit - Auditor-General	1 374 758	1 888 814
Internal Audit	16 532	375 237
Audit Committee	76 528	151 443
Amount paid - current year	(1 666 999)	-
Amount paid - previous year	(2 415 494)	-
Balance unpaid (included in creditors)	(199 181)	2 415 494
50.3 VAT - [MFMA 125 (1)(b)]		
Opening balance	-	-
Amounts received - current year	-	-
Amounts received - previous years	-	-
Amounts claimed - current year	-	-
Closing balance - Receivable	-	-
Vat in suspense due to cash basis of accounting		
Input VAT (note 12)	-	-
Output VAT (note 12)	-	-
Receivable	-	-
VAT is payable/receivable on the cash basis. VAT is only paid over to SARS once cash is received from debtors and only claimed from SARS once payment is made to creditors.		
50.4 PAYE, SDL and UIF - [MFMA 125 (1)(b)]		
Opening balance	-	-
Current year payroll deductions and Council Contributions	-	-
Amount paid - current year	-	-
Balance unpaid (included in creditors)	-	-
50.5 Pension and Medical Aid Deductions - [MFMA 125 (1)(b)]		
Opening balance	-	-
Current year payroll deductions and Council Contributions	-	-
Amount paid - current year	-	-
Balance unpaid (included in creditors)	-	-
50.6 Councillor's arrear consumer accounts - [MFMA 125 (1)(b)]		
The following Councillors had arrear accounts for more than 90 days as at 30 June 2013:		
	2013 R Outstanding more than 90 days	2012 R Outstanding more than 90 days
Councillor SP Ntakana	1 681	393
Councillor TT Doda	16 241	18 404
Total Councillor Arrear Consumer Accounts	17 922	18 797
50.7 Other non-compliance (MFMA 125(2)(e))		
Section 9(a) of the MFMA requires the accounting officer of a municipality to submit to the relevant provincial treasury and the Auditor General, in writing within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account. There were no new accounts opened during the current financial year.		
Section 9(b) of the MFMA requires that annually before the start of a financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account should be submitted to the relevant provincial treasury and the Auditor-General in writing. The municipality did not adhere to this section in the current year.		
Section 32 (4) (a) of the MFMA states that the accounting officer must promptly inform the mayor, the MEC of local government in the province and the Auditor General in writing of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. The municipality did not inform the relevant parties as required by the section.		
The municipality did not update their website with all relevant documentation as required by Section 75(2) of the MFMA. The matter has only been addressed after year-end.		
The municipality did not approve their adjustment budget before 25 January 2012 as required by Section 72 of the MFMA. The budget was approved on 11 February 2012.		

51	CAPITAL COMMITMENTS	2013 R	2012 R
	Commitments in respect of capital expenditure:		
	Approved and contracted for:	<u>6 363 916</u>	<u>12 107 801</u>
	Total commitments consist out of the following:		
	- Property, plant & equipment	<u>6 363 916</u>	<u>12 107 801</u>
		<u>6 363 916</u>	<u>12 107 801</u>
	This expenditure will be financed from:		
	Government Grants	<u>6 363 916</u>	<u>12 107 801</u>
		<u>6 363 916</u>	<u>12 107 801</u>

52	FINANCIAL RISK MANAGEMENT	2013 R	2012 R
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The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

(b) Price risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

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 liabilities which constitute the majority of interest bearing liabilities.

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

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

1 % (2012 - 0.5%) Increase in interest rates	69 587	17 512
0.5% (2012 - 0.5%) Decrease in interest rates	(34 793)	(17 512)

(d) 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 consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies. The municipality only deposits cash with major banks with high quality credit standing and limited exposure to any one counter-party.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers, however customers cannot be refused basic services, therefore in practice this is difficult to apply and this constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but the risk is largely dependent on the political will

All rates and services are payable within 30 days from invoice date. Refer to note 22 and 23 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 22 and 23 for balances included in receivables that were re-negotiated for the period under review.

No receivables are pledged as security for financial liabilities.

Due to the short term nature of receivables the carrying value disclosed in note 22 and 23 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The entity only enters into non-current investment transactions with major banks with high quality credit standing. Although the credit risk pertaining to non-current investments are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the municipality for current and non-current investments are all listed on the JSE (First National Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

	2013 R	2012 R
Financial assets exposed to credit risk at year end are as follows:		
Long term receivables	-	-
Receivables from exchange transactions	5 639 525	3 373 805
Receivables from non-exchange transactions	-	-
Cash and Cash Equivalents	12 996 850	11 743 281
Non-Current Investments	-	-
Unpaid conditional grants and subsidies	-	-
	<u>18 636 375</u>	<u>15 117 086</u>

(e) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow and available borrowing facilities are monitored.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end 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.

	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2013				
Long Term liabilities - Annuity Loans	-	-	-	-
Capital repayments				
Interest				
Long Term liabilities - Finance Lease Liability	-	3 162 390	-	-
Capital repayments		2 209 361	-	-
Interest		953 029	-	-
Provisions - Landfill Sites	-	-	-	-
Capital repayments				
Interest				
Trade and Other Payables	2 047 351	-	-	-
Unspent conditional government grants and receipts	2 971 703	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>5 019 054</u>	<u>3 162 390</u>	<u>-</u>	<u>-</u>
	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	Over 10 Years
2012				
Long Term liabilities - Annuity Loans	-	-	-	-
Capital repayments				
Interest				
Long Term liabilities - Finance Lease Liability	-	3 125 398	-	-
Capital repayments		1 895 090	-	-
Interest		1 230 308	-	-
Provisions - Landfill Sites	-	-	-	-
Capital repayments				
Interest				
Trade and Other Payables	1 949 960	-	-	-
Unspent conditional government grants and receipts	8 377 946	-	-	-
Cash and Cash Equivalents	-	-	-	-
	<u>10 327 906</u>	<u>3 125 398</u>	<u>-</u>	<u>-</u>

		2013 R	2012 R
53	FINANCIAL INSTRUMENTS		
	In accordance with GRAP 104 the financial instruments of the municipality are classified as follows:		
53.1	Financial Assets		
	Classification		
	Investments		
	Fixed Deposits	-	-
	Financial instruments at amortised cost		
	Long-term Receivables		
	Officials Housing Loans	-	-
	Rates (Re-negotiated terms)	-	-
	Councillor Allowances	-	-
	Financial instruments at amortised cost		
	Receivables		
	Receivables from exchange transactions	5 639 525	3 373 805
	Receivables from non-exchange transactions	-	-
	Financial instruments at amortised cost		
	Other Receivables		
	Government Subsidies and Grants	-	-
	Financial instruments at amortised cost		
	Current Portion of Long-term Receivables		
	Officials Housing Loans	-	-
	Sport Club Loans	-	-
	Financial instruments at amortised cost		
	Short-term Investment Deposits		
	Call Deposits	837 684	601 857
	Financial instruments at amortised cost		
	Bank Balances and Cash		
	Bank Balances	12 159 166	11 141 424
	Cash Floats and Advances	-	-
	Financial instruments at amortised cost		
		18 636 375	15 117 086
	SUMMARY OF FINANCIAL ASSETS		
	Financial instruments at amortised cost	18 636 375	15 117 086
	At amortised cost	18 636 375	15 117 086
	FINANCIAL INSTRUMENTS (CONTINUE)		
53.2	Financial Liability		
	Classification		
	Long-term Liabilities		
	Annuity Loans	-	-
	Capitalised Lease Liability	3 549 861	6 038 197
	Financial instruments at amortised cost		
	Payables from exchange transactions		
	Trade creditors	2 024 400	1 936 639
	Arrear portion of long term liabilities	-	-
	Retentions	-	-
	Deposits	22 951	13 321
	Other	-	-
	Financial instruments at amortised cost		
	Other Payables		
	Unspent Government Subsidies and Grants	2 971 703	8 377 946
	Financial instruments at amortised cost		
	Current Portion of Long-term Liabilities		
	Annuity Loans	-	-
	Capitalised Lease Liability	2 488 338	2 202 687
	Financial instruments at amortised cost		
		11 057 253	18 568 790
	SUMMARY OF FINANCIAL LIABILITY		
	Financial instruments at amortised cost	11 057 253	18 568 790
54	EVENTS AFTER THE REPORTING DATE		
	The municipality has no events after reporting date during the financial year ended 2012/2013.		

- 55 **IN-KIND DONATIONS AND ASSISTANCE**
The municipality did not receive any in-kind donations or assistance during the year under review.
- 56 **PRIVATE PUBLIC PARTNERSHIPS**
Council has not entered into any private public partnerships during the financial year.
- 57 **CONTINGENT LIABILITY**
The municipality does not have a permit or license for any of the landfill sites currently in use and could be liable for a penalty in terms of section 24G of the Environmental Conservation Act.
Workmens Compensation:
2012: The municipality has not yet submitted the required assessments to the Department of Labour relating to Compensation for Occupational Health and Safety for the 2006, 2007, 2009 and 2010 financial years. The municipality is currently in the process of negotiating payment terms, however it was not possible to quantify the amount owed for the 2006 to 2010 financial years, nor was it possible to quantify the amount that will be due by the municipality for penalties and interest.
The Trade Union, IMATU, contested the implementation of a wage curve agreement in the Labour Court and the court ruled in favour of IMATU. The Employers Organisation, SALGA, resolved to take the ruling of the Labour Court on review. The effect of the ruling is a general 2% increase in remuneration as from October 2009. The case has been taken to the appeal court, therefore it was not possible to quantify the amount that will be due by the municipality.
- 58 **RELATED PARTIES**
Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.
The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.
- 58.1 **Related Party Loans**
Since 1 July 2004 loans to councillors and senior management employees are not permitted. No loans have been granted by the municipality prior or subsequent to this date.
- 58.2 **Compensation of key management personnel**
The compensation of key management personnel is set out in note 31 to the Annual Financial Statements.
- 58.3 **Other related party transactions**
The following purchases were made during the year where Councillors or staff have an interest:
None
- 59 **FINANCIAL SUSTAINABILITY**
The indicators or conditions that may, individually or collectively, cast significant doubt about the going concern assumption are as follows:
Financial Indicators
The municipality have budgeted for a deficit of R 1 815 933 for the 2011/2012 financial year. The municipality is also budgeting for a deficit of R682 396 in the 2012 - 2013 financial year. These deficit will be covered by surplus cash in the Municipality.
The debtors turnover rate is 2.91 and the creditors 3.59.
Sakhisizwe Municipality do not have any overdraft facility arrangements with the bank.
We draw attention to the fact that as at 30 June 2013, the municipality had an accumulated surplus of R 133 330 758 and that the municipality's total assets exceed its liabilities by R 133 330 761.
Other Indicators
Possible outflow of resources due to the contingent liability are disclosed in note 57

APPENDIX B - Unaudited
SAKHISIZWE LOCAL MUNICIPALITY
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013

EXTERNAL LOANS	Rate	Loan Number	Redeemable	Balance at 30 JUNE 2012	Correction	Balance at 30 JUNE 2012 Restated	Received during the period	Redeemed written off during the period	Balance at 30 JUNE 2013
ANNUITY LOANS									
Annuity loans					-	-	-	-	-
Total Annuity Loans				-	-	-	-	-	-
LEASE LIABILITY									
Bell Bomag BW212D-40		0010E		1 255 828		1 255 828		442 064	813 764
HD 1023 Excavator		0002E		793 190		793 190		201 923	591 268
315 SJ 4 X 4 TLB		0003B		296 132		296 132		75 386	220 746
BELL 670G MOTOR GRADER		0004A		965 032		965 032		244 116	720 916
BELL BOMAG BW 212 D-40		0005T		521 483		521 483		136 145	385 338
S BELL DOZER		0006S		1 099 577		1 099 577		287 070	812 507
BELL B20D ADT 6 X 4		0007L		1 012 482		1 012 482		264 332	748 150
BELL B20D ADT 6 X 4		0008K		1 012 482		1 012 482		264 332	748 150
BELL B18D ADT 6X4 Water Tanker		0009J		1 255 251		1 255 251		293 993	961 258
Total Lease Liabilities				8 211 457	-	8 211 457	-	2 209 361	6 002 097
TOTAL EXTERNAL LOANS				8 211 457	-	8 211 457	-	2 209 361	6 002 097

APPENDIX D - Unaudited
SAKHISIZWE LOCAL MUNICIPALITY
SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013
GENERAL FINANCE STATISTIC CLASSIFICATIONS

2012 Actual Income R	2012 Actual Expenditure R	2012 Surplus/ (Deficit) R		2013 Actual Income R	2013 Actual Expenditure R	2013 Surplus/ (Deficit) R
(1 023 000)	12 788 396	11 765 396	Executive & Council	(2 100 000)	16 530 837	14 430 837
(40 981 902)	17 261 371	(23 720 531)	Budget & Treasury	(41 676 037)	18 126 742	(23 549 295)
		-	Corporate Services			-
(13 959 992)	1 959 790	(12 000 202)	Planning & Development	(24 457 017)	5 492 342	(18 964 675)
		-	Health			-
(53 806)	1 317 108	1 263 302	Community & Social Services	(421 483)	1 451 766	1 030 283
(63 147)	226 892	163 745	Housing	(60 295)	290 692	230 397
(2 269 263)	1 926 373	(342 890)	Public Safety	(1 834 228)	2 152 004	317 776
(400)	95 291	94 891	Sport & Recreation	(9 022)	139 644	130 622
		-	Environmental Protection			-
(2 500 779)	6 127 266	3 626 487	Waste Management	(3 520 670)	6 799 842	3 279 172
(4 788 384)	3 906 032	(882 352)	Waste Water Management	(5 736 853)	5 205 385	(531 468)
(52 233)	12 612 601	12 560 368	Road Transport	(9 188)	11 805 531	11 796 343
(10 091 984)	8 823 196	(1 268 788)	Water	(8 177 120)	9 267 554	1 090 434
(5 712 561)	9 145 582	3 433 021	Electricity	(7 942 818)	9 691 591	1 748 773
		-				-
(81 497 451)	76 189 898	(5 307 553)	Total	(95 944 731)	86 953 930	(8 990 801)

APPENDIX E - Unaudited
SAKHISIZWE LOCAL MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 1 JULY 2012	Correction of error	Balance 1 JULY 2012	Grants Received	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	Balance 30 JUNE 2013	Unspent 30 JUNE 2013 (Creditor)	Unpaid 30 JUNE 2013 (Debtor)
	R	R	R	R	R	R	R	R	R
UNSPENT AND UNPAID GOVERNMENT GRANTS AND RECEIPTS									
National Government Grants									
Equitable Share	-	-	-	35 127 000	35 127 000	-	-	-	-
Local Government Financial Management Grant (FMG)	10 000	-	10 000	1 500 000	1 500 000	-	10 000	10 000	-
Integrated National Electrification Programme (Eskom) Grant	2 045 152	-	2 045 152	-	2 044 152	-	1 000	1 000	-
- DME Projects	2 045 152	-	2 045 152	-	2 044 152	-	1 000	1 000	-
Municipal Infrastructure Grant (MIG)	5 625 897	-	5 625 897	16 292 000	-	20 391 374	1 526 523	1 526 523	-
- General MIG Fund	5 625 897	-	5 625 897	16 292 000	-	20 391 374	1 526 523	1 526 523	-
Municipal Systems Improvement Grant (MSIG)	10 000	-	10 000	800 000	800 000	-	10 000	10 000	-
Total National Government Grants	7 691 049	-	7 691 049	53 719 000	39 471 152	20 391 374	1 547 523	1 547 523	-
Provincial Government Grants									
Other Provincial Government Grants	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	900 000	-	-	900 000	900 000	-
Total Provincial Government Grants	-	-	-	900 000	-	-	900 000	900 000	-
District Municipality Grants									
Other District Municipality Grants	-	-	-	-	-	-	-	-	-
Total District Municipality Grants	-	-	-	-	-	-	-	-	-
Other Grant Providers									
(MSP) MUNICIPAL SUPPORT PROGRAMME	42 702	-	42 702	-	1 829	-	40 873	40 873	-
ELLIOT HOUSING	1 110	-	1 110	-	1	-	1 109	1 109	-
SURVEY ACCOUNT	8 648	-	8 648	-	763	-	7 885	7 885	-
EXTENTION 13 & 14	1 000	-	1 000	-	-	-	1 000	1 000	-
EXTENTION 15	2 213	-	2 213	-	-	-	2 213	2 213	-
GENERAL VALUATION	1 000	-	1 000	-	-	-	1 000	1 000	-
IDP PLAN	53 618	-	53 618	-	-	-	53 618	53 618	-
PMF REVIEW ACCOUNT	172 764	-	172 764	-	160 124	-	12 640	12 640	-
IEC - ELECTION	47 423	-	47 423	-	-	-	47 423	47 423	-
SKILLS DEVELOPEMENT	31 320	-	31 320	-	-	-	31 320	31 320	-
EPWP Unspent Grant/ Fund	325 099	-	325 099	-	-	-	325 099	325 099	-
LED	-	-	-	-	-	-	-	-	-
CHDM Libraries	-	-	-	-	-	-	-	-	-
Total Other Grant Providers	686 897	-	686 897	-	162 717	-	524 180	524 180	-
Total	8 377 946	-	8 377 946	54 619 000	39 633 869	20 391 374	2 971 703	2 971 703	-