Planning by	Reviewed	Performed by	Final review

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Ngwathe Local Municipality
Financial statements
for the year ended 30 June 2012
The Auditor General of South Africa

General Information

Legal form of entity	An organ of state within the local sphere of government exercising legislative and executive authority
Nature of business and principal activities	Provide municipal services and maintain the best interest of the local cumunity, mainly in the Ngwathe Municipal area.
Grading of local authority	Grade 3 Medium capacity
Accounting Officer	Adv. T Mokoena
Registered office	Liebenbergstrek Parys 9585
Auditors	The Auditor General of South Africa
Attorneys	Utilise attorneys in the Municipal area

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The financial statements set out on pages 4 to 58, which have been prepared on the going concern basis, were approved by the accounting officer on 23 November 2012 and were signed on its behalf by:

Adv. T Mokoena
Accounting Officer

23 November 2012

Statement of Financial Position

Figures in Rand		Note(s)	2012	2011
Assets				
Current Assets				
Inventories	30.20	2	597 195	755 919
Other financial assets	25.26-28	3	657 932	657 932
Receivables from non-exchange transactions	31.20	4	109 282 895	97 889 898
Consumer debtors	31.20	5	124 753 936	92 821 908
Cash and cash equivalents	32.20	6	29 900 012	3 098 948
			265 191 970	**195 224 605**
Non-Current Assets				
Investment property	21.20	7	152 718 000	152 718 000
Property, plant and equipment	20.20	8	1 125 971 550	1 215 835 314
Other financial assets	25.26-28	3	8 277 785	8 277 785
Long term receivables	27.27		-	41 217
			1 286 967 335	**1 376 872 316**
Total Assets			**1 552 159 305**	**1 572 096 921**
Liabilities				
Current Liabilities				
Finance lease obligation	25.29	9	-	212 316
Payables from non-exchange transactions	51.20	11	204 718 314	153 935 082
VAT payable	51.20		4 099 230	3 551 803
Consumer deposits	51.20	13	3 778 459	3 583 682
Retirement benefit obligation	27.22	14	1 709 350	-
Unspent conditional grants and receipts	43.20	15	37 965 774	15 193 434
Provisions	52.20	16	29 095 153	24 051 280
			281 366 280	**200 527 597**
Non-Current Liabilities				
Other financial liabilities	41.27-28	10	22 318 329	22 525 140
Retirement benefit obligation	27.22	14	30 429 352	28 974 497
			52 747 681	**51 499 637**
Total Liabilities			**334 113 961**	**252 027 234**
Net Assets			**1 218 045 344**	**1 320 069 687**
Net Assets				
Accumulated surplus	40.24		1 218 045 344	1 320 069 687

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	18	68 562 318	52 341 477
Service charges	19	154 865 847	132 358 998
Rental of facilities and equipment		252 285	1 573 896
Fines		774 908	1 113 207
Government grants & subsidies	20	160 047 176	171 313 382
Other income	21	2 136 544	4 037 700
Interest received - investment	22	17 678 084	13 446 988
Total Revenue		**404 317 162**	**376 185 648**
Expenditure			
Personnel	23	(119 272 827)	(117 048 011)
Remuneration of councillors	24	(8 615 034)	(8 313 709)
Depreciation and amortisation	25	(98 144 384)	(96 992 682)
Impairment loss/ Reversal of impairments	26	(49 058 191)	15 468 645
Finance costs	27	(10 388 608)	(6 378 981)
Debt impairment	28	-	(18 959 263)
Collection costs		-	(793 125)
Repairs and maintenance		(11 325 826)	(16 258 342)
Bulk purchases	29	(114 069 463)	(111 659 223)
Contracted services	30	(1 883 581)	(3 833 295)
General Expenses	31	(92 603 110)	(50 286 360)
Total Expenditure		**(505 361 024)**	**(415 054 346)**
Fair value adjustments	32	-	41 160
Deficit for the year		**(101 043 862)**	**(38 827 538)**

Ngwathe Local Municipality
Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	655 155 348	655 155 348
Adjustments		
Correction of errors	703 741 877	703 741 877
Balance at 01 July 2010 as restated	**1 358 897 225**	**1 358 897 225**
Changes in net assets		
Surplus for the year	(38 827 538)	(38 827 538)
Total changes	(38 827 538)	(38 827 538)
Opening balance as previously reported	1 314 876 766	1 314 876 766
Adjustments		
Correction of errors	5 192 923	5 192 923
Balance at 01 July 2011 as restated	**1 320 069 689**	**1 320 069 689**
Changes in net assets		
Fair value gains, net of tax: Land and buildings	(980 483)	(980 483)
Net income (losses) recognised directly in net assets	(980 483)	(980 483)
Surplus for the year	(101 043 862)	(101 043 862)
Total recognised income and expenses for the year	(102 024 345)	(102 024 345)
Total changes	(102 024 345)	(102 024 345)
Balance at 30 June 2012	**1 218 045 344**	**1 218 045 344**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Receipts from ratepayers, government and other		343 314 053	330 856 906
Interest income		17 678 084	13 233 021
		360 992 137	344 089 927
Payments			
Employee costs		(127 887 861)	(125 361 720)
Suppliers		(187 214 857)	(177 314 512)
Finance costs		(10 383 922)	(6 057 394)
		(325 486 640)	(308 733 626)
Net cash flows from operating activities	35	**35 505 497**	**35 356 301**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(8 280 620)	(3 955 678)
Proceeds from sale of financial assets		-	(985 761)
Net cash flows from investing activities		**(8 280 620)**	**(4 941 439)**
Cash flows from financing activities			
Repayment of other financial liabilities		(206 811)	-
Repayment of other financial liabilities		-	(3 283 019)
Finance lease payments		(217 002)	(321 587)
Net cash flows from financing activities		**(423 813)**	**(3 604 606)**
Net increase/(decrease) in cash and cash equivalents		**26 801 064**	**26 810 256**
Cash and cash equivalents at the beginning of the year		3 098 948	(23 711 308)
Cash and cash equivalents at the end of the year	6	**29 900 012**	**3 098 948**

Accounting Policies

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Municipal Finance Management Act, 56 of 2003 and Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

The financial statements have been prepared on a going concern basis and the accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The selling price refers to the Rand amount that the item can be exchanged for on the open market or the fair value of another asset exchanged.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm or technical advice. Management will amend the depreciation charge where there is a change in the estimated useful lives.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

The municipality used the most relevant contractual risk rate applicable to each category of assets and liabilities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for doubtful debts

On trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows based on the historical payment trend.

Provision to the doubtful debts allowance accounts are caculated based on the average payment percentage as calculated per ward determining the risk in days averaged to 30, 60, 90, 120 days and higher. Provision is then determined per ward based on the ward's risk portfolio.

1.2 Investment property

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

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

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

Accounting Policies

1.2 Investment property (continued)

Fair value

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

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

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

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

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value.

Where comparable market transactions become less frequent or market prices become less readily available, the fair value model will be remain applicable until disposal (or reclassification) of the investment property.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	**Average useful life**
Buildings	30
Plant and machinery	3 to 30
Furniture and fixtures	3 to 15
Motor vehicles	4 to 15
Office equipment	3 to 15
Landfill site	30
Infrastructure	5 to 100
Equipment	5
Airport	20
Computer equipment	3 to 5

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

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

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

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

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

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

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

1.4 Site restoration and dismantling cost

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

Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

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

1.5 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

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

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.6 Investments in controlled entities

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

The cost of an investment in controlled entity is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

1.7 Financial instruments

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

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

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

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

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

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

1.7 Financial instruments (continued)

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

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

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Non current investments	Financial asset measured at amortised cost
Other non current investments (shares)	Financial asset measured at fair value
Other	Financial asset measured at fair value

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

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

Accounting Policies

1.7 Financial instruments (continued)

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

Financial assets measured at cost:

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

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

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

1.7 Financial instruments (continued)

Presentation

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

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

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

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

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

1.8 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.10 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.11 Impairment of cash-generating assets

Identification

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

The municipality assesses annually whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Value in use

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

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

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally.

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.12 Impairment of non-cash-generating assets

Identification

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

The municipality assesses annually whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

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

Value in use

Value in use of an asset is the present value of the asset’s remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

1.13 Employee benefits (continued)

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The amount recognised as a defined benefit liability is the net total of the following amounts:
- 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 requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Accounting Policies

1.13 Employee benefits (continued)

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

The municipality offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.14 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

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

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

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

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

Accounting Policies

1.14 Provisions and contingencies (continued)

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

Provisions are not recognised for future operating deficits.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

1.15 Revenue from exchange transactions

Measurement

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

Sale of goods

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

1.15 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

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

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

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

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

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

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

1.16 Revenue from non-exchange transactions

Recognition

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

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

Measurement

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

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

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Transfers

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

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

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

Fines

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

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

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

Bequests

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

Gifts and donations, including goods in-kind

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

1.17 Investment income

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

1.18 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

1.18 Borrowing costs (continued)

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.19 Comparative figures

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

1.20 Unauthorised expenditure

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 Irregular expenditure

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

1.23 Presentation of currency

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

1.24 Offsetting

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

1.25 Investments

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

1.26 Conditional grants and receipts

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

1.27 Budget information

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

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

Accounting Policies

1.27 Budget information (continued)

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

1.28 Related parties

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

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

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

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

1.29 Going concern

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

1.30 Events after reporting date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the Annual Financial Statements are authorised for issue. Two types of events can be identified those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date) and those that is indicative of conditions that arose after the reporting date (non-adjustingevents after the reporting date).

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

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

Notes to the Financial Statements

Figures in Rand	2012	2011

2. Inventories

Work in progress	48 895	-
Stores, materials and fuels	548 300	937 196
Stock adjustment	-	(181 277)
	597 195	**755 919**

3. Other financial assets

Available-for-sale		
Listed shares	184 156	184 156
Unlisted shares	473 776	473 776
	657 932	**657 932**
Held to maturity		
Other financial assets	8 277 785	8 277 785
Total other financial assets	**8 935 717**	**8 935 717**
Non-current assets		
Held to maturity	8 277 785	8 277 785
Current assets		
Available-for-sale	657 932	657 932
	8 935 717	**8 935 717**

Fair value hierarchy of financial assets at fair value through surplus or deficit

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Fair value of held to maturity investments

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

4. Receivables from non-exchange transactions

Sundry debtors	109 282 895	97 889 898

5. Consumer debtors

Gross balances		
Rates	106 364 778	81 398 805
Electricity	55 305 609	35 662 160
Water	80 236 698	61 476 235
Sewerage	48 821 685	38 873 826
Refuse	45 193 847	37 562 600
	335 922 617	**254 973 626**

Figures in Rand	2012	2011

5. Consumer debtors (continued)

Less: Provision for debt impairment		
Rates	(55 659 415)	(42 595 118)
Electricity	(24 733 165)	(15 948 438)
Water	(58 589 413)	(44 890 389)
Sewerage	(36 664 404)	(29 193 701)
Refuse	(35 522 284)	(29 524 072)
	(211 168 681)	**(162 151 718)**

Net balance		
Rates	50 705 363	38 803 687
Electricity	30 572 444	19 713 722
Water	21 647 285	16 585 846
Sewerage	12 157 281	9 680 125
Refuse	9 671 563	8 038 528
	124 753 936	**92 821 908**

Rates		
Current (0 -30 days)	2 225 423	2 418 010
31 - 60 days	1 898 147	1 185 833
61 - 90 days	1 702 674	1 332 060
91 - 120 days	44 879 119	33 867 784
	50 705 363	**38 803 687**

Electricity		
Current (0 -30 days)	3 051 670	2 600 553
31 - 60 days	2 515 721	2 404 250
61 - 90 days	1 894 238	764 848
91 - 120 days	23 110 815	13 944 071
	30 572 444	**19 713 722**

Water		
Current (0 -30 days)	1 306 044	628 023
31 - 60 days	635 980	1 032 734
61 - 90 days	536 332	2 056 587
91 - 120 days	19 168 929	12 868 502
	21 647 285	**16 585 846**

Sewerage		
Current (0 -30 days)	619 937	524 520
31 - 60 days	533 525	449 501
61 - 90 days	491 853	406 728
91 - 120 days	10 511 966	8 299 376
	12 157 281	**9 680 125**

Refuse		
Current (0 -30 days)	460 442	399 960
31 - 60 days	409 264	336 678
61 - 90 days	391 962	322 678
91 - 120 days	8 409 895	6 979 212
	9 671 563	**8 038 528**

Figures in Rand	2012	2011

5. Consumer debtors (continued)

Reconciliation of debt impairment provision

	2012	2011
Balance at beginning of the year	(162 151 718)	(177 620 361)
Contributions to provision	(49 016 963)	15 468 643
	(211 168 681)	**(162 151 718)**

Fair value of consumer debtors

	2012	2011
Consumer debtors	124 753 936	92 821 908

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	14 603	14 603
Bank balances	29 885 409	3 084 345
	29 900 012	**3 098 948**

Credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
ABSA BANK LTD - CHEQUE ACCOUNT - 4052707733	757 648	1 475 468	-	645 543	(5 057 048)	-
ABSA BANK LTD - CALL ACCOUNT - 9253832988	465 907	1 531 151	-	465 907	1 531 151	-
ABSA BANK LTD - CALL ACCOUNT - 9253833502	20 212 013	4 968 891	-	20 212 013	4 953 439	-
ABSA BANK LTD - CALL ACCOUNT - 9253833764	1 045 669	1 008 650	-	1 045 669	1 008 650	-
ABSA BANK LTD - CALL ACCOUNT - 9253535643	33 745	44 766	-	33 745	44 766	-
ABSA BANK LTD - CHEQUE ACCOUNT - 1130000041	7 482 532	603 389	-	7 482 532	603 389	-
Total	**29 997 514**	**9 632 315**	**-**	**29 885 409**	**3 084 347**	**-**

The fair value has been determined by using the face value of the outstanding capital.

All unspent conditional grants have been ringfenced in the short term call deposits and may not be utilised for any other purposes.

The different institutions have external credit ratings.

7. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	152 718 000	-	152 718 000	152 718 000	-	152 718 000

7. Investment property (continued)

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	152 718 000	152 718 000

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	152 718 000	152 718 000

During the financial year the municipality also identified and measured investment properties in terms of GRAP 16.

Retrospective application of the effects of implementation of GRAP 16:

- The implementation of GRAP 16 is a change in accounting policy. In terms of GRAP 3, changes in accounting policies should be applied retrospectively. Refer to Prior year error note 37 for detail of restatement.

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	4 370 075	-	4 370 075	4 370 075	-	4 370 075
Buildings	50 466 529	(11 314 570)	39 151 959	50 466 529	(8 479 945)	41 986 584
Plant and machinery	3 632 263	(1 717 744)	1 914 519	3 295 342	(1 262 170)	2 033 172
Furniture and fixtures	8 746 266	(5 609 446)	3 136 820	8 724 266	(4 200 012)	4 524 254
Motor vehicles	11 998 761	(5 987 488)	6 011 273	11 719 726	(4 248 771)	7 470 955
Office equipment	912 314	(539 956)	372 358	791 348	(386 153)	405 195
IT equipment	3 410 169	(1 758 466)	1 651 703	2 629 946	(1 270 709)	1 359 237
Infrastructure	1 431 173 310	(363 390 467)	1 067 782 843	1 424 431 837	(272 497 346)	1 151 934 491
Airports	2 264 000	(684 000)	1 580 000	2 264 000	(512 649)	1 751 351
Total	**1 516 973 687**	**(391 002 137)**	**1 125 971 550**	**1 508 693 069**	**(292 857 755)**	**1 215 835 314**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	4 370 075	-	-	4 370 075
Buildings	41 986 584	-	(2 834 625)	39 151 959
Plant and machinery	2 033 172	336 922	(455 575)	1 914 519
Furniture and fixtures	4 524 254	22 000	(1 409 434)	3 136 820
Motor vehicles	7 470 955	279 036	(1 738 718)	6 011 273
Office equipment	405 195	120 965	(153 802)	372 358
IT equipment	1 359 237	780 224	(487 758)	1 651 703
Infrastructure	1 151 934 491	6 741 473	(90 893 121)	1 067 782 843
Airports	1 751 351	-	(171 351)	1 580 000
	1 215 835 314	**8 280 620**	**(98 144 384)**	**1 125 971 550**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Landfill site	Depreciation	Total
Land	4 370 075	-	-	-	4 370 075
Buildings	44 813 232	-	-	(2 826 648)	41 986 584
Plant and machinery	2 361 611	96 120	-	(424 559)	2 033 172
Furniture and fixtures	5 908 908	16 784	-	(1 401 438)	4 524 254
Motor vehicles	8 887 212	-	-	(1 416 257)	7 470 955
Office equipment	504 111	32 201	-	(131 117)	405 195
IT equipment	1 734 104	51 889	-	(426 756)	1 359 237
Infrastructure	1 214 319 551	3 758 684	24 051 280	(90 195 024)	1 151 934 491
Airports	1 922 234	-	-	(170 883)	1 751 351
	1 284 821 038	**3 955 678**	**24 051 280**	**(96 992 682)**	**1 215 835 314**

8. Property, plant and equipment (continued)

Infrastructure Assets

During the financial year, the municipality implemented a process to identify record, value and manage infrastructure assets, as required in terms of GRAP 17.

This resulted in a re-constructed Fixed Asset Register where the identification, verification and measurement were completed.

Due to the magnitude of this project, the measurement of the following assets will only be completed during the 2013 financial year.

1. Parys
- Sports Facilities
- Outdoor Switchgear
- Fuse Stations

2. Vredefort
- Outdoor Switchgear
- Sewage Pump Stations
- Municipal Buildings
- Boreholes

3. Koppies
- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations
- Sports Facilities
- Reservoirs
- Pressure Towers
- Boreholes

4. Edenville
- Roads, Road Furniture, Electricity Poles & Streetlights
- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations
- Sports Facilities
- Reservoirs
- Pressure Towers
- Boreholes

5. Heilbron
- Roads, Road Furniture, Electricity Poles & Streetlights
- Outdoor Switchgear
- Sewage Works
- Water Works
- Sewage Pump Stations
- Sports Facilities
- Minisubs
- Pole Mounted Transformers
- Reservoirs
- Pressure Towers
- Boreholes

Physical verification and valuation:

- All the infrastructure assets have been physically verified during the year by specialists. During this process the asset location, condition and maintenance history was recorded and evaluated.

Figures in Rand	2012	2011

8. Property, plant and equipment (continued)

--Due to the specialised nature of the assets, and market availability of information, the Depreciated Replacement Cost method was used to restate the opening balances for assets in existence prior to 2009.
- A 100% verification and condition assessment was done except for storm water due to the nature of the assets and the fact that the assets are underground.

Retrospective application of the effects of implementation of GRAP 17:

The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3, changes in accounting policies should be applied retrospectively. Refer to Prior year error note 37 for detail of restatement.

Movable assets

During the year, the municipality also implemented a process to identify, verify, record and value all movable assets as required in terms of GRAP 17. This resulted in a reconstructed fixed asset register as required in terms of GRAP 17

- A 100% verification and condition assessment was done

Retrospective application of the effects of implementation of GRAP 17:

- The implementation of GRAP 17 is a change in accounting policy. In terms of GRAP 3, changes in accounting policies should be applied retrospectively. Refer to Prior year error note 37 for detail of restatement.[Insert terms and conditions here where terms and conditions are the same]

9. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	-	217 002
	-	217 002
less: future finance charges	-	(4 685)
Present value of minimum lease payments	**-**	**212 317**
Present value of minimum lease payments due		
- within one year	-	212 317

10. Other financial liabilities

	2012	2011
Held at amortised cost		
Loan DBSA	15 182 705	15 182 705
Terms and conditions		
Loan INCA	2 100 544	2 307 355
Terms and conditions		
COGTA	5 000 000	5 000 000
Terms and conditions		
Annuity loans	35 080	35 080
Terms and conditions		
	22 318 329	**22 525 140**
Non-current liabilities		
At amortised cost	22 318 329	22 525 140

Notes to the Financial Statements

Figures in Rand	2012	2011

11. Payables from non-exchange transactions

Trade payables	126 745 557	83 394 699
Sundry creditors	21 048 391	21 193 735
Accrued leave pay	11 920 990	10 429 956
Accrued expense	204 815	204 815
Deposits received	401 777	398 798
Other payables	28 346 318	10 051 405
Other creditors	8 674 100	8 591 205
Salary suspense account	6 347 635	18 641 738
Debtors loan	4 424	4 424
Audit fees	1 017 969	1 017 969
Payments in advance	6 338	6 338
	204 718 314	**153 935 082**

12. VAT receivable

13. Consumer deposits

Electricity	3 778 459	3 583 682

14. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(28 974 497)	(28 974 497)
Plus service cost	(1 709 350)	-
Plus interest cost	(1 707 164)	-
Less benefits paid	252 309	-
	(32 138 702)	**(28 974 497)**
Non-current liabilities	(30 429 352)	(28 974 497)
Current liabilities	(1 709 350)	-
	(32 138 702)	**(28 974 497)**

Real discount rate	**2.00%**	**1.00% (base)**	**0.00%**
Accrued PS liability as at 30 June 2012	26 098 778	32 138 703	40 058 562
Plus Service cost	2 520 503	3 032 277	3 689 281
Plus interest cost	1 468 878	1 810 505	2 258 463
Less benefits paid during 2012/2013	(258 306)	(258 306)	(258 306)
Projected PS liability as at 30 June 2013	29 829 853	36 723 179	45 748 001
	59 659 706	**73 446 358**	**91 496 001**

•The service cost in the above table represents the increase in the liability due to the additional years of service accrued by active members. For the base case, where we assumed that the gap or real discount rate was 1%, we project a service cost of R 3 032 277 for the year ahead. It should be noted that pensioners are not included in this figure since they do not accrue any extra years of service.

•The interest cost is based on the discount rate assumption for the current valuation which is based on the Zero-coupon Bond Yield Curve of South Africa as at 29 June 2012, the liability accrued as at 30 June 2012 and the contributions paid during the financial year.

•The benefits paid during 2012/2013 are the estimated medical scheme contributions paid by Ngwathe Municipality with respect to PRMA receiving members during the period 1 July 2012 to 30 June 2013.

Notes to the Financial Statements

Figures in Rand	2012	2011

14. Employee benefit obligations (continued)

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

Net expense recognised in the statement of financial performance	3 164 205	-

Net expense recognised in the statement of financial performance

Current service cost	1 709 350	-
Interest cost	1 707 164	-
Benefits paid	(252 309)	-
	3 164 205	**-**

Indicator	**Past service liability**	**Sensitivity to medical inflation**
1%	40 058 562	24.64%
Base	32 138 703	
-1%	26 098 778	-18.79%

These results indicate the extent to which the PRMA liability is sensitive to the difference between long-term medical inflation and the discount rate. The appropriate gap between these two long term rates is a matter of judgement, and the sensitivity of the results to the assumed gap does not mean that the central results are not reasonable

Indicator	**Past service liability**	**Sensitivity to withdrawal**
10%	31 498 583	-1.99%
Base	32 138 703	-
-10%	32 810 246	2.09%
	-	**-**

14. Employee benefit obligations (continued)

Key assumptions

Investment returns
We have used the entire South African zero-coupon bond yield curve as at 29 June 2012 in the PRMA valuation of Ngwathe Municipality. Therefore, a single assumption for the discount rate is not shown.

Medical inflation
Future medical inflation is assumed to be 1% lower than the valuation discount rate at each term to maturity.

Consumer Price inflation
We have assumed CPI to be 2.5% lower than the discount rate at each term to maturity.

Salary inflation
The maximum subsidy amount payable by Ngwathe Municipality of R 3440.00 at 30 June 2012 is expected to increase from time to time. The rate of increase is assumed to be equivalent to salary inflation. Therefore, salary inflation will have an impact on the liability. For the current valuation we have assumed that salary inflation is 1% higher than CPI.

The real discount rate (or the ‘gap’)
This is the variable having the greatest effect on the liability. Small changes in this assumption will lead to large changes in the liability result. As discussed above, we have assumed a gap of 1%.

Normal retirement age The normal retirement age of the Ngwathe Municipality employees is 65 years for males and 60 years for females.

Mortality/Withdrawal/Ill-health/Early retirement

The pre-retirement mortality used in the valuation is SA(85/90) light for males, and SA(85/90) light with a three year adjustment for females.
The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for females.
The withdrawal (termination, resignation, dismissal), ill-health and early-retirement decrements used in the valuation are tabulated in annexure A.
The early retirement age of the Ngwathe Municipality employees is 60 years.

Marital Status/Number of Child Dependants/Number of Adult Dependants
The actual numbers of adult and child dependants were used when valuing pensioners.

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2012	2011
Unspent conditional grants and receipts		
Department of Mineral and Energy	7 436 062	3 048 104
Sundry grants	3 211 236	3 820 054
MIG grant	21 150 904	3 459 047
Departmentof Water Affairs	3 762 503	3 672 503
Financial management grant	1 285 012	160 000
LGSETA grant	1 120 057	1 033 726
	37 965 774	**15 193 434**

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

Figures in Rand	2012	2011

16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	24 051 280	3 655 452	27 706 732
Provision for legal claim	-	1 388 421	1 388 421
	24 051 280	**5 043 873**	**29 095 153**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	19 423 990	4 627 290	24 051 280

16. Provisions (continued)

The estimation of the current liability to rehabilitate the landfill sites were performed by Jan Palm Consulting Engineering CC. Jan Palm Consulting Engineering CC is not connected to the municipality. The full report is available on request.

The amount is made up out of five sites, Heilbron, Koppies, Parys, Vredefort and Edenville.

The Koppies, Parys and Edenville sites have a permit to operate as a landfill site. The Heilbron and Vredefort sites are not permitted to operate as landfill sites.
All of these sites are still operational and receive general refuse, garden refuse and builder's rubble.

In order to determine the rehabilitation costs for each site the Minimum Requirements (2nd Edition,1998) from the Department of Water Affairs and Forestry (DWAF) were used as guideline for the design of the capping layer as well as the capacity of the storm water drainage system.

Parys's classification is G:S:B- where the "G" classification refers to the type of waste that may be received at the site, which in this case is "general waste". General waste is the description given to all domestic waste and all wastes generated from commercial, business and industrial activities that are not hazardous or toxic. Pharmaceutical and medical wastes are also not part of general waste. The "S" classification refers to a volume of waste disposed of between 25 and 150 ton per day and the "B-" indicates that the site has more evaporation than rainfall during 20% or less of its wet season. According to the Minimum requirements there is no need for a leachate management system in B- sites.

The Koppies permit was issued pre-1994 and the permit states that the site is Class 2. This only indicates that the site is licensed to receive general waste and no hazardous wastes. The population of Koppies is approximately 14 300 which translates to a daily waste generation of 0.7 kg per person per day and this translates to 10 to 11 tonnes per day. It can be assumed that Koppies can be classed as a "C" size site as it receives less than 25 tonnes of waste per day.

The Edenville permit could not be obtained, but is assumed that only general waste is allowed to be disposed of on the site. The population is approximately 7 100, which translates to approximately 4 to 5 tonnes of waste generation per day. Edenville is therefore assumed to be a "C" site.

The Heilbron site receives domestic waste, garden waste and builders rubble. The population is approximately 27 000, which translates to approximately 18 to 19 tonnes of waste generation per day. Heilbron is therefore assumed to be a "C" site.

The Vredefort site receives domestic waste, garden waste and builders rubble. The population is approximately 18 000, which translates to approximately 12 to 13 tonnes of waste generation per day. Vredefort is therefore assumed to be a "C" site.

We assumed that these sites will be approximately shaped towards the final design by using waste. It was also assumed that the 200mm thick cover material could be sourced from nearby areas.

Costs for site supervision have been included for each site and the totals are based on the estimated construction period and 2 sites per week, done by a local Engineer's representative.

The closure cost estimates make provision for concrete grass blocks around the toe of the landfills as well as on the top of the landfills. The use of the grass blocks will provide sufficient flexibility in the event of differential settlement and is easily repaired in case of occasional damage. The cost estimates includes concrete filled Hyson Cell-lined storm water chutes down the sides of the landfill. The use of the Hyson Cell channels will provide sufficient flexibility in the event of differential settlement and the concrete infill will provide sufficient erosion protection for the higher flow velocities on the slopes.

Legal proceedings provisions

16. Provisions (continued)

Party: Stolen believes Vs. Ngwathe Local Municipality
Nature\description: Stolen Believes allegedly supplied protective clothing to the Municipality and is suing the municipality for failing to effect payment for services rendered.
Instituting Attorneys: Jordaans Rijkeer Attorneys
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment.
Amount: R32 229.16

Party: Clover SA vs. NLM
Nature/ Description: Jansen attorneys representing Clover SA transferred properties purchased by Clover and an positive amount resulted from the transaction & they are claiming the excess amount which resulted
Instituting Attorneys: Jansen Attorney
Prospects of success: It's a legal claim, & der is no grounds to defend the matter except to effect payment
Estimated Costs: R2 347.94

Party: Arb Whole Sales vs. NLM
Nature/ Description: Arb Whole Sales sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality
Instituting Attorneys: Lomas Walker Attorneys
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment
Estimated Costs: R83 236.00

Party: Zemdock t/a Sedgars vs. NLM
Nature/ Description: Zemdock t/a Sedgars sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality
Instituting Attorneys: Steyn Lyell Maeyane
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment
Estimated Costs: R192 000.00

Party: Nashua\ Siemens vs NLM
Nature/ Description: Nashua t/a Siemens sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment
Estimated Costs: R92687.06

Party: DDP Valuers vs NLM
Nature/ Description: Municipality affected R254000 but allegedly did not pay for the interest of R17 800 which has now escalated to R36 736. . DDP Valuers is suing for the recovery of such interest
Instituting Attorneys: Symington & De Kock\Coetzer & Partners
Prospects of success: Municipality failed to pay costs of interests born of the initial R261 456.000 and now it It's a legal claim, & der are no grounds to defend the matter except to effect payment
Estimated Costs: R36 736

Party: New team construction vs NLM

Nature/ Description: New team construction rendered excavation service in 2011. Municipality has not paid them for services rendered

Instituting Attorneys: Maqubung
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment
Estimated Costs: R678 000.00

Party: Isintu Projects vs NLM

Nature/ Description: Isintu Projects rendered Jetblsating & meter reading service to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality

Instituting Kriek & van Wyk
Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment

Figures in Rand	2012	2011

16. Provisions (continued)

Estimated Costs: R191 869.98

Party: Aqua Agri Solutions vs NLM

Nature/ Description: Aqua Agri Solutions sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality

Instituting Gouws Vertue & associates

Prospects of success: It's a legal claim, & der are no grounds to defend the matter except to effect payment

Estimated Costs R79 315.30

17. Revenue

Property rates	68 562 318	52 341 477
Service charges	154 865 847	132 358 998
Rental of facilities & equipment	252 285	1 573 896
Fines	774 908	1 113 207
Government grants & subsidies	160 047 176	171 313 382
	384 502 534	**358 700 960**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	154 865 847	132 358 998
Rental of facilities & equipment	252 285	1 573 896
	155 118 132	**133 932 894**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	68 562 318	52 341 477
Fines	774 908	1 113 207
Transfer revenue		
Levies	160 047 176	171 313 382
	229 384 402	**224 768 066**

18. Property rates

Rates received

Property rates	68 562 318	64 147 377
Less: income forgone	-	(11 805 900)
	68 562 318	**52 341 477**

19. Service charges

Customers incentives	(25 464 045)	(14 371 722)
Sale of electricity	95 931 861	78 201 403
Sale of water	31 207 589	22 503 108
Sewerage and sanitation charges	28 432 968	24 419 250
Refuse removal	24 757 474	21 606 959
	154 865 847	**132 358 998**

Figures in Rand	2012	2011

20. Government grants and subsidies

Equitable share	134 039 000	126 766 056
Government grant (operating) 1	324 988	-
Government grant (operating) 2	790 000	-
Government grant (operating) 3	25 230 696	44 547 326
Government grant (capital) 20	(337 508)	-
	160 047 176	**171 313 382**

21. Other income

Auction fees	62 725	76 557
Administration fees	2 884	7 288
Building plans and inspections	65 841	101 740
Grave plots	560 832	663 030
Clearance certificates	53 890	67 896
Reconnection / connection fees	253 488	464 188
Sundry income	1 136 734	2 616 578
Sundries	-	11 953
Prepaid electricity cards	-	28 091
Lost books	-	179
Fire brigade fees	-	200
Sale of redundant stock	150	-
	2 136 544	**4 037 700**

22. Investment revenue

Interest revenue		
Other financial asset	574 824	1 290
Interest charged on trade and other receivables	17 103 260	13 445 698
	17 678 084	**13 446 988**

Notes to the Financial Statements

Figures in Rand	2012	2011

23. Employee related costs

Basic	70 027 329	75 765 043
Bonus	7 382 527	8 668 124
Medical aid - company contributions	4 163 768	4 810 856
UIF	732 045	703 830
Other payroll levies	1 585 057	1 376 873
Leave pay provision charge	4 127 174	1 876 137
Post-employment benefits - Pension - Defined contribution plan	12 327 754	12 135 776
Overtime payments	7 045 060	3 999 503
Car allowance	5 042 608	4 499 832
Housing benefits and allowances	245 340	257 601
Other allowances	6 594 165	2 086 043
Relief payment	-	868 393
	119 272 827	**117 048 011**

Remuneration of Municipal Manager (1 July 2011 to 30 November 2011)

Annual Remuneration	246 457	191 527
Car Allowance	89 828	56 023
Contributions to UIF, Medical and Pension Funds	64 962	38 977
Leave payout	274 238	-
Acting Allowance	-	135 000
	675 485	**421 527**

Remuneration of Municipal Manager (1 April 2012 to 30 June 2012)

Annual Remuneration	171 379	-
Car Allowance	42 125	-
Contributions to UIF	374	-
	213 878	**-**

Remuneration of Chief Financial Officer (1 July 2010 to 30 October 2010)

Acting Allowance	-	45 292
	-	**45 292**

Remuneration of Chief Financial Officer (1 July 2011 to 30 April 2012)

Annual Remuneration	621 248	350 000
Car Allowance	217 638	149 002
Performance Bonuses	1 281	873
	840 167	**499 875**

Remuneration of Chief Financial Officer (1 May 2012 to 30 June 2012)

Acting Allowance	33 966	-
	33 966	**-**

Remuneration of Director Technical Services (1 July 2010 to 2 September 2010)

Annual Remuneration	-	385 178
Car Allowance	-	40 242
Contributions to UIF	-	512
	-	**425 932**

Notes to the Financial Statements

Figures in Rand	2012	2011

23. Employee related costs (continued)

Remuneration of Director Technical Services (1 July 2011 to 30 August 2011)

Acting Allowance	28 065	140 326

Remuneration of Director Technical Services (1 September 2011 to 30 June 2012)

Annual Remuneration	500 000	-
Car Allowance	123 125	-
Contributions to UIF, Medical and Pension Funds	2 998	-
	626 123	**-**

Remuneration of Director Corporate Services (1 July 2011 to 30 June 2012)

Annual Remuneration	522 843	171 885
Car Allowance	96 694	-
Contributions to UIF, Medical and Pension Funds	83 442	-
	702 979	**171 885**

Remuneration of Director Community Services (1 July 2011 to 31 May 2012)

Annual Remuneration	426 962	520 036
Car Allowance	139 548	167 452
Contributions to UIF	1 413	1 547
Leave payout	188 384	124 027
Settlement payment	114 390	-
	870 697	**813 062**

24. Remuneration of councillors

Executive Major	812 579	1 065 184
Mayoral Committee Members	931 545	1 121 262
Speaker	369 340	299 742
Councillors	6 501 570	5 827 521
	8 615 034	**8 313 709**

25. Depreciation and amortisation

Property, plant and equipment	98 144 384	96 992 682

Figures in Rand	2012	2011

26. Impairment of assets

Impairments		
Long term receivables	41 217	-
Trade and other receivables	49 016 974	(15 468 645)
	49 058 191	**(15 468 645)**

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

27. Finance costs

Non-current borrowings	2 993 189	(83 019)
Finance leases	4 686	321 587
Bank	685	1 270
Late payment of tax	2 027 431	1 511 854
Fair value adjustments on payables	3 655 453	4 627 289
Other interest paid	1 707 164	-
	10 388 608	**6 378 981**

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

28. Debt impairment

Debt impairment	-	18 959 263

29. Bulk purchases

Electricity	104 505 530	92 854 843
Water	9 563 933	18 804 380
	114 069 463	**111 659 223**

30. Contracted services

Operating Leases	739 142	2 309 509
Other Contractors	1 144 439	1 523 786
	1 883 581	**3 833 295**

Notes to the Financial Statements

Figures in Rand	2012	2011

31. General expenses

Advertising	327 010	416 799
Arts and culture markets	235 744	(5 951)
Auditors remuneration	3 680 998	2 398 676
Bank charges	717 818	709 173
Cleaning	586 614	819 731
Communication strategy	6 499	9 973
Consulting and professional fees	9 384 933	1 792 376
Burials	-	96 962
Delivery expenses	969 663	1 214 016
Donations - SPCA	36 867	7 410
Donations and bursaries	304 827	1 216 941
Entertainment	370 519	740 793
Fleet management	3 241 183	1 178 948
Insurance	2 268 622	175 439
Community development and training	1 540 681	3 548 665
IT expenses	499 880	-
Local economic development	10 484 803	(387 494)
Marketing	38 908	334 371
Legal fees	1 268 393	1 220 970
Licenses	364 346	210 190
Levies	-	(28 072)
Organisational development	-	323 156
Fuel and oil	3 255 333	2 194 756
Poverty alleviation	-	(60 478)
Postage and courier	2 215 858	1 257 963
Printing and stationery	1 172 348	1 401 341
Protective clothing	311 797	(47 820)
Projects - Ward	12 632	(27 421)
projects - Mayor	-	(83 260)
Rent - plant and vehicles	6 646 266	2 736 321
Software expenses	328 829	292 017
Revision of IDP	74 565	73 304
Subsistence, traveling and accommodation	719 343	1 057 976
Telephone and fax	2 184 647	2 835 131
Transport and freight	299 390	40 351
Training	664 752	808 711
Valuation roll expenses	88 764	249 465
Accomodation cost	398 889	495 885
Levies and membership fees	-	8 740
Youth development	55 662	(182 427)
Employee wellness	68 782	35 879
Annual report	8 771	46 899
Chemicals	3 913 378	2 173 725
Indigent subsidies	31 055 364	13 753 327
Other expenses	2 799 432	5 232 903
	92 603 110	**50 286 360**

32. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L)	-	41 160

33. Auditors' remuneration

Fees	3 680 998	2 398 676

Notes to the Financial Statements

Figures in Rand	2012	2011

34. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	27 769	1 387 766
Sundry rentals	224 516	186 130
	252 285	**1 573 896**

35. Cash generated from operations

Deficit	(101 043 862)	(38 827 538)
Adjustments for:		
Depreciation and amortisation	98 144 384	96 992 682
Fair value adjustments	-	(41 160)
Finance costs - Finance leases	4 686	321 587
Impairment loss (reversal)	49 058 191	(15 468 645)
Debt impairment	-	18 959 263
Movements in retirement benefit assets and liabilities	3 164 205	-
Movements in provisions	5 043 873	24 051 280
Prior period errors on PPE	(980 482)	-
Changes in working capital:		
Inventories	158 724	(392 391)
Receivables from non-exchange transactions	(60 409 971)	17 783 096
Consumer debtors	(31 932 028)	(57 127 968)
Payables from non-exchange transactions	50 783 233	(22 520 217)
VAT	547 427	14 515 841
Unspent conditional grants and receipts	22 772 340	(2 981 289)
Consumer deposits	194 777	91 760
	35 505 497	**35 356 301**

36. Commitments

Authorised capital expenditure

Approved & contracted for		
• Infrastructure	146 826 763	165 525 588
Approved but not yet contracted for		
• Infrastructure	40 452 700	40 452 700
• Community	6 237 300	6 237 300
	46 690 000	**46 690 000**
This expenditure is finance from:		
Government grant	148 127 184	165 884 012
District council grant	40 007 420	40 007 420
Other	5 382 159	6 324 155
	193 516 763	**212 215 587**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

37. Prior period errors

Property, Plant and Equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

The correction of the error(s) results in adjustments as follows:

Notes to the Financial Statements

Figures in Rand	2012	2011

37. Prior period errors (continued)

Statement of financial position		
Property, plant and equipment 2010	-	1 061 752 634
Accumulated depreciation 2010	-	(191 986 949)
Inventory 2010	-	(472 384)
Clearing of reserves 2010	-	92 907
Correction finance lease liability 2010	-	936 306
Correction opening balance creditors 2010	-	(40 450 749)
Correction salary suspense 2010	-	(3 775 012)
Correction VAT 2010	-	(2 636 224)
Correction sundry debtors 2010	-	(3 758 533)
PRMA liability 2010	-	(28 974 497)
Correction investments 2010	-	(4 028)
Property, plant and equipment	-	196 994
Accumulated depreciation	-	96 992 683
Correction balance of creditors	-	(22 592 350)
Correction salary suspense	-	(4 733 100)
Sundry debtors	-	(4 788 346)
Investments	-	40 320
Bonus accrual	-	(2 899 552)
Staff leave provision	-	(658 213)
SARS	-	(1 511 854)
Grants	-	44 547 326
Deferred pre-paid electricity	-	(3 221 587)
Provision for bad debt	-	15 468 645
Provision for landfil site	-	(4 627 289)
Correction loans	-	83 019
Work in progress	-	(86 981 597)
Accumulated Surplus	-	703 741 877
Statement of Financial Performance		
Bonus	-	2 899 553
Consulting fees	-	681 991
Staff leave	-	658 214
Penalties and interest	-	1 511 853
Grant income	-	(44 547 326)
Electricity sales	-	3 221 587
Bad debt	-	15 468 645
Depreciation	-	96 992 683
Interest expense	-	4 331 766
Repairs and maintenance	-	(196 994)
General expenditure	-	32 399
Overtime	-	(346 580)
Property rates	-	1 804 520
Water purchases	-	11 286 012
Audit fees	-	1 017 969
Electricity purchases	-	100 118 856
General income	-	(14 257)
Fair value adjustment	-	(41 160)
Other 3	-	104 879 733

Notes to the Financial Statements

Figures in Rand	2012	2011

38. Contingencies

Litigation is in the process against the municipality relating to a dispute with a competitor who alleges that the municipality has infringed patents and is seeking damages of R -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Should the action be successful the municipality does have insurance cover to cover litigation costs and claims. The total cover extended by the current policy amounts to R -.

The municipality has offered termination benefits to all of its employees to encourage early retirement. The municipality has finalised and agreed, with the trade unions, the terms and conditions of the plan. The plan has been implements and will continue for the next nine months. Management are uncertain about the number of employees who will accept the offer. If all employees take the offer the potential financial effect would approximately be R -.

There is no reimbursement from any third parties for potential obligations of the municipality.

An associate is been sued for violation of copyrights. The municipality's share of the potential claim amounts to R -. The associates lawyers and management are of the opinion that the law suit will be successful but are unable to reliably determine the amount of penalties and damages payable.

The municipality is severally liable for the liabilities of its associate. The associate is profitable and in currently able to meet all of it present obligations.

Litigation is in the process against the a competitor relating to a dispute whereby the competitor has infringed patents and the municipality is seeking damages of R -. The municipality's lawyers and management consider the likelihood of the action against the municipality being successful as unlikely, and the case should be resolved within the next two years.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

Contingent liabilities of joint ventures

Figures in Rand	2012	2011

38. Contingencies (continued)

Party :Anquest Const\Friedself joint Venture vs NLM
Nature: Anquest Const\Friedself is suing the municipality for breach of contract as a result of terminating the contract on erection of the Fezile stadium
Attorney: Werksman
Prospect of success: Municipality have a good chance of successfully defending the matter on the basis of a valid legal defense.
Estimate: R35 million

Vaal River Business Forum vs NLM
Vaal River Business Forum is suing the municipality for failing to provide basic water service as provided for in terms of s152 of the RSA
Kriek & van wyk
Matter is under constant attention of the DTS & as such municipality stand a good chance of defending the matter
R65 231.00

Mispha vs NLM
Mispha applied for EAO to be implemented on certain employees of the municipality's salaries in their personal capacities.
Municipality did not want to effect deductions as per the court order hence they sue the municipality to implement court order
Municipality will successfully defend the matter on the basis of flawed procedures followed in obtaining EAO
R67 0000,00

Sezanani GN Projects vs NLM
Sezanani GN Projects sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality
ADW van den Berg Attorneys
No documentation and as a result not bound to terms of this contract
R11698,00

L Sheota vs NLM
There was allegedly a motor accident involving the municipal employee and a private individual which allegedly was caused by the municipal employee.
Ledwaba
50-50 % chances of success. Just a normal accident. Depends on who was more negligent
R100 000.00

TELKOM Matters vs NLM
Municipal employees allegedly damaged infrastructure whilst digging the ground where Telkom wires were kept
Breytenbach Mavuso inc
R11 109.38
50-50 % chance on the basis that the municipal employees performed services on municipal land where there are no way-leaves applications by Telkom

GC van Wyk
There has been power failures at complainants place & as a result certain properties of the complainant were damaged when power was restored
Thabo Griembeck
Municipality will successfully defend the matter. there is a 70% prospects of success in defending the matter
R44 019.87

INCA vs NLM
INCA provided certain loans to the municipality. Municipality allegedly failed to repay such loans hence lockets attorneys are suing the municipality
Lockets Attorneys
It's a legal claim, & der are no grounds to defend the matter except to effect payment
R2070000

Phonebook vs NLM
Phonebook company allegedly provided advertising service to the municipality for. Municipality has not effected payment for such services hence the company is suing for such service

Figures in Rand	2012	2011

38. Contingencies (continued)
50-50% chances of success in defending the matter as a result of discrepencies in service rendered
R68 331.60

Vlaklaagte Slaghuis vs NLM
There has been power failures at complainants place & as a result certain properties of the complainant were damaged when power was restored
Cornelius & Vennote inc
50-50% chances of success in defending the matter as a result of delict
R36 783.22

Masilela vs NLM
Masilela sold & delivered goods to municipality & municipality allegedly failed to effect payment for such goods hence they are suing the municipality
Masilela
R731 524.29

P Du Plessis vs NLM
There was a trench dug by municipal employees & as a result the complainant allegedly fell into it. The allegation are that the municipality neglected to secure the area and thus the complainant fell into it & suffered damages
Griembeck & Vennote
R45 000,00
50-50% chances of success in defending the matter as a result of delict

Coetzer AM vs NLM
Complainant was driving his vehicle into urban area road allegedly full of potholes & as a result his vehicle was badly damaged because of negligence on the part of the municipality to maintain and repair the streets. Complainant is thus suing the municipality
Santam ins
50-50% chances of success in defending the matter as a result of delict
15127.29

LR Grobler vs NLM
There has been power failures at complainants place & as a result certain properties of the complainant were damaged when power was restored
50-50% chances of success in defending the matter as a result of delict
1500

T Swart vs NLM
Complainant was allegedly driving his vehicle in an urban area road allegedly full of potholes & as a result his vehicle was badly damaged because of negligence on the part of the municipality to maintain and repair the streets. Complainant is thus suing the municipality
Coetzer ing
50-50% chances of success in defending the matter as a result of delict
850

Erica Scotton vs NLM
There was allegedly a motor accident which resulted allegedly as a result of non-availability of a stop sign. Complainant is claiming from municipality because of municipality's negligence to put a stop sign
R17 000.00
50-50% chances of success in defending the matter as a result of delict

JB Muller vs NLM
Underground water allegedly caused complainant's house to flood resulting in damages of her furnishers. As a result is claiming from the municipality for her losses
Kriek & van Wyk
50-50% chances of success in defending the matter as a result of delict
100000

TJ Bosman vs NLM
Complainant was driving his vehicle into urban area road allegedly full of potholes & as a result his vehicle was badly damaged

Notes to the Financial Statements

Figures in Rand	2012	2011

38. Contingencies (continued)
because of negligence on the part of the municipality to maintain and repair the streets. Complainant is thus suing the municipality
Santam ins
50-50% chances of success in defending the matter as a result of delict
R15 227.48

CJ de la Rey vs NLM
There has been power failures at complainants place & as a result certain properties of the complainant were damaged when power was restored
Kriek & van Wyk
50-50% chances of success in defending the matter as a result of delict
R21 261.07

39. Irregular expenditure

Opening balance	13 979 366	2 465 372
Add: Non-compliance with SCM regulations	-	10 908 862
Days of leave entitlement paid exceed 48 days	-	17 032
Salary levels were not inline as prescribed by SALGA	-	16 301
Tickets bought for Fezile Dabi HIV/AIDS benefit	-	75 000
Credit card expenditure	-	496 799
	13 979 366	**13 979 366**

Irregular expenditure R 11 513 994 (2011) will be submitted to council for consideration. Detailed register of irregular expenditure was not supplied.

40. Additional disclosure in terms of Municipal Finance Management Act

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D HANSA	5 174	31 718	36 892
HJ SCHOONWINKEL	4 940	2 831	7 771
LR MOLIKO	691	6 671	7 362
AM OLIPHANT	187	-	187
AM MOLOTSANE	2 167	10 806	12 973
ML MOFOKENG	697	8 333	9 030
NP MOPEDI	641	516	1 157
ME MAGASHULE	564	46	610
MA MBELE	194	-	194
J SERATHI	861	1 547	2 408
J MOFOKENG	556	3 270	3 826
B RADEBE	502	1 671	2 173
JM VAN DER MERWE	48 340	-	48 340
RS MOFOKENG	25	1 435	1 460
J KHUMALO	549	3 221	3 770
MA TLALI	613	2 532	3 145
MB MOTSUMI	640	3 728	4 368
J MOFOKENG	201	-	201
SEFAKO	580	976	1 556
MC RANTHAKO	713	6 707	7 420
AI & SA MAFUMA	828	12 906	13 734
NA RAMABITSA	18	127	145
S MOTLOUNG	619	8 689	9 308
MJ MOCHELA	198	-	198
MA NHLAPO	346	835	1 181
D SPENCE	526	-	526
TL & MM VANDISI	129	551	680
K & A MVULANE	561	374	935
	72 060	**109 490**	**181 550**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
D HANSA	4 666	14 246	18 912
SM VERMAAK	1 258	-	1 258
HJ SCHOONWINKEL	2 693	-	2 693
ND DE BEER	160	-	160
LR MOLIKO	583	4 429	5 012
AM OLIPHANT	34	-	34
AM MOLOTSANE	1 789	6 027	7 816
ML MOFOKENG	610	7 619	8 229
TL VANDISI	513	174	687
NP MOPEDI	520	618	1 138
MA MBELE	169	-	169
J SERATHI	676	15	691
J MOFOKENG	567	1 255	1 822
B RADEBE	502	921	1 423
JM VAN DER MERWE	723	-	723
RS MOFOKENG	15	1 338	1 353

Figures in Rand		2012	2011

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

MA TLALI	465	1 226	1 691
M B MOTSUMI	469	1 420	1 889
JAPIE MOFOKENG	9	-	9
MC RANTHAKO	599	5 117	5 716
AI & SA MAFUMA	732	9 891	10 623
IR MASIKE	694	9 035	9 729
S MOTLOUNG	542	6 203	6 745
GP MANDELSTAM	1 547	-	1 547
D SPENCE	463	-	463
TL & MM VANDISI	123	41	164
	21 121	**69 575**	**90 696**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

41. Deviation from supply chain management regulations

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

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

During the year under review the municipality deviated from the supply chain management policy. The total value of deviations for the year was R9 258 970.

42. Fruitless and wasteful expenditure

	2012	2011
Opening balance	11 773 482	4 432 765
BANK ACCOUNT NOT IN USE BUT STILL INCURS SERVICE FEES	807	660
ESKOM INTEREST ON OVERDUE ACCOUNT	9 570 900	4 638 771
EMPLOYEES TAX - PENALTY AND INTEREST	2 027 431	972 806
INTEREST ON OVERDUE CREDIT CARDS	-	422
RAND WATER INTEREST ON OVERDUE ACCOUNT	1 364	28 546
BILLIING AND METER READING FEES	-	1 699 512
TELKOM - SETTLEMENT	73 392	-
VALUE ADDED TAX - PENALTY AND INTEREST	40 799	-
DATA M - INTEREST PAID ON OVERDUE ACCOUNT	791	-
URBAN ECON - INTEREST PAID ON OVERDUE ACCOUNT	121 168	-
PENSION FUND - INTEREST PAID ON OVERDUE ACCOUNT	179 080	-
PROVIDEND FUND - INTEREST PAID ON OVERDUE ACCOUNT	64 129	-
WAMESA - INTEREST PAID ON OVERDUE ACCOUNT	546 591	-
PROPER CONSULTING - INTEREST PAID ON OVERDUE ACCOUNT	584 319	-
FRIEDSHELF 863 (PTY) LTD - INTEREST PAID ON OVERDUE ACCOUNT	33 646	-
CHM VUWANI (PTY) LTD - INTEREST PAID ON OVERDUE ACCOUNT	39 350	-
	25 057 249	**11 773 482**

1. The old bank account of the municipality, account number: 4050718594, is no longer used by the Municipality but a service fee of R69.30 is incurred monthly for keeping the account open.
This service fee is paid out of the primary bank account.The total fruitless and wasteful expenditure as a result of the above mentioned event amounts to R806,60 for the period 1 July 2011 to 30 June 2012.

2. Settlement was paid in the amount of R73 392 in respect of Telkom indended legal proceedings in terms of section 3 of the institution of legal proceedings against an organ of state, act 40 of 2002.
On or about 7 March 2011 at coner of Tompson and Carl preller Avenue, Parys an employee of Ngwathe Local Municipality caused damage to Telkoms' telecommunications infrastrucure.

3.The above expenditure have been identified as fruitless and wasteful expenditure due to interest of overdue accounts.Include particulars of any criminal or disciplinary steps taken as a consequence of above expenditure.