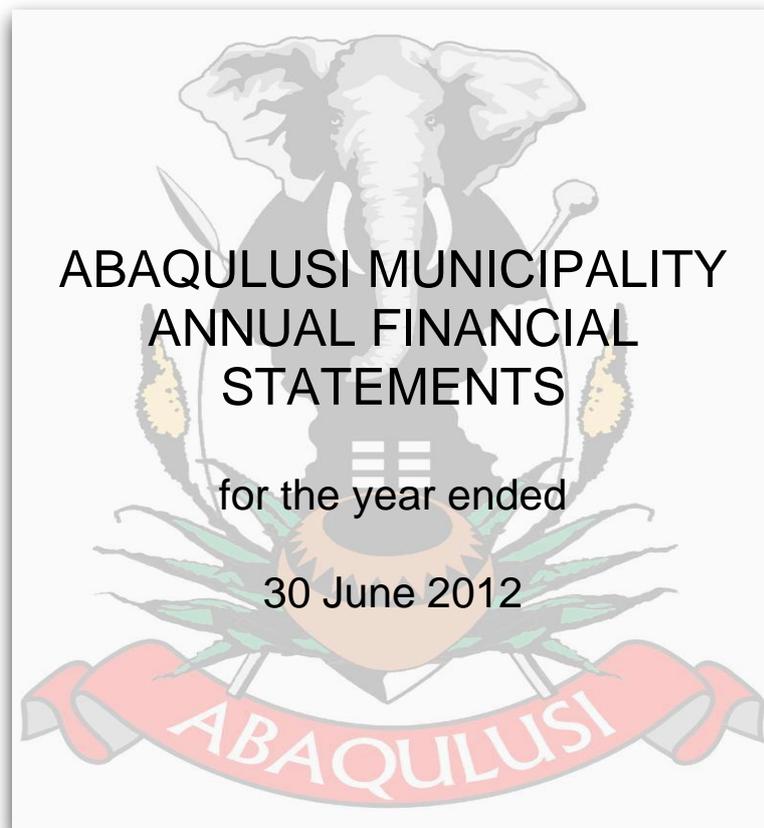




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MUNICIPALITY  
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FINAL



# Annual Financial Statements for

## ABAQULUSI MUNICIPALITY

for the year ended 30 June

**2012**

Province:

KwaZulu Natal

AFS rounding:

***R (i.e. only cents)***

### Contact Information:

<b>Name of Municipal Manager:</b>	T L Manda
<b>Name of Chief Financial Officer:</b>	T S Mkhwanazi
Contact telephone number:	034-982 2133
Contact e-mail address:	<a href="mailto:cfo@abaqulusi.gov.za">cfo@abaqulusi.gov.za</a>
<b>Name of relevant Auditor:</b>	AUDITOR GENERAL
Contact telephone number:	033 2647400
Contact e-mail address:	

**ABAQULUSI MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS**

for the year ended 30 June 2012

**General information**

**Members of the Council**

<b>P N KHABA</b>	<b>Mayor</b>	Appointed 24 May 2011	
<b>N P NDLELA</b>	<b>Deputy Mayor</b>	Appointed 24 May 2011	
<b>P M MTSHALI</b>	<b>Speaker</b>	Appointed 24 May 2011	
G M DLAMINI	Member of the Executive Committee	Appointed 24 May 2011	
H E HEYNS	Member of the Executive Committee	Appointed 24 May 2011	
M B KHUMALO	Member of the Executive Committee	Appointed 24 May 2011	
S S SIYAYA	Member of the Executive Committee	Appointed 24 May 2011	
B L ZWANE	Member of the Executive Committee	Appointed 24 May 2011	
B S ZWANE	Member of the Executive Committee	Appointed 24 May 2011	
T R BUNGE	Member of the Municipal Council	Appointed 24 May 2011	Resigned 1 May 2012
Z S BUTHELEZI	Member of the Municipal Council	Appointed 24 May 2011	
I S M HADEBE	Member of the Municipal Council	Appointed 24 May 2011	
X A HLELA	Member of the Municipal Council	Appointed 24 May 2011	
H V KHUMALO	Member of the Municipal Council	Appointed 24 May 2011	
M M KUNENE	Member of the Municipal Council	Appointed 24 May 2011	
A D LOTTER	Member of the Municipal Council	Appointed 24 May 2011	
M M MAVUSO	Member of the Municipal Council	Appointed 24 May 2011	
A M MASONDO	Member of the Municipal Council	Appointed 24 May 2011	
M E MASONDO	Member of the Municipal Council	Appointed 24 May 2011	
D J MAHLASE	Member of the Municipal Council	Appointed 24 May 2011	
M A MAZIBUKO	Member of the Municipal Council	Appointed 24 May 2011	
D P MAZIBUKO	Member of the Municipal Council	Appointed 24 May 2011	
M MDLALOSE	Member of the Municipal Council	Appointed 24 May 2011	
R B MHLUNGU	Member of the Municipal Council	Appointed 24 May 2011	
P P MKHWANAZI	Member of the Municipal Council	Appointed 24 May 2011	
A D MKHULISE	Member of the Municipal Council	Appointed 24 May 2011	
J S MNCUBE	Member of the Municipal Council	Appointed 24 May 2011	
J MTHEMBU	Member of the Municipal Council	Appointed 24 May 2011	
C N MOLEFE	Member of the Municipal Council	Appointed 24 May 2011	
T NDLOVU	Member of the Municipal Council	Appointed 24 May 2011	
G NKOHLA	Member of the Municipal Council	Appointed 24 May 2011	
S R NKOSI	Member of the Municipal Council	Appointed 24 May 2011	
A M NKOSI	Member of the Municipal Council	Appointed 24 May 2011	
H D NTSHANGASE	Member of the Municipal Council	Appointed 24 May 2011	
M S NTSHANGASE	Member of the Municipal Council	Appointed 24 May 2011	
B NTOMBELA	Member of the Municipal Council	Appointed 24 May 2011	
S E QWABE	Member of the Municipal Council	Appointed 24 May 2011	
T V RADEBE	Member of the Municipal Council	Appointed 24 May 2011	
M J SIBUA	Member of the Municipal Council	Appointed 24 May 2011	
T E VILAKAZI	Member of the Municipal Council	Appointed 24 May 2011	
S M VILAKAZI	Member of the Municipal Council	Appointed 24 May 2011	
M P WILLIAM	Member of the Municipal Council	Appointed 24 May 2011	
S B ZWANE	Member of the Municipal Council	Appointed 24 May 2011	
M E ZUNGU	Member of the Municipal Council	Appointed 24 May 2011	

**Municipal Manager**

T L Manda

**Chief Financial Officer**

T S Mkhwanazi

**Grading of Local Authority**

Grade 8

**Auditors**

Auditor-General

**Bankers**

Absa

**ABAQULUSI MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**

for the year ended 30 June 2012

**General information (continued)**

**Registered Office:** c/o Mark & High Street

**Physical address:** c/o Mark & High Street  
VRYHEID  
3100

**Postal address:**  
  
**P O Box 57**  
VRYHEID  
3100

**Telephone number:** 034-982 2133

**Fax number:** 034-980 9637

**E-mail address:** [municipalmanager@abaqulusi.gov.za](mailto:municipalmanager@abaqulusi.gov.za)

# ABAQULUSI MUNICIPALITY

## ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 2012

### 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 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

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 municipality is partly dependent on the community and state for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that the Abaqulusi Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The financial statements set out on pages 9 to 72, which have been prepared in terms of Section 126 (1) of the Municipal Finance Management Act, were approved and signed by the Accounting Officer on 26 November 2012 on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 22 of these Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and local Government's determination in accordance with this Act.



Accounting Officer  
**T L MANDA**

## Audit Committee Report

### **FINANCE AND PERFORMANCE AUDIT COMMITTEE REPORT 2011-2012**

The Committee saw the departure of Mr. B Ndwandwe who served on the Committee for some time and who should be thanked for his commitment.

The Council appointed three new members from outside of the Abaqulusi municipal administration who were welcomed to the Committee and who have already made valuable contributions.

Audit Committee members and attendance:

		<b>Meetings</b>	<b>Attendance</b>
JLW de Clercq	Chairperson	6	All
B Ndwandwe	Member	3	All (replaced)
P Mntambo	Member	3	All (new)
PP Sithole	Member	3	All (new)
Hlope	Member	--	(New)

In order to comply with a wish expressed by the Exco of the Municipality, the chairperson reported to the Exco at two occasions during the financial year. The Committee also welcomed the establishment of MPAC by the Council. A close working relationship will be developed between the two Committees.

The Committee performed its responsibilities in terms of the Municipal Finance Managed Act, the Audit Committee Charter as well as the Code of Corporate Governance. By law the Committee is expected to meet at least four times during the financial year. The Committee had six meetings, one of which was a special meeting to deal with the Performance Management System.

The Committee received audit reports from Internal Audit in accordance with an Audit Plan that was approved by it in August 2011. The Internal Audit and Performance Unit performed its responsibilities diligently and objectively and the reports were of a high standard.

Reports were focused on the high risk issues as identified in the risk assessment process and action plan.

The committee assessed some internal financial controls and the auditing thereof and made some recommendations and suggested improvements. It was satisfied that the risk assessment was relevant.

Assurances were given to the Committee that the internal financial reporting was in place and that regular reports were submitted to the Council

The Committee was concerned that effective governance could have been affected by the absence of permanent incumbents in key management positions and the dealing with outstanding disciplinary issues, which could cost the municipality.

Compliance with the MFMA was the focus of the financial administration and some challenges in the

The status of the performance management system remained a cause of concern for the Audit Committee in spite of repeated requests for the necessary action to be taken. No progress could be reported in compliance with the legislation. There is no PMS approved policy in place and no reports by the PMS Manager were submitted. It was therefore impossible for the Audit Committee to express an opinion on PMS in the municipality for inclusion in the financial statements.

The Draft Financial statements were discussed by the Committee and it was satisfied that, with some minor suggested amendments to the document, the statements reflect a true account of the financial situation at the end of the financial year. The statements were prepared internally by the Finance Department which is an achievement.

The Committee will review the Auditor-General's management report and the responses by the municipal management team as well as compliance with legal and regulatory provisions for inclusion in the annual report.



Prof. JLW de Clercq

Chairperson of the Audit Committee

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON ABAQULUSI MUNICIPALITY**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I was engaged to audit the financial statements of the Abaqulusi Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages .. to ..

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Because of the matters described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

**Basis for Disclaimer of opinion**

**Revenue**

4. The municipality did not raise and account for interest on arrears as required by section 64 (2)(g) of the MFMA. There was no council resolution to grant the exemption from charging interest as required by the Act. The effects on the financial statements are that interest revenue and receivables are misstated by an unknown amount.
5. Revenue as disclosed in note 15 of the annual financial statements does not agree to the disclosure per the statement of financial performance for the current period by an amount of R1,1 million. Consequently, I was unable to determine the accuracy of revenue as disclosed in the statement of financial performance.

**Receivables from exchange transactions**

6. I was unable to obtain sufficient appropriate audit evidence for the adjustment to the provision for bad debts of R8,4 million as included in note 6 to the annual financial statements. I was not provided the basis and method used to calculate the provision.
7. The municipality had discounted debtors by R596 381 as disclosed in note 6 to the annual financial statement. However, I was not provided with the basis and method used to calculate the discounting of debtors of R596 381.

8. Receivables as disclosed per note 6 to the annual financial statements does not agree to the disclosure per the statement of financial position for the current and prior period. The amount disclosed per the statement of financial position differs from the note by an amount of R2,5 million (2011: R1,6 million). Consequently, I was unable to determine the completeness, valuation and existence of receivables from exchange transactions of R30,5 million as disclosed in the statement of financial position.

**Property, plant and equipment**

9. The municipality did not review the useful lives of Property, plant and equipment at 30 June 2012 in accordance with SA Standards of GRAP, GRAP 17 Property, plant and equipment. Assets were included in the asset register with a nil carrying amount whilst still being in use. Furthermore, assets were included in the asset register without useful lives and therefore these assets were not depreciated. The carrying value of the assets not depreciated at 30 June 2012 amounted to R32,8 million. The impact of the depreciation on the current year amounts to R 929 920. The prior year depreciation is furthermore impacted by an unknown amount.
10. Property, plant and equipment which reflected an impairment were found not to be written down to its actual useful life amount.
11. The municipality has not included certain assets in the asset registers and the property, plant and equipment disclosures in the financial statements of the municipality. I was unable to ascertain the values of these assets by alternative means. Consequently I was unable to determine the completeness and valuation of property, plant and equipment.

**Investment Property**

12. The municipality did not recognise in the fixed asset register and the financial statements Investment property for certain properties that were leased out which met the definitions of Investment Property as required by SA Standards of GRAP, GRAP 16 Investment property. I was unable to ascertain the values of these properties by alternative means. Consequently, I was unable to determine the completeness and valuation of Investment property in the financial statements of the municipality.

**Provision for landfill rehabilitation**

13. The municipality has not raised a provision for landfill rehabilitation as required by SA Standards of GRAP, GRAP 19 Provisions. Consequently, I was unable to determine the completeness and valuation of the provision for landfill rehabilitation.

**Provision for retirement benefit obligation**

14. The municipality has not included certain provisions for the adjustment to the retirement benefit obligation in the statement of financial performance as required by SA Standards of GRAP, GRAP 1 Presentation of financial statements. Consequently adjustment to provisions in the statement of financial performance is understated by R7,9 million. I was therefore unable to determine the completeness and valuation of the disclosure of the adjustment to the provision for retirement benefit obligation in the statement of financial performance.

#### **Provision for bonus**

15. Provisions as disclosed in note 11 to the financial statements includes an amount of R1,2 million for the prior year which has been adjusted on the statement of financial position. The note however still reflects this amount as a prior year provision. The prior year provision in the notes to the financial statements has therefore been misstated by R1,2 million. I was therefore unable to determine the existence of the prior year disclosure of provisions in the notes to the financial statements.

#### **Operating leases**

16. The municipality did not disclose certain operating leases in accordance with SA Standards of GRAP, GRAP 13 Leases. I was unable to obtain sufficient appropriate audit evidence for operating leases of R9,7 million as disclosed in note 42.2 to the financial statements. Consequently, I was unable to determine the completeness, accuracy and existence of operating leases as disclosed in the financial statements.

#### **Cash flow statement**

17. The municipality has not accurately prepared the cash flow statement. The cash flow statement does not agree to cash and cash equivalents by an amount of R11,8 million. Furthermore net cash flows from operating activities as disclosed in note 29 of the financial statements does not agree to the cash flow statement by R1,9 million. Consequently, I was unable to determine the completeness and accuracy of disclosures in the cash flow statement.

#### **Employee related costs**

18. Employee related costs as disclosed in note 21 to the annual financial statements does not agree to the disclosure per the statement of financial performance for the current and prior periods. The amount disclosed per the statement of financial position differs from the note by an amount of R7,2 million (2011: R4,6 million).
19. Employee related costs included an adjustment of R4,5 million for which the supporting evidence to validate the adjustment could not be provided. I was unable to obtain sufficient appropriate evidence by alternative means. Consequently, I was unable to determine the occurrence and accuracy of employee related costs.

#### **Irregular Expenditure**

20. Irregular expenditure amounting to R15 million was disclosed in note 34 to the financial statement. Misstatements were identified during the audit and no evidence was provided to support the evaluation of the entire population. Therefore I could not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure to be disclosed to the financial statement.

#### **Contingent Liability**

21. The municipality did not have adequate systems in place to record contingent liabilities. I was therefore unable to verify the completeness of contingent liabilities stated at R8,9 million as disclosed in note 43 to the financial statements.

#### **Disclaimer of opinion**

22. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the

financial statements.

**Emphasis of matters**

23. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Restatement of corresponding figures**

24. As disclosed in note 31 and 39 to the financial statements, the corresponding figures for 30 June 2011 have been restated as a result of an error discovered during 2012 in the financial statements of the Abaqulusi Municipality at, and for the year ended 30 June 2011.

**Material losses**

25. As disclosed in note 41 to the financial statements, material losses to the amount of R15,4 million was incurred as a result of electricity distribution losses, and material losses to the amount of R31,9 million as a result of water distribution losses.

**Unauthorised expenditure**

26. As disclosed in note 45 to the financial statements, the municipality has incurred unauthorised expenditure of R19,1 million.

**Fruitless and wasteful expenditure**

27. As disclosed in note 33 to the financial statements, fruitless and wasteful expenditure amounting to R618 087 was identified during the year under review relating to payment of acting allowances.

**Additional matters**

28. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Material inconsistencies in other information included in the draft annual report**

29. I have not obtained the other information included in the annual report for my review and as such have not been able to identify any material inconsistencies with the financial statements.

**Unaudited supplementary schedules**

30. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly, I do not express an opinion thereon.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

31. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

32. The annual performance report included in the annual report was not presented in time for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.

33. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

34. The material findings are as follows:

#### **Usefulness of information**

##### **Measurability**

##### **Performance targets not measurable**

35. The National Treasury *Framework for managing programme performance information (FMPPPI)* requires that performance targets be measurable. The required performance could not be measured for all development priorities, objectives and key performance indicators as no targets were included in the Integrated Development Plan (IDP) for the 2011-12 financial year. This was due to the fact that management did not review the IDP before its adoption to ensure adherence to the legislative requirements of section 41 of the Municipal Systems Act 2000 (Act No. 32 of 2000)(MSA).

##### **Compliance with laws and regulations**

36. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

##### **Strategic planning and performance**

37. The annual performance report was not presented in time as required by section 46 of the MSA and section 121(3) of the MFMA.

38. The performance management system did not provide for policies and procedures to take steps to improve performance as required by section 41(d) of the MSA.

39. The municipality does not have an approved Performance Management framework as required by regulation 7 of Local Government: Municipal planning and performance management regulations (GNR.796 of 24 August 2011).

40. The municipality had not reviewed its key performance indicators as required by regulation 11(1) of the Local Government: Municipal planning and performance management regulations (GNR.796 of 24 August 2011).

41. The municipality had not set targets for all of its development priorities, objectives and key performance indicators as required by regulation 12(1) and 2(e) of the Local Government: Municipal planning and performance management regulations (GNR.796 of 24 August 2011), and section 41(1)(b) of the MSA.

##### **Annual financial statements**

42. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer of opinion.

##### **Procurement and contract management**

43. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers as per the requirements of Municipal SCM regulation 17(a) & (c).

44. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of Municipal SCM regulation 19(a) and 36(1).

45. The municipality had procured goods from members that are in service of the state contrary to the requirements of section 44 of the Municipal SCM regulations.

#### **Expenditure management**

46. The accounting officer did not take reasonable steps to prevent unauthorized expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

#### **Revenue management**

47. Interest was not charged on all arrear accounts as required by section 64(2)(g) of the MFMA.

#### **Asset Management**

48. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which accounts for the assets of the municipality as required by section 63(2)(a) of the MFMA.

#### **Internal control**

49. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

50. The accounting officer has not exercised adequate oversight over financial and performance information reporting resulting in material amendments to financial statements, non submission of the annual performance report and other findings on performance information as well as compliance matters as reported.

#### **Financial and performance management**

51. The accounting officer has not ensured that information is maintained and is readily available to support financial reporting. Material adjustments were made to financial statements, and performance information did not include the required information as per legislative requirements. The financial statements included uncorrected misstatements that has resulted in the disclaimer of the audit opinion.

#### **Governance**

52. There are inadequate risk assessments which have resulted in current and repeat findings not being addressed.

**OTHER REPORTS**

**Investigations**

53. The municipality had finalised two labour court cases during the year. Three investigations against officials are still in progress.

*Auditor-General*  
Pietermaritzburg

30 November 2012



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Financial Statements for the year ended 30 June 2012

### Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
<b>Assets</b>			RESTATED
Current Assets			
Inventories	5	7,259,973	6,717,345
Receivables from exchange transactions	6	30,543,615	31,773,140
Vat receivables	13	266,738	367,253
Cash and cash equivalents	7	35,757,932	3,937,953
		<b>73,828,258</b>	<b>42,795,691</b>
Non-Current Assets			
Property, plant and equipment	2	236,743,432	238,587,855
Intangible assets	3	35,814	74,431
Investments	4	26,909,907	45,979,466
		<b>263,689,153</b>	<b>284,641,752</b>
<b>Total Assets</b>		<b>337,517,411</b>	<b>327,437,443</b>
<b>Liabilities</b>			
Current Liabilities			
Payables from exchange transactions	12	29,709,839	22,175,905
VAT payable	13	0	0
Consumer deposits	14	11,377,706	10,898,824
Unspent conditional grants and receipts	10	19,193,178	9,403,105
Provisions	11	0	0
Current portion of liabilities		1,856,000	
		<b>62,136,723</b>	<b>42,477,834</b>
Non-Current Liabilities			
Long term liabilities	9	0	1,856,000
Retirement benefit obligation	40	40,587,258	32,676,645
		<b>40,587,258</b>	<b>34,532,645</b>
<b>Total Liabilities</b>		<b>102,723,981</b>	<b>77,010,479</b>
<b>Net Assets</b>		<b>234,793,430</b>	<b>250,426,964</b>
<b>Net Assets</b>			
Reserves			
Housing Development Fund	8	-	776,947
Accumulated surplus		235,123,508	249,433,438
<b>Total Net Assets</b>		<b>235,123,508</b>	<b>250,210,385</b>
		330,078	216,579

# AbaQulusi Municipality

Financial Statements for the year ended 30 June 2012

## Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
			RESTATED
<b>Revenue</b>			
Property rates	16	35,131,478	31,266,465
Service charges	17	166,315,713	150,359,571
Property rates - penalties imposed and collection charges		881,036	722,977
Rental of facilities and equipment		651,184	518,058
Interest received - outstanding debtors	38	17,477	613,921
Fines		1,496,793	1,551,605
Licences and permits		6,206,999	4,450,583
Government grants & subsidies	18	107,818,336	82,246,937
Other income	19	1,264,789	1,693,525
Interest received - investment	23	3,522,342	3,466,658
Gains on disposal of assets		956,407	0
<b>Total Revenue</b>	<b>15</b>	<b>324,262,554</b>	<b>276,890,300</b>
<b>Expenditure</b>			
Employee related costs	21 / 40	-96,279,825	-89,055,266
Remuneration of councillors	22	-11,264,369	-9,991,926
Depreciation and amortisation	24	-15,864,138	-16,848,242
Finance costs	25	-126,280	-125,370
Provision for doubtful debtors		-8,400,000	-3,351,999
Repairs and maintenance		-15,660,791	-12,916,397
Bulk purchases	28	-101,328,354	-79,984,814
Contracted services	37	-28,225,972	-25,964,591
Grants and subsidies paid	36	-27,871,304	-14,870,982
General Expenses	20	-32,774,504	-29,018,809
<b>Total Expenditure</b>		<b>-337,795,537</b>	<b>-282,128,396</b>
<b>Surplus (deficit) for the year</b>		<b>-13,532,983</b>	<b>-5,238,096</b>

**AbaQulusi Municipality**  
Financial Statements for the year ended 30 June 2012

**Statement of Changes in Net Assets**

Figures in Rand	Capitalisation reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2010</b>	<b>746,846</b>	<b>254,080,488</b>	<b>254,827,334</b>
Changes in net assets			
Interest on Housing Development Fund	30,101	-	30,101
Net income (losses) recognised directly in net assets	30,101	-	30,101
Surplus for the year	-	-5,238,095	-5,238,095
Total recognised income and expenses for the year	30,101	-5,238,095	-5,207,994
Total changes	30,101	-5,238,095	-5,207,994
<b>Balance at 01 July 2011</b>	<b>776,947</b>	<b>248,842,393</b>	<b>249,619,340</b>
Changes in net assets			
Prior year adjustments		-185,902	-185,902
Restated Balance at 01 July 2011	776,947	248,656,491	249,433,438
Surplus for the year	-	-13,532,983	-13,532,983
Housing Development Fund	-776,947	-	-776,947
Total changes	-776,947	-13,532,983	-14,309,930
<b>Balance at 30 June 2012</b>	<b>0</b>	<b>235,123,508</b>	<b>235,123,508</b>

Note(s)

## Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		204,757,060	207,450,372
Grants and Subsidies		117,608,409	82,246,936
Interest income-external investments		3,522,342	3,466,658
Other receipts		10,518,278	-
		<b>336,406,089</b>	<b>293,163,966</b>
<b>Payments</b>			
Employee costs		-99,633,581	-97,540,660
Suppliers		-212,852,231	-177,754,482
Finance costs		-126,280	-125,370
		<b>-312,612,092</b>	<b>-275,420,512</b>
<b>Net cash flows from operating activities</b>	29	<b>23,793,997</b>	<b>17,743,454</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	-13,780,922	-19,431,490
Proceeds from sale of property, plant and equipment	2	956,407	-
(Decrease)/Increase in Non-Current Investments		19,069,559	-7,482,451
(Decrease)/Increase in Reserves		-776,934	-
<b>Net cash flows from investing activities</b>		<b>5,468,110</b>	<b>-26,913,941</b>
<b>Cash flows from financing activities</b>			
Movement in consumer deposits		-	2,896,485
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>29,262,107</b>	<b>-6,274,002</b>
Cash and cash equivalents at the beginning of the year		3,937,953	10,211,955
<b>Cash and cash equivalents at the end of the year</b>	7	<b>33,200,060</b>	<b>3,937,953</b>

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1 BASIS OF ACCOUNTING

#### BASIS OF PRESENTATION

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

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

#### 1.1 Changes in accounting policy and comparability

Accounting Policies have been consistently applied, except where otherwise indicated below:

For the years ended 30 June 2011 and 30 June 2012 the municipality has adopted the accounting framework as set out in point 1 above. The details of any resulting changes in accounting policy and framework as set out in point 1 above. The details of any resulting changes in accounting policy and comparative restatements are set out below comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- a) Is required by a Standard of GRAP; or
- b) Results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

#### 1.2 Critical judgments, estimations and assumptions

The following are the critical judgments, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

##### 1.2.1 Revenue Recognition

Accounting Policy 9.2 on Revenue from Exchange Transactions and Accounting Policy 9.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above) . In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

##### 1.2.2 Financial assets and liabilities

The classification of financial assets and liabilities into categories, is based on judgement by management.

##### 1.2.3 Useful lives of Property, Plant and Equipment ("PPE")

As described in Accounting Policies 3.3, 4 & 5, the municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

#### 1.3 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1.4 Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

### 1.5 Offsetting

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

## 2 HOUSING OPERATING ACCOUNT

Sections 15(5) and 16 of the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the Entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund is cash-backed, and invested in accordance with the investment policy of the Entity.
- The proceeds in this fund are utilised for housing development in accordance with the National Housing Policy, and also for housing development projects approved by the MEC for Human Settlements.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

## 3 PROPERTY, PLANT AND EQUIPMENT

### 3.1 Initial Recognition

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

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

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

### 3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### 3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	10 - 15	Buildings	30
Pedestrian Malls	30	Specialist vehicles	5 - 7
Electricity	20	Other vehicles	5
Water	20	Office equipment	5
Sewerage	20	Furniture and fittings	5 - 7
		Bins and containers	10
<b>Community</b>		Specialised plant and equipment	7
Buildings	30	Other items of plant and equipment	5
Recreational Facilities	30	Landfill sites - preperation	N/A
Security - Fencing	3	Quarries	N/A
Halls	30	Emergency equipment	7
Libraries	30	Computer equipment	3 - 5
Parks and gardens	30		
Other assets			
<b>Heritage assets</b>			
Buildings	0		
Paintings and artifacts	0		
<b>Finance lease assets</b>			
Office equipment	5		
Other assets	5		

### 3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **3.5 Heritage Assets**

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

### **3.6 Land**

Land is not depreciated as it is deemed to have an indefinite useful life.

### **3.7 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

### **3.8 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

### **3.9 Transitional Provision**

The estimated useful lives and the depreciation methods were not reviewed in the previous financial year as required by GAMAP 17 as these requirements were exempted in terms of General Notice 522 of 2007.

### **3.10 Impairment losses**

The municipality does an impairment assessment once a year. When impairment losses are incurred they are taken to income statement.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **4 INTANGIBLE ASSETS**

#### **4.1 Initial Recognition**

Identifiable non-monetary assets without physical substance which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is recognised as an expense when incurred.

#### **4.2 Measurement Basis**

The cost model has been used to measure the Intangible assets in terms of GRAP 102 paragraph 77. Intangible assets are amortised over 3 to 5 years.

#### **4.3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **4.4 Subsequent Measurement**

Compensation from third parties for items of intangible assets that were impaired, or given up is included in surplus or deficit when the compensation becomes receivable.

#### **4.5 Impairment losses**

The municipality does an impairment assessment once a year. When impairment losses are incurred they are taken to income statement.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 5 INVESTMENT PROPERTY

#### 5.1 Initial Recognition

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

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

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

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:
  - Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
  - Property being constructed or developed on behalf of third parties;
  - Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
  - Property that is being constructed or developed for future use as investment property;
  - Property that is leased to another entity under a finance lease;
  - Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
  - Property held for strategic purposes or service delivery.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 6 FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

#### 6.1 Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors (see note 6)
- Short-term Investment Deposits
- Bank Balances and Cash

The *Financial Assets* of the municipality are classified as follows into the four categories allowed by this standard:

#### Type of Financial Asset Classification

Short-term Investment Deposits – Call Held-to-maturity investments

Bank Balances and Cash Available for sale investments

Long-term Receivables Loans and receivables

Consumer Debtors Loans and receivables

Other Debtors Loans and receivables

Investments in Fixed Deposits Held-to-maturity investments

*Financial assets at fair value through profit or loss* are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial

Performance.

*Available for sale investments* are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

*Loans and Receivables* are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

*Held-to-Maturity Investments* are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

### 6.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of

Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors (see note 12)
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of *Financial Liabilities*, the classification determining how they are measured.

Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The *Financial Liabilities* of the municipality are all classified as "Other financial liabilities".

### 6.3 Initial and Subsequent Measurement

#### 6.3.1 Financial Assets:

*Held-to-maturity Investments* and *Loans and Receivables* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at *Fair Value* and *Available-for-Sale* are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

#### 6.3.2 Financial Liabilities:

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 6.3.3 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

### 6.4 Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

### 6.5 Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### 6.6 Transitional Provisions

Financial Assets and Liabilities and the information relating thereto were presented and disclosed in accordance with the requirements of GRAP 3.

## 7 RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 7.1 Credit Risk

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

### 7.2 Liquidity Risk

A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Risk management of Financial Assets and Liabilities were presented and disclosed in accordance with the requirements of IFRS 7 and GRAP 3.

## 8 INVENTORIES

### 8.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process. Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

### 8.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose.

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

#### **Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at statement of financial position date have been calculated on the lowest tariff.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **9 REVENUE RECOGNITION**

#### **9.1 General**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

#### **9.2 Revenue from Exchange Transactions**

##### **9.2.1 Service Charges**

Service charges relating to electricity, water, solid waste, sanitation and sewage are levied in terms of the approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

##### **9.2.2 Pre-paid Electricity**

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made in the last month of the financial year is recognised based on an estimate of the prepaid electricity consumed as at the reporting date with reference to the consumption patterns of the individual users.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 9.2.3 Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

### 9.2.4 Tariff Charges

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

### 9.2.5 Income from Agency Services

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

### 9.2.6 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 buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.

The costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 9.2.7 Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight- line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

## 9.3 Revenue from Non-exchange Transactions

### 9.3.1 Rates and Taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

### 9.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

### 9.3.3 Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

### 9.3.4 Other Donations and Contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 9.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Such revenue is based on legislated procedures. Legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

### 10 GOVERNMENT GRANTS AND RECEIPTS

Income 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. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

### 11 PROVISIONS

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, 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.

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

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 12 EMPLOYEE BENEFITS

#### 12.1 Short-term Employee Benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### 12.2 Defined Contribution Plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

#### 12.3 Defined Benefit Plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

##### 12.3.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The defined benefit fund was last actuarially valued during the reporting period ending 30 June 2009.

The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds. The Natal Joint Provident Fund and South African Local Authority Pension Fund are defined contribution funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment hereof is made in the course of the municipality's normal budgeting processes."

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 13.3.2 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

### 13.3.3 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

## 14 LEASES

### 14.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 14.2 The Municipality as Lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

### 15 BORROWING COSTS

Borrowing costs incurred relating to qualifying assets and all other borrowing costs incurred were recognised as expenses in the Statement of Financial Performance in the previous financial year. The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2009 in accordance with the requirements of GRAP 5 and ASB Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

### 16 VALUE ADDED TAX

The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991.

### 17 CASH AND CASH EQUIVALENTS

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

### 18 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 19 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 20 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 21 CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. The municipality continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2009 in accordance management retrospectively, with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 36 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in the previous financial year. The municipality continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

### 22 RELATED PARTIES

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

### 23 EVENTS AFTER THE REPORTING DATE

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

# ABAQULUSI MUNICIPALITY

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 24 COMPARATIVE INFORMATION

#### 24.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

### 25 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

### 26 TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

### 27 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases

Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

**AbaQulusi Municipality**  
Financial Statements for the year ended 30 June 2012

**Notes to the Financial Statements**

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
<b>2. Property, plant and equipment</b>						
Land	21,399,290	-	21,399,290	21,399,290	-	21,399,290
Buildings- Owned	32,526,683	-9,483,409	23,043,274	32,526,683	-8,615,169	23,911,514
Infrastructure	304,247,024	-134,283,581	169,963,443	290,890,134	-120,175,230	170,714,904
Community	22,683,850	-5,159,524	17,524,326	22,567,797	-4,602,636	17,965,161
Specialised vehicles	1,119,476	-1,119,476	0	1,119,476	-1,119,476	-
Heritage	2,942,039	0	2,942,039	2,942,039	-621,639	2,320,400
Other property, plant and equipment	23,051,922	-21,180,862	1,871,060	22,743,943	-20,467,357	2,276,586
<b>Total</b>	<b>407,970,284</b>	<b>-171,226,852</b>	<b>236,743,432</b>	<b>394,189,362</b>	<b>-155,601,507</b>	<b>238,587,855</b>

**Reconciliation of property, plant and equipment - 2012**

	Opening balance	Additions	Depreciation	Total
Land	21,399,290	-	-	21,399,290
Buildings- Owned	23,911,514	-	-868,240	23,043,274
Infrastructure	170,714,904	13,356,890	-14,108,351	169,963,443
Community	17,965,161	116,053	-556,888	17,524,326
Heritage	2,320,400	-	621,639	2,942,039
Other property, plant and equipment	2,276,586	307,979	-713,505	1,871,060
	<b>238,587,855</b>	<b>13,780,922</b>	<b>-15,625,345</b>	<b>236,743,432</b>

# AbaQulusi Municipality

## Financial Statements for the year ended 30 June 2012

### Notes to the Financial Statements

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	21,145,938	253,352	-	21,399,290
Buildings- Owned	25,010,014	-	-1,098,500	23,911,514
Infrastructure	165,828,360	18,944,764	-14,058,220	170,714,904
Community	18,381,055	99,999	-515,893	17,965,161
Heritage	2,409,271	-	-88,871	2,320,400
Other property, plant and equipment	3,671,902	133,375	-1,042,622	2,762,655
	<b>236,446,540</b>	<b>19,431,490</b>	<b>-16,804,106</b>	<b>239,073,924</b>

#### Reconciliation of work in progress - 2012

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	-	-	-	-
Additions/Capital expenditure	13,356,890	116,053	-	13,472,943
Other movements(specify)	-	-	-	-
Transferred to completed items	-	-	-	-
	<b>13,356,890</b>	<b>116,053</b>	<b>-</b>	<b>13,472,943</b>

#### Reconciliation of work in progress - 2011

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	-	-	-	-
Additions/Capital expenditure	18,944,764	-	-	18,944,764
Other movements(specify)	-	-	-	-
Transferred to completed items	-	-	-	-
	<b>18,944,764</b>	<b>-</b>	<b>-</b>	<b>18,944,764</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

**AbaQulusi Municipality**  
**Financial Statements for the year ended 30 June 2012**

**Notes to the Financial Statements**

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
<b>3. Intangible assets</b>						
Intangible assets	1,216,566	-1,180,752	35,814	1,216,566	-1,142,135	74,431

**Reconciliation of intangible assets - 2012**

	Opening balance	Amortisation	Total
Intangible assets	74,431	-38,617	35,814

**Reconciliation of intangible assets - 2011**

	Opening balance	Amortisation	Total
Intangible assets	118,567	-44,136	74,431

**AbaQulusi Municipality**  
Financial Statements for the year ended 30 June 2012

**Notes to the Financial Statements**

	2012	2011
<b>4. Investments</b>		
<b>Held to maturity</b>		
Investments	35,909,908	45,979,466
Terms and conditions		
<b>Non-current assets</b>		
Investments	35,909,908	45,979,466
<b>Investment Bank account</b>		
SIMS Sanlam Account - Account Number MUNVRY Investment Account		
Bank statement balance at the beginning of the year	38,054,169	35,629,128
Bank statement balance at the end of the year	<u>19,686,091</u>	<u>38,054,169</u>
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 5598098427 Investment Account		
Bank statement balance at the beginning of the year	1,489,830	1,489,830
Bank statement balance at the end of the year	<u>1,489,830</u>	<u>1,489,830</u>
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 9122861337 Investment Account		
Bank statement balance at the beginning of the year	776,947	746,846
Bank statement balance at the end of the year	<u>2,194</u>	<u>776,947</u>
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 9229810534 Investment Account		
Bank statement balance at the beginning of the year	658,520	631,210
Bank statement balance at the end of the year	<u>685,081</u>	<u>658,520</u>
<b>Investment Bank account</b>		
First National Bank - Vryheid Branch Account Number 74310288535 Investment Account		
Bank statement balance at the beginning of the year	5,000,000	-
Bank statement balance at the end of the year	<u>5,046,711</u>	<u>5,000,000</u>

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.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

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.

	2012	2011
<b>5. Inventories</b>		
Water inventory	94,663	94,663
Consumable stores	7,165,310	6,622,682
	<b>7,259,973</b>	<b>6,717,345</b>
<b>6. Receivables from exchange transactions</b>		
Trade debtors	26,910,267	25,755,792
Other debtors	6,194,915	6,426,048
	<b>33,105,182</b>	<b>33,374,602</b>
<b>CONSUMER DEBTORS</b>		
Rates	12,705,299	9,531,984
Electricity	7,663,874	7,210,655
Water	7,343,415	6,289,540
Sewerage	6,957,236	5,028,609
Refuse	5,076,712	3,594,435
Other	8,183,827	7,463,145
Value Added Taxation	4,021,280	3,278,800
<b>Total service debtors</b>	<b>51,951,643</b>	<b>42,397,168</b>
<b>Less provision for bad debts</b>	<b>(24,444,995)</b>	<b>(16,044,995)</b>
<b>Total</b>	<b>27,506,648</b>	<b>26,352,173</b>
<b>Plus Debtor Discounting</b>	<b>-596,381</b>	<b>-596,381</b>
<b>Total</b>	<b>26,910,267</b>	<b>25,755,792</b>
<b><u>Rates: Ageing</u></b>		
Current (0 – 30 days)	2,832,875	2,465,398
31 - 60 Days	494,884	476,390
61 - 90 Days	475,190	355,484
91 - 120 Days	415,966	319,582
Greater than 120 days.	8,486,384	5,915,130
<b>Total</b>	<b>12,705,299</b>	<b>9,531,984</b>
	2012	2011
<b><u>Electricity: Ageing.</u></b>		
Current (0 – 30 days)	5,972,129	5,838,799
31 - 60 Days	174,895	190,974
61 - 90 Days	133,628	82,645
91 - 120 Days	73,148	63,010
Greater than 120 days.	1,310,074	1,035,227
<b>Total</b>	<b>7,663,874</b>	<b>7,210,655</b>

	2012	2011
<b>Water: Ageing.</b>		
Current (0 – 30 days)	3,134,019	2,019,866
31 - 60 Days	405,008	219,497
61 - 90 Days	315,803	199,915
91 - 120 Days	192,348	1,758,454
Greater than 120 days.	3,296,237	2,091,808
<b>Total</b>	<b>7,343,415</b>	<b>6,289,540</b>
<b>Sewerage: Ageing.</b>		
Current (0 – 30 days)	1,537,764	1,130,330
31 - 60 Days	395,204	257,363
61 - 90 Days	331,405	226,599
91 - 120 Days	268,905	208,834
Greater than 120 days.	4,423,958	3,205,483
<b>Total</b>	<b>6,957,236</b>	<b>5,028,609</b>
<b>Refuse: Ageing.</b>		
Current (0 – 30 days)	1,158,102	864,543
31 - 60 Days	284,370	190,066
61 - 90 Days	249,364	165,212
91 - 120 Days	196,880	151,445
Greater than 120 days.	3,187,996	2,223,170
<b>Total</b>	<b>5,076,712</b>	<b>3,594,436</b>
<b>Other: Ageing.</b>		
Current (0 – 30 days)	511,334	717,220
31 - 60 Days	123,664	298,836
61 - 90 Days	236,126	198,387
91 - 120 Days	193,698	174,778
Greater than 120 days.	7,119,005	6,073,924
<b>Total</b>	<b>8,183,827</b>	<b>7,463,145</b>

NB: Refer to Reclassification Note (Note 31)

Other Aging comprises of interest, old debt, penalties, collection fees, legal fees, sundry charge, indigent support and agreements, broken down as follows:

Adjustments	336,704	505,224
Service Charges	477,226	487,317
Interest	2,815,115	2,327,051
Old Debt	3,691	5,361
Penalties	3,700,490	3,311,641
Coll fees	62,092	62,348
Legal fees	368,995	386,760
Sundry charge	53,126	53,222
Indigent support	99,886	110,572
Agreements	266,502	213,649
<b>Total</b>	<b>8,183,827</b>	<b>7,463,145</b>

	2012	2011
<b><u>Value Added Taxation: Ageing.</u></b>		
Current (0 – 30 days)	1,697,557	1,299,509
31 - 60 Days	178,809	134,309
61 - 90 Days	164,793	104,564
91 - 120 Days	120,181	312,501
Greater than 120 days.	1,859,940	1,427,917
<b>Total</b>	<b>4,021,280</b>	<b>3,278,800</b>
<b><u>Add Back credits included above:Ageing.</u></b>		
Current (0 – 30 days)	-407,637	-234,224
31 - 60 Days	-19,853	-100,784
61 - 90 Days	-44,781	-107,641
91 - 120 Days	-109,452	-21,653
Greater than 120 days.	-286,303	-89,262
<b>Total</b>	<b>-868,026</b>	<b>-553,564</b>
<b><u>Reconciliation of the doubtful debt provision</u></b>		
Balance at beginning of the year	16,044,995	13,008,047
Consumer Debtors	16,044,995	13,008,047
Other Debtors	-	-
Contribution for the year	8,400,000	3,036,948
Consumer Debtors	8,400,000	3,036,948
Other Debtors	-	-
(Release from) Contribution to provision	-	-
Consumer Debtors	-	-
Other Debtors	-	-
Bad Debts written of against provision.		
Consumer Debtors	24,444,995	16,044,995
Other Debtors	-	-
<b>Balance at end of year.</b>	<b>24,444,995</b>	<b>16,044,995</b>

	2012	2011
<b>OTHER DEBTORS</b>		
Sundry Debtors	4,482,930	3,596,760
Other debtors	1,690,561	2,600,160
Accrual Interest	21,424	21,424
<b>Total Other Debtors</b>	<b>6,194,915</b>	<b>6,218,344</b>

**DISCLOSURE ENTRIES BANK ACCOUNT**

Year End Adjustments (Deposits in transit etc)	-	207,705
<b>Total Other Debtors</b>	<b>6,194,915</b>	<b>6,426,049</b>

**7. Cash and cash equivalents**

Cash and cash equivalents consist of the following:

Cash on hand and Petty cash	6,970	6,970
Bank balances	4,501,434	1,003,076
Short-term deposits	31,249,528	2,927,907
	<b>35,757,932</b>	<b>3,937,953</b>

**BANK BALANCES AND CASH**

Cash and cash equivalents consist of the following:

Cash on hand	-	-
Petty Cash	6,970	6,970
	<b>6970</b>	<b>6,970</b>

The Municipality has the following main bank accounts: -

**Primary Bank Account**

Absa Bank Limited Vryheid Branch Account Number 1005001109

Cash book balance at beginning of year	949,989	3,232,807
Cash book balance at end of year	<b>4,501,434</b>	<b>949,989</b>
Bank statement balance at beginning of year	1,003,076	3,996,661
Bank statement balance at end of year	<b>5,029,273</b>	<b>1,003,076</b>

	2012	2011
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 9195460586 Short Term Investment Account		
Bank statement balance at the beginning of the year	96,589	3,477,801
Bank statement balance at the end of the year	<u>2,884,441</u>	<u>96,589</u>
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 9229810136 Short Term Investment Account		
Bank statement balance at the beginning of the year	1,941,321	1,860,812
Bank statement balance at the end of the year	<u>2,019,625</u>	<u>1,941,321</u>
<b>Investment Bank account</b>		
Absa Bank Account - Vryheid Branch Account Number 9061060389 Short Term Investment Account		
Bank statement balance at the beginning of the year	889,997	870,712
Bank statement balance at the end of the year	<u>901,396</u>	<u>889,997</u>
<b>Investment Bank account</b>		
Standard Bank Account - Vryheid Branch Account Number Short Term Investment Account		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	<u>5,125,245</u>	<u>-</u>
<b>Investment Bank account</b>		
Investec Account - Durban Branch Account Number Short Term Investment Account		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	<u>10,279,214</u>	<u>-</u>
<b>Investment Bank account</b>		
Standard Bank Account - Vryheid Branch Account Number 068461763-004 Short Term Investment Account		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	<u>5,039,608</u>	<u>-</u>
<b>Investment Bank account</b>		
Standard Bank Account - Vryheid Branch Account Number 068461763-005 Short Term Investment Account		
Bank statement balance at the beginning of the year	-	-
Bank statement balance at the end of the year	<u>5,000,000</u>	<u>-</u>

	2012	2011
<b>8. Housing development fund</b>		
Housing Development Fund	-	776,947
<b>The housing development fund is represented by the following assets and liabilities</b>		
Cash and cash equivalents (Investments)	-	776,947
Note: The Department of Human Settlements required municipalities to return the funds		
<b>9. Long term liabilities</b>		
Non current liability		
Annuity loan	1,856,000	1,856,000
Less: Current portion transferred to current liabilities	-1,856,000	-
	-	<b>1,856,000</b>
<b>Non-current liabilities</b>		
At amortised cost	-	1,856,000
Loan granted to the municipality by DBSA at an interest rate of 6.75% per annum, being redeemed in six monthly instalments, including		
<b>10. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Assistance Program Grant	504,098	504,098
Integrated National Electrification Grant	243,176	4,291,243
Gijima Grant	38,830	38,830
EDI Grant	55,518	139,893
Land Use Management Grant	229,850	229,850
Provincial Housing Grant	60,000	60,000
Municipal Infrastructure Grant	8,336,412	3,855,160
Upgrade Billing Emondlo	3,166	29,603
Performance Management System	29,045	29,045
Housing Grant	225,383	225,383
COGTA Grant : Thusong Centre	5,867,700	-
Emergency Repair Grant (COGTA)	3,600,000	-
	<b>19,193,178</b>	<b>9,403,105</b>

The nature and extent of government grants recognised in the financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.  
See note 18 for reconciliation of grants from National/Provincial Government and receipts.  
These amounts are committed and are invested in a ring-fenced investment until utilised.

11. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Adjustment	Total
Performance bonus	1,293,694	-1,292,750	944

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Performance bonus	593,894	699,800	1,293,694

12. Payables from exchange transactions

Trade payables		22,849,596	19,788,809
Other creditors		6,456,281	2,351,881
		<b>29,305,877</b>	<b>22,140,690</b>

TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

Trade creditors	15,355,038	13,419,761
Accrued finance costs DBSA	25,242	25,242
Other Creditors Payment in Advance-Debtors	868,026	553,564
Other Payables - Special purpose depts	1,455,442	-
Deposits Other	34,431	22,935
Retentions	5,000,825	2,351,881
Staff leave accrual	6,013,714	5,494,426
Medical aid paid in advance	22,530	12,089
<b>Total creditors</b>	<b>28,775,248</b>	<b>21,879,898</b>

DISCLOSURE ENTRIES BANK ACCOUNT

Year End Adjustments ( Outstanding cheques etc)	530,629	260,792
	<b>29,305,877</b>	<b>22,140,690</b>

13. VAT receivables from exchange transactions

VAT receivables	266,738	367,253
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Vat is payable on the receipts basis. Only once payment is received from debtors is vat paid over to SARS.

14. Consumer deposits

Electricity	10,543,783	10,120,141
Water	833,923	778,683
	<b>11,377,706</b>	<b>10,898,824</b>

	2012	2011
<b>15. Revenue</b>		
Property rates	35,131,478	31,266,465
Property rates – Penalties imposed and collection charges	881,036	722,977
Service charges	166,315,713	150,359,571
Rental of facilities & equipment	651,184	518,058
Interest received – trading	17,477	613,921
Interest received – trading	1,174,052	1,693,525
Other income	2,470,797	3,466,658
Gain on asset disposal	956,407	-
Fines	1,496,793	1,551,605
Licences and permits	6,206,999	4,450,583
Government grants & subsidies	107,818,336	82,246,937
	<b>323,120,272</b>	<b>276,890,300</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	166,315,713	150,359,571
Rental of facilities & equipment	651,184	518,058
Interest received – trading	17,477	613,921
Licences and permits	6,206,999	4,450,583
	<b>173,191,373</b>	<b>155,942,133</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	35,131,478	31,266,465
Property rates – Penalties imposed and collection charges	881,036	722,977
Fines	1,496,793	1,551,605
<b>Transfer revenue</b>		
Grants and Subsidies	107,818,336	82,246,937
	<b>145,327,643</b>	<b>115,787,984</b>
<b>16. Property rates</b>		
<b>Rates received</b>		
Property rates 1	37,657,892	34,788,602
Rates Rebate	-593,164	-546,045
Rates Reduction	-997,391	-1,299,653
Phase in Rates 75%	-935,859	-1,676,439
	35,131,478	31,266,465
Property rates - penalties imposed and collection charges	881,036	722,977
	<b>36,012,514</b>	<b>31,989,442</b>

	2012	2011
<b>Valuations</b>		
Residential	3,120,446,000	3,101,716,000
Commercial	935,898,100	888,670,100
State	481,121,000	461,021,000
Donation: Sport & Welfare	160,462,000	117,652,000
Schools: Non Government	2,700,000	46,710,000
Vacant land	77,754,000	91,865,000
Non Taxable	220,505,300	222,659,300
Public Service Infrastructure	53,020,000	50,504,200
S P L	2,800,000	600,000
Agriculture	1,078,737,494	1,120,109,592
	<b>6,133,443,894</b>	<b>6,101,507,192</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Supplementary valuations are processed on a quarterly basis to take into account Rates are levied on monthly basis with the final date for payment being the 9th of every month. Interest at prime plus 1% per annum is levied on outstanding rates.

#### 17. Service charges

Sale of electricity	116,770,411	105,089,586
Sale of water	23,240,540	20,608,910
Sewerage and sanitation charges	14,808,522	13,852,738
Refuse removal	11,496,240	10,808,337
	<b>166,315,713</b>	<b>150,359,571</b>

#### 18. Government grants and subsidies

Equitable share	69,224,000	57,815,284
Municipal Systems Improvement Grant	1,000,000	1,000,000
MAP Grant	-	456,520
Intergrated National Electrification Program Grant	17,821,067	8,923,300
EDI Grant	84,375	10,107
Land Use Management	-	56,100
Project Consolidate- Louwsburg	-	276,535
Municipal Infrastructure Grant	16,493,748	9,918,984
Finance Management Grant	1,450,000	1,200,000
Performance Management Systems	-	23,200
Upgrasde Billing Emondlo	26,438	-
Housing	-	2,413,907
Tourism Operating Grant ZDM	100,000	80,000
COGTA Grant: Thusong Centre	132,300	-
Library Grants (operating)	1,361,408	-
Museum Grants (operating)	125,000	73,000
	<b>107,818,336</b>	<b>82,246,937</b>

#### Equitable Share

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

#### Equitable share

Current year receipts	69,224,000	57,815,284
Conditions met-transferred to revenue	-69,224,000	-57,815,284
	-	-

	2012	2011
<b>Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	-	620,000
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	-1,000,000	-1,000,000
Correction	-	-620,000
	-	-

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Municipal Assistance Program Grant**

Balance unspent at beginning of year	504,098	960,618
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-456,520
	<b>504,098</b>	<b>504,098</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Intergrated National Electrification Programme Grant**

Balance unspent at beginning of year	4,291,243	3,214,543
Current-year receipts	13,773,000	10,000,000
Conditions met - transferred to revenue	-17,821,067	-8,923,300
	<b>243,176</b>	<b>4,291,243</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Gijima Grant**

Balance unspent at beginning of year	38,830	38,830
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>38,830</b>	<b>38,830</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**EDI Grant**

Balance unspent at beginning of year	139,893	-
Current-year receipts	-	150,000
Conditions met - transferred to revenue	-84,375	-10,107
	<b>55,518</b>	<b>139,893</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

	2012	2011
<b>Land Use Management Grant</b>		
Balance unspent at beginning of year	229,850	285,950
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-56,100
	<b>229,850</b>	<b>229,850</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Provincial Housing Grant**

Balance unspent at beginning of year	60,000	-
Current-year receipts	-	60,000
Conditions met - transferred to revenue	-	-
	<b>60,000</b>	<b>60,000</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Municipal Infrastructure Grant**

Balance unspent at beginning of year	3,855,160	2,922,837
Current-year receipts	20,975,000	11,340,000
Conditions met - transferred to revenue	-15,136,526	-9,918,984
Correction prior year vat portion	-1,357,222	-488,693
	<b>8,336,412</b>	<b>3,855,160</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Finance Management Grant**

Balance unspent at beginning of year	-	-
Current-year receipts	1,450,000	1,200,000
Conditions met - transferred to revenue	-1,450,000	-1,200,000
	-	-

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

	2012	2011
<b>Upgrade Billing Emondlo</b>		
Balance unspent at beginning of year	29,603	29,603
Current-year receipts	-	-
Conditions met - transferred to revenue	-26,437	-
	<b>3,166</b>	<b>29,603</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Performance Management Systems**

Balance unspent at beginning of year	29,045	52,245
Current-year receipts	-	-
Conditions met - transferred to revenue	-	-23,200
	<b>29,045</b>	<b>29,045</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Housing Grant**

Balance unspent at beginning of year	225,383	242,497
Current-year receipts	-	2,396,793
Conditions met - transferred to revenue	-	-2,413,907
	<b>225,383</b>	<b>225,383</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**COGTA Grant: Thusong Centre**

Current-year receipts	6,000,000	-
Conditions met - transferred to revenue	-132,300	-
	<b>5,867,700</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Emergency Repair Grant (COGTA)**

Current-year receipts	3,600,000	-
Conditions met - transferred to revenue	-	-
	<b>3,600,000</b>	<b>-</b>

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

	2012	2011
<b>Tourism Operation Grant ZDM</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	100,000	80,000
Conditions met - transferred to revenue	-100,000	-80,000
	-	-

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Library Grants**

Balance unspent at beginning of year	-	-
Current-year receipts	1,361,408	1,175,408
Conditions met - transferred to revenue	-1,361,408	-1,175,408
	-	-

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

**Museum Grant**

Balance unspent at beginning of year	-	-
Current-year receipts	125,000	73,000
Conditions met - transferred to revenue	-125,000	-73,000
	-	-

Conditions still to be met - remain liabilities (see note 10).  
Provide explanations of conditions still to be met and other relevant information.

	2012	2011
<b>19. Other income</b>		
Burial Fees	162,426	190,602
Encroachment fees	24,854	22,595
Entrance fees	8,167	3,003
Fee Gate	11,237	15,654
Fees Klipfontein	61,660	82,943
Fees Advert/Signs	7,905	10,428
IEC Election Income 7	-1,000	18,125
Lost book charges	5,410	4,341
Membership fees	9,205	10,572
Monument erection	35,290	27,707
Park fees	17,165	30,185
Photostat copies	31,532	20,134
Plan fees	61,907	38,724
Print fees	222	6,028
Rates clearance	48,169	36,599
Rezoning	8,095	482
Sale of Premix	8,772	134,287
SETA	511,358	215,745
Special Consent	60,028	89,163
Vehicle entrance	-	7,654
Sundry income	40,928	17,084
Sundry	6,061	711,470
Building permits	2,781	-
Business Licence	2,645	-
Donation income	49,123	-
Valuation Certificate	112	-
Tender deposits	54422	-
Bad debts recovered	36315	-
	<b>1,264,789</b>	<b>1,693,525</b>

	2012	2011
<b>20. General expenses</b>		
Advertising	567,882	440,284
Allowance & contributions Pensioners	1,142,583	1,101,102
Auditors remuneration	1,560,639	1,700,072
Awards	-	25,605
Bank charges	741,808	611,474
Banking Services	282,815	285,294
Brohures and postcards	-	4,380
Cartage and railage	45,689	51,087
Chemicals	1,103,924	807,714
Christmas/Festive lights	2,908	24,865
Cleaning	165,161	171,560
Commission paid	384,499	48,216
Compensation commissioner	-	455,014
Conferences and seminars	69,440	68,507
Corporate gifts	2,850	3,000
Council Community projects	592,816	456,343
Cutting of grass	-	12,742
Data lines	41,841	34,921
Departmental admin	90,950	-
Disaster relief	120,351	56,713
Donations	41,990	-
Electricity & Water Services	5,417,771	4,957,404
Entertainment and refreshments	102,606	242,101
Equipment less than R1000.00	1,530	3,057
First aid suply	219	3,186
Fuel and oil	3,671,897	2,613,148
Indigent burials	250,070	261,394
Insurance	1,033,759	1,136,830
Legal expenses	4,733,667	1,217,267
Levies	-	7
Magazines, books and periodicals	50,622	49,805
Membership fees	535,462	486,129
Minor loose tools	97,309	100,272
Music rights	18,465	17,892
Name tags	-	1,175
News slot	88,692	142,740
Pension for retrenched people	501,278	904,451
Planning shared services	151,877	-
Point duties at school	3,880	4,280
Postage and courier	626,815	607,623
Prayer day	19,618	73,986
Printing and stationery	761,388	791,853
Professional fees	122,501	216,555
Pub information bookletes	4,350	4,380
Pub Vryheid Brouchures	8,400	7,500
Public participation S & T	589,411	492,949
Publicity stickers	-	3,500
Radio licences	6,309	23,616
Skills development levies	836,661	733,913
Sports and Comm Services functions	948,727	1,161,651
Strategic planning	13,260	11,686
Telephone and fax	1,159,499	1,219,488
Tourism Exhibitions	-	6,570
Training	182,267	347,045
Travel and subsistence	1,693,351	1,339,624
User group expenses	34,297	18,463
Valuation costs	16,603	41,187
Valuation Roll costs	264,957	243,163
Vryheid tourism	230	1,580
Ward committee allowances	1,346,070	874,478
Ward projects	8,205	1,937,610
Wellness program	11,479	224,489
Other expenses	502,857	135,869
	<b>32,774,504</b>	<b>29,018,809</b>

	2012	2011
<b>21. Employee related costs</b>		
Employee Related Costs- Salaries and Wages	49,141,744	45,568,815
Performance and other bonuses	3,758,855	4,273,352
Employee related costs-Contributons for UIF, Pensions and Medical aids	13,178,610	12,294,671
Post-employment benefits - Pension - Defined contribution plan	7,910,613	5,792,576
Travel, motor car, accommodation, subsistence and other allowances	6,026,322	5,139,865
Overtime payments	9,825,122	7,859,043
Long-service awards	25,793	24,549
Housing benefits and allowances	433,718	400,771
Contribution to leave provision	1,400,000	1,506,531
Other employee related costs	1,705,047	1,500,969
	<b>93,405,824</b>	<b>84,361,142</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	690,833	802,111
Travel, motor car and other allowance	186,092	210,000
	<b>876,925</b>	<b>1,012,111</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	513,242	638,289
Travel, motor car and other allowance	132,805	54,000
	<b>646,047</b>	<b>692,289</b>
<b>Remuneration director technical</b>		
Annual Remuneration	557,764	662,997
Travel, motor car and other allowance	176,537	182,355
	<b>734,301</b>	<b>845,352</b>
<b>Remuneration director corporate</b>		
Annual Remuneration	577,273	628,021
Travel motor car and other allowance	104,500	114,000
	<b>681,773</b>	<b>742,021</b>

	2012	2011
<b>Remuneration director community</b>		
Annual Remuneration	425,879	505,738
Travel, motor car and other allowance	154,000	168,000
	<b>579,879</b>	<b>673,738</b>
<b>Remuneration director planning &amp; development</b>		
Annual Remuneration	521,324	590,613
Travel, motor car and other allowance	126,500	138,000
	<b>647,824</b>	<b>728,613</b>
<b>22. Remuneration of Councillors</b>		
Mayor	628,700	609,184
Deputy Mayor	500,361	499,540
Executive Committee Members	2,806,512	2,372,987
Speaker	507,346	494,822
Councillors	6,134,797	4,701,594
Councillors travel allowance	282,426	940,657
Councillors cell allowance	404,227	373,142
	<b>11,264,369</b>	<b>9,991,926</b>
<b>In-kind Benefits</b>		
The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time and are each provided with		
The Mayor has use of the Council owned vehicle for official duties. The Mayor has one full-time bodyguard as well		
<b>23. Investment revenue</b>		
<b>Interest revenue</b>		
Investments	3,522,342	3,466,658
The amount included in Investment revenue arising from exchange transactions amounted to R 17,477.		
The amount included in Investment revenue arising from non-exchange transactions amounted to R 2,470,794.		
<b>24. Depreciation and amortisation</b>		
Property, plant and equipment	15,825,521	16,804,106
Intangible assets	38,617	44,135
	<b>15,864,138</b>	<b>16,848,241</b>
<b>25. Finance costs</b>		
Interest on external loan	126,280	125,370
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 00 (PY: R 00).		

	2012	2011
<b>26. Auditors' remuneration</b>		
Fees	1,560,639	1,700,072
<b>27. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	149,801	182,086
Rental of equipment	6,903	12,810
Rental income	494,480	323,162
	<b>651,184</b>	<b>518,058</b>
<b>28. Bulk purchases</b>		
Electricity	101,328,354	79,979,616
Water	-	5,198
	<b>101,328,354</b>	<b>79,984,814</b>
<b>29. Cash generated from operations</b>		
Surplus (deficit)	-13,532,983	-5,288,080
<b>Adjustments for:</b>		
Depreciation and amortisation	15,864,138	16,848,242
Loss on sale of assets and liabilities	-956,407	-
Movements in retirement benefit assets and liabilities	7,910,613	8,306,635
Movements in provisions	-1,292,750	2,275,267
Prior Year Adjustment	-	-11,229,631
Interest earned	-	-3,466,658
<b>Changes in working capital:</b>		
Inventories	-542,628	-9,342,747
Receivables from exchange transactions	-2,830,987	5,220,596
Payables from exchange transactions	7,533,934	1,824,629
VAT	-100,515	11,312,865
Unspent conditional grants and receipts	9,790,073	759,448
Consumer deposits	478,882	-
Long service awards contribution	-	522,888
	<b>22,321,370</b>	<b>17,743,454</b>

	2012	2011
<b>30. Additional Note in terms of Municipal Finance Management</b>		
<b>30.1 Contributions to organised local government</b>		
Council subscriptions	-525,360	-477,600
Amount paid-current	525,360	477,600
	-	-
<b>30.2 PAYE and UIF</b>		
Current year payroll deductions	13,987,613	12,470,013
Amount paid-current year	-13,987,613	-12,470,013
	-	-
<b>30.3 Pension and Medical aid deduction</b>		
Current year payroll deductions and council contributions	19,634,452	18,413,028
Amount paid current year	-19,634,452	-18,413,028
	-	-
<b>30.4 Councillor's arrear consumer accounts</b>		
as at 30 June 2012	-	-
as at 30 June 2011		
M Mdaloze	-	3,985
M S Ntshangase	-	329
<b>Total Councillor arrear consumer accounts</b>	-	<b>4,314</b>
<b>30.5 Non Compliance with Municipal Finance Management Act in</b>		
None		

### 31. Reclassification of comparative figures

Certain comparative figures have been reclassified due to incorrect classification in the previous year due to incorrect classification in the previous year and to achieve better disclosure.

The effects of the reclassification are as follows:

#### Notes to Annual Financial Statements:

#### Note 6. Receivables from exchange transactions

	Before	Adjustment	After
<b>Rates: Ageing</b>			
Current (0 – 30 days)	2,827,297	-361,899	2,465,398
31 - 60 Days	611,793	-135,403	476,390
61 - 90 Days	467,716	-112,232	355,484
91 - 120 Days	407,879	-88,297	319,582
Greater than 120 days.	8,528,940	-2,613,810	5,915,130
<b>Total</b>	<b>12,843,625</b>	<b>-3,311,641</b>	<b>9,531,984</b>

	Before	Adjustment	After
<b><u>Sewerage: Ageing.</u></b>			
Current (0 – 30 days)	1,130,330	-	1,130,330
31 - 60 Days	257,271	92	257,363
61 - 90 Days	226,599	-	226,599
91 - 120 Days	208,834	-	208,834
Greater than 120 days.	3,692,892	-487,409	3,205,483
<b>Total</b>	<b>5,515,926</b>	<b>-487,317</b>	<b>5,028,609</b>
<b><u>Other: Ageing.</u></b>			
Current (0 – 30 days)	355,321	361,899	717,220
31 - 60 Days	163,433	135,403	298,836
61 - 90 Days	86,155	112,232	198,387
91 - 120 Days	86,481	88,297	174,778
Greater than 120 days.	2,972,797	3,101,127	6,073,924
<b>Total</b>	<b>3,664,187</b>	<b>3,798,958</b>	<b>7,463,145</b>
<b>Statement of Financial Performance 2011</b>			
Service charges	149,677,387	682,184	150,359,571
Property rates- penalties imposed and collection charges	0	722,977	722,977
Interest earned outstanding debtors	1,336,898	-722,977	613,921
Fines	1,538,436	13,169	1,551,605
Other income	2,388,876	-695,351	1,693,525
Employee related costs	81,756,159	7,299,107	89,055,266
Contracted Services	2,064,057	23,900,534	25,964,591
General Expenses	52,850,407	-23,831,598	29,018,809
<b>Statement of Financial Performance 2012</b>			
Service charges		166,315,713	
Property rates- penalties imposed and collection charges		881,036	
Interest earned outstanding debtors		17,477	
Fines		1,496,793	
Other income		1,174,052	
Employee related costs		91,761,960	
Contracted Services		28,225,972	
General Expenses		43,070,668	

### 32. Risk management

#### Liquidity risk

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

#### Interest rate risk

As the municipality has no significant interest-bearing assets,

At 30 June 2012, financial instruments exposed to interest rate risk were as follows:

Call deposits, Notice deposits and

Development Bank of South Africa

#### Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

	2012	2011
<b>33. Fruitless and wasteful expenditure</b>		
Opening balance	497,098	
M Z Mkhwanazi-Acting Allowance 01/07/2011-30/04/2012	4,173	
S S Mdlalose-Acting Allowance 01/07/2011-30/04/2012	4,691	
M S Mdluli-Acting Allowance 01/07/2011-30/04/2012	50,985	
J P Hadebe-Acting Allowance 01/07/2011-30/04/2012	4,691	
E S Madi-Acting Allowance 01/07/2011-30/04/2012	4,691	
M P Mdlalose-Acting Allowance 01/07/2011-30/04/2012	18,946	
R Mtshali-Acting Allowance 01/07/2011-30/04/2012	4,691	
B Nkosi-Acting Allowance 01/07/2011-30/04/2012	4,691	
T Sithole-Acting Allowance 01/07/2011-30/04/2012	23,430	
M D Ngema-Acting Allowance 01/01/2009-30/06/2010	-	77,441
M D Ngema-Acting Allowance 01/07/2009-30/06/2011	-	53,520
Payment Ms L N Phakathi	-	366,137
	<b>618,087</b>	<b>497,098</b>

Incident-Acting allowances were paid in excess of 6 months.

	2012	2011
<b>34. Irregular expenditure</b>		
Opening balance	4,067,487	3,156,874
Add: Irregular Expenditure - current year	10,936,110	910,613
Condoned or written off by Council	-	-
Transfer to receivables for recovery-not condoned	-	-
	<b>15,003,597</b>	<b>4,067,487</b>

**NB: Irregular expenditure incidents:**

**Awards of tenders to people in service of the state.**

**Supporting documents could not be found during Internal Audit**

**Non compliance with Supply Chain Management Regulations/Policy**

Mabusana Construction CC	-	15,000
Mkhawuzi Trading CC	-	52,500
Althumele Trading CC	-	3,500
Rise Again Equipment Services	31,255	6,015
Muhle Ekudeni Catering and Construction	94,710	79,399
Khanyisa Engineering & Services	-	93,182
Kwazinathi Trading & Projects	114,120	41,220
Gess Trading CC	222,240	594,797
Akhona Contracting & Trading	34,050	25,000
Philas Entertainment	11,700	
Aphelele Catering & Construction	26,500	
Sakhisizwe Contractors	31,667	
Bite Construction	8,772	
Avelle Projects CC	9,868	
NospheTrading Enterprise	30,263	
Khambule Electrical	793	
Samkelintokoza CC	3,960	
Solantu Services	4,180	
Pops Print CC	5,800	
Select Sports Empangeni	58,590	
Screen works	124,123	
Zethembiso Amandla Construction	9,868	
Sinakhokonke Cleaning and Distribution Services	17,990	
Lasercom	441,114	
Gargen Court Marine Parade	10,826	
Topsports	171,456	
Vryheid Central Workshop CC	185,993	
Neffcon Roadtech CC	68,400	
Gess Trading CC	71,120	
Vryheid Petroleum Pty Ltd	1,807,108	
Vollax Pietermaritzburg Pty Ltd	484,952	
Lasercom	418,637	
E Sithole Electrical CC	321,599	
Flo-Tek Dundee	300,840	
BPG Mass Appraisals	270,000	
North Coast Plastic and Packaging Industry CC	238,716	
Neffcon Roadtech CC	230,736	
Mamelang Technologies	74,013	
Elsa	1,144	
Dinani Trading Enterprise	7,875	
Rise Again Equipment Services	31,255	
Hlanganani World of Suppliers	20,300	
Philas Entertainment	11,700	
Mkthethankomo Trading	7,200	
Nalindah Trading	15,750	
Muhle Ekudeni Catering and Construction	34,450	
Philani Fumigation Services	2,860	
Sizanani Electrical	1,467,038	
ARB Electrical Wholesalers	716,632	
Sud Chemie SA Pty Ltd	605,553	
Kantech Services Pty Ltd	474,003	
Human Communications	467,237	
Afmech Engineering CC	406,740	

Vryheid Central Workshop	356,825	
Elster Kent Metering Pty Ltd	212,644	
ADO Research Labs Pty Ltd	160,945	
	<b>10,936,110</b>	<b>910,613</b>

**Disciplinary steps taken/ criminal proceedings taken following incidents of irregular expenditure**

The following are pending suspensions:

Mr. BG Shoyisa

Mr. SSE Langa

Mrs LN Ntshangase

Irregular expenditure condoned	-	-
Irregular expenditure recoverable (not condoned)	-	-
Irregular expenditure not recoverable (not condoned)	-	-

**35. 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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The

	2012	2011
<b>Supply Chain Management Deviations:</b>		
Quality Engineering	5,351	
Super Quick	4,299	
Sizani Electrical	364,947	
Flo-tek Dundee (Pty) Ltd	3,200	
Vryheid Petroleum (Pty) Ltd	52,903	
NCP Chlorchem	103,943	
Mncedisi Communications		9,000
Umnotho Business Consultants		95,000
M J Koen Construction CC		13,954
Various		199,900
Municipal and Financial Administration Services		486,000
	<b>534,643</b>	<b>803,854</b>
<b>36. Grants and subsidies paid</b>		
Grants Expenditure	27,819,445	14,690,177
Grant in Aid	51,859	180,804
	<b>27,871,304</b>	<b>14,870,981</b>
<b>37. Contracted Services</b>		
<b>Contracted services for:</b>		
Internal Audit	385	599,574
Meter Reading	2,067,197	867,224
Computer Services	1,323,148	1,020,236
Photocopiers & Faxes	509,472	651,535
Other Contract Payments Financial services	716,814	1,412,124
Lease of Vehicles	4,816,747	4,327,046
Parks	5,479,047	5,315,038
Security	6,023,834	4,795,346
Refuse Removal	5,961,846	5,934,209
Steiner	515,038	196,057
Digging of Graves	77,800	79,290
Engineer	304,915	500,997
Water Purification	249,602	265,915
Contract Payments Technical Services	67,393	-
Contract payments Community Services	53,218	-
Contract Payments Planning	59,515	-
	<b>28,225,971</b>	<b>25,964,591</b>
<b>38. Interest earned - outstanding debtors</b>		
Sundry debtors	17,477	17,540
Debtor discounting	-	596,381
	<b>17,477</b>	<b>613,921</b>

**39. Prior year error**

The correction of the error resulted in the adjustments as follows:

**Cash flow statement**

**Net cash flow from operating activities**

Before	17,220,565
Adjustment for long service awards contribution	522,888
<b>After</b>	<b>17,743,453</b>

**Cash and cash equivalent at the end of the year**

Before	3,415,064
Adjustment for long service awards contribution	522,888
<b>After</b>	<b>3,937,952</b>

**40. RETIREMENT BENEFITS**

**Post-employment medical benefits**

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, Hosmed, Keyhealth, La Health and Samwumed.

Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, ARCH actuarial consulting, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

Discount rate per annum	7.84%	8.6%
Health care cost inflation rate	7%	7.31%
Net effective discount rate	0.79%	1.20%
Benchmark inflation (equal to salary inflation)	-	-
Average retirement age- Males	63	63
Average retirement age-Females	58 years	58 years
Proportion continuing membership at retirement	100%	100%
Proportion of retiring members who are married	90%	90%
Mortality during employment	SA 85-90 ultimate	SA 85-90 ultimate
Mortality post-retirement	PA90-1 ultimate	PA90-1 ultimate
(No explicit assumption was made about additional mortality or health care costs due to AIDS).		

Percentage of in-service members withdrawing before retirement:

Age 20	40%	40%
Age 30	25%	25%
Age 40	12%	12%
Age 50	4%	4%
Age 55+	0%	0%

The amounts recognised in the Statement of Financial Position were determined as being the present value of the obligation:

<b>36,832,033</b>	<b>29,518,308</b>
-------------------	-------------------

	2012	2011
Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	29,518,308	24,248,621
Current service cost	1,203,217	992,283
Interest cost	2,358,491	2,188,634
Benefit payments	-1,139,583	-1,018,332
Actuarial (gains)/losses	4,891,600	3,107,102
Balance at end of year	<b>36,832,033</b>	<b>29,518,308</b>
The amounts recognised in the Statement of Financial Performance were as follows:		
Current service cost	1,203,217	992,283
Interest cost	2,358,491	2,188,634
Benefit payments	-1,139,583	-1,018,332
Actuarial (gains)/losses	4,891,600	3,107,102
	<b>7,313,725</b>	<b>5,269,687</b>
<b>Long service awards</b>		
The independent valuers, ARCH actuarial consulting, carry out a statutory valuation on an annual basis.		
The principal actuarial assumptions used were as follows:		
Discount rate per annum	6.46%	7.74%
General Salary Inflation (long term)	5.97%	6.26%
Net effective discount rate	0.49%	1.39%
Examples of mortality rates used were as follows:		
Average retirement age Males	63 years	63 years
Average retirement age Females	58 years	63 years
Mortality during employment	SA85-90 Ultimate	SA85-90 Ultimate
<i>Members withdrawn from service:</i>	Females Males	Females Males
Age 20	24% 16%	24% 16%
Age 30	15% 10%	15% 10%
Age 40	6% 6%	6% 6%
Age 50	2% 2%	2% 2%
Age 55	0% 0%	0% 0%
The amounts recognised in the Statement of Financial Position were determined as follows:		
Present value of funded obligations	3 755 225	3 158 337
Fair value of plan assets		
Liability in the Statement of Financial Position	<b>3 755 225</b>	<b>3 158 337</b>
Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	3 158 337	2 635 448
Current service cost	437 866	340 758
Interest cost	232 757	227 783
Actuarial (Gain)/losses	806 977	183 485
Benefit payments	-	( 229 137)
Benefit vesting	( 880 712)	-
Balance at end of year	<b>3 755 225</b>	<b>3 158 337</b>

	2012	2011
The amounts recognised in the Statement of Financial Performance were as follows:		
Current service cost	437 866	340 758
Interest cost	232 757	227 783
Actuarial (Gain)/losses	806 977	183 485
Benefit payments	-	( 229 137)
Benefit vesting	( 880 712)	-
	<b>596 888</b>	<b>522 889</b>
<b>In conclusion:</b>		
Statement of Financial Position obligation for:		
Post-employment medical benefits	36 832 033	29 518 308
Long Service Award	3 755 225	3 158 337
	<b>40 587 258</b>	<b>32 676 645</b>
Statement of Financial Performance obligation for:		
Post-employment medical benefits	7 313 725	5 269 687
Long Service Award loss	596 888	522 889
	<b>7 910 613</b>	<b>5 792 576</b>
Additional retirement costs	-	-
	<b>7 910 613</b>	<b>5 792 576</b>

#### 41. Distribution losses.

##### Water:-

Number of consumers	10,127	8,373
Kiloliters Purified.	9,762,100	8,596,203
Kiloliters sold ( Total )	3,166,233	2,880,826
Kiloliters lost in Distribution	6,595,867	5,715,377
% Lost in distribution	67.57%	66.49%
Total Costs ( Expenses )	<b>R 22,851,660</b>	<b>R 19,583,705</b>
Cost per kiloliter purified	R 2.34	R 2.28
<b>TOTAL COST LOST THROUGH DISTRIBUTION</b>	<b>R 15,434,328</b>	<b>R 13,031,060</b>

The actual loss in distribution cannot be determined in view of the fact that eMondlos consumers are not

##### Electricity

Number of consumers ( Residential & Commercial )	18,795	24,819
Units purchased. ( kwh )	160,576,566	155,479,405
Units sold ( Total )	124,324,124	123,042,294
Units lost in Distribution	36,252,442	32,437,111
% Lost in distribution	22.58%	20.86%
Total Costs ( Expenses )	<b>R 141,105,635</b>	<b>R 101,707,175</b>
Cost per unit purchased.	R 0.88	R 0.65
<b>TOTAL COST LOST THROUGH DISTRIBUTION</b>	<b>R 31,902,148</b>	<b>R 21,218,803</b>

**42. COMMITMENTS**

**42.1 Commitments in respect of capital expenditure**

- Approved and contracted for	<b>29,945,964</b>	<b>4,371,858</b>
Infrastructure	29,945,964	4,371,858
Community		
Heritage		
Other		
- Approved but not yet contracted for	<b>12,284,863</b>	<b>21,066,221</b>
Infrastructure	6,417,163	21,066,221
Community		
Heritage		
Other	<b>5,867,700</b>	-
<b>Total</b>	<b>42,230,827</b>	<b>25,438,079</b>

This expenditure will be financed from:

- External Loans		
- Government Grants	44,230,827	25,438,079
- Own resources		
- District Council Grants		
	<b>44,230,827</b>	<b>25,438,079</b>

**42.2 Commitments in respect of non capital expenditure**

- Approved and contracted for	<b>3,600,000</b>	-
Infrastructure	3,600,000	-
Community		
Heritage		
Other		
- Approved but not yet contracted for	-	-
Infrastructure	-	-
Community		
Heritage		
Other	-	-
<b>Total</b>	<b>3,600,000</b>	<b>-</b>

This expenditure will be financed from:

- External Loans		
- Government Grants	3,600,000	-
- Own resources		
- District Council Grants		
	<b>3,600,000</b>	<b>25,438,079</b>

**42.2 Operating leases**

At the reporting date the entity has outstanding commitments under

<b>Operating leases - lessee</b>		
Operating leases paid per annum.	5,326,220	4,767,172
Within one year	4,419,709	4,688,732
In the second to fifth year inclusive	32,637	5,012,004
<b>Total</b>	<b>9,778,566</b>	<b>14,467,908</b>

Operating Leases consists of the following:

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

	2012	2011
<b>43. CONTINGENT LIABILITY</b>		
43.1 Claim for damages		
M I Sangweni-Eviction and rental collection. 01A000910 In this matter Mr Sangweni entered into a rental agreement with Abaqulusi Municipality for a portion of land and we received instructions to cancel the agreement and to evict Mr Sangweni from the property. The arrears rental in terms of the agreement was approximately R 122 770.00 and our litigation department is currently attending the collection of the arrear rental in terms of the agreement.	122,770	122,770
Nyathi Village 01A005506	500,000	500,000
Lakeside-Evictions 01A001609 Approximately 1078 RDP houses were built at Lakeside and most of the properties were invaded by illegal occupants which refuse to vacate the properties. Instructions were received to proceed with applications for the eviction of the illegal occupants but the court requires Abaqulusi Municipality to show alternative accommodation for the illegal occupants to be evicted to.	30,000	30,000
Quantum Leap 01A001609 Attorneys Botha & Olivier are on record, assisted by Cox & partners. Our present instructions are not to proceed with litigation.	-	50,000
Aon 01A003610 Aon disputed the awarding of a tender regarding short term insurance to an alternative company by Abaqulusi Municipality	3,500	3,500
Fire damages ( Edcom ) 01A0021009 Summons was issued against Abaqulusi as a result of damages caused as a result of a result of a fire at Jet Stores	5,957,101	5,957,101
Claveshay 01A005506 In this matter Abaqulusi Municipality is the defendant. Our present instructions are not to proceed with litigation.	2 200 000	500,000
Metgovis (Pty) Ltd Metgovis (Pty) Ltd claims R55 872.88 for services rendered. Action has not yet been instituted by Metgovis (Pty) Ltd	100,000	-
	<b>8,913,371</b>	<b>7,163,371</b>
43.2 Due to fact that R 20 000 000.00 have been allocated by National to the Province for rehabilitation of landfill sites used for waste disposal, all cost will be incurred by Province and therefore there be no liability on the municipality.		
<b>44. CONTINGENT ASSET</b>		
None		
<b>45. UNAUTHORISED EXPENDITURE</b>		
Unauthorised Expenditure incurred during the year	19,173,112	-
	<b>19,173,112</b>	<b>-</b>
Council still need to condone or rectify unauthorised expenditure		

AbaQulusi Municipality

Appendix D

Segmental Statement of Financial Performance for the year ended

Prior Year			Current Year		
Actual Income	Actual Expenditure	Surplus /(Deficit)	Actual Income	Actual Expenditure	Surplus /(Deficit)
Rand	Rand	Rand	Rand	Rand	Rand
<b>Municipality</b>					
3,185,125	35,193,387	-32,008,262	3,695,123	42,482,352	-38,787,229
84,924,790	31,809,089	53,115,701	104,281,619	36,519,623	67,761,996
184,504	5,136,461	-4,951,957	184,352	3,296,123	-3,111,771
-	486,457	-486,457	-	370,119	-370,119
567,723	12,968,485	-12,400,762	1,931,765	11,303,994	-9,372,229
2,413,907	2,040,011	373,896	-	879,508	-879,508
4,146,561	12,669,195	-8,522,634	5,696,484	15,638,433	-9,941,949
33,188	3,359,471	-3,326,283	25,333	2,791,508	-2,766,175
-	-	-	-	-	-
29,361,076	32,978,262	-3,617,186	29,204,763	33,142,532	-3,937,769
11,972,177	23,821,697	-11,849,520	18,626,843	26,697,468	-8,070,625
21,985,445	19,583,705	2,401,740	23,240,540	22,851,666	388,874
118,035,803	101,707,175	16,328,628	137,182,755	141,502,238	-4,319,483
80,000	374,999	-294,999	100,000	319,959	-219,959
<b>276,890,299</b>	<b>282,128,394</b>	<b>-5,238,095</b>	<b>324,169,577</b>	<b>337,795,523</b>	<b>-13,625,946</b>
<b>Municipal Owned Entities</b>					
-	-	-	-	-	-
-	-	-	-	-	-
<b>Other charges</b>					
-	-	-	-	-	-
-	-	-	-	-	-

AbaQulusi Municipality

Appendix D

Segmental Statement of Financial Performance for the year ended

Prior Year			Current Year		
Actual Income	Actual Expenditure	Surplus /(Deficit)	Actual Income	Actual Expenditure	Surplus /(Deficit)
Rand	Rand	Rand	Rand	Rand	Rand
276,890,299	282,128,394	-5,238,095	324,169,577	337,795,523	-13,625,946
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<b>276,890,299</b>	<b>282,128,394</b>	<b>-5,238,095</b>	<b>324,169,577</b>	<b>337,795,523</b>	<b>-13,625,946</b>

AbaQulusi Municipality

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Property rates	35,131,478	32,866,590	2,264,888	7%	
Service charges	166,315,713	172,585,000	-6,269,287	-4%	
Property rates - penalties imposed and collection charges	881,036	810,371	70,665	9%	
Rental of facilities and equipment	651,183	317,000	334,183	105%	Reclassification from other income
Interest received (trading)	17,477	17,484	-7	0%	
Fines	1,496,793	2,371,000	-874,207	-37%	Lower fines issued than expected
Licences and permits	6,206,999	4,587,917	1,619,082	35%	Parking meter contract implemented
Government grants & subsidies	107,818,336	114,266,408	-6,448,072	-6%	
Other income	1,264,789	25,071,000	-23,806,211	-95%	Reversal of Accumulated Surplus
Interest received - investment	3,522,342	3,300,425	221,917	7%	Interest rates estimated higher
	<u>323,306,146</u>	<u>356,193,195</u>	<u>-32,887,049</u>	<u>-9%</u>	
<b>Expenses</b>					
Employee Related Costs	-96,279,825	-94,000,000	-2,279,825	2%	Budget for contr to leave prov moved from gen exp
Remuneration of councillors	-11,264,369	-11,350,000	85,631	-1%	
Depreciation	-15,864,138	-16,848,000	983,862	-6%	
Finance costs	-126,280	-125,539	-741	1%	
Provision for doubtful debts	-8,400,000	-7,000,000	-1,400,000	20%	
Repairs and maintenance - General	-15,660,791	-16,649,000	988,209	-6%	
Bulk purchases	-101,328,354	-100,500,000	-828,354	1%	
Contracted Services	-28,225,972	-26,504,290	-1,721,682	6%	
Grants and subsidies paid	-27,871,304	-14,928,794	-12,942,510	87%	Electrification grant expenditure not capitalised
General Expenses	<u>-32,774,504</u>	<u>-35,130,000</u>	<u>2,355,496</u>	<u>-7%</u>	Higher legal fees paid
	<u>-337,795,537</u>	<u>-323,035,623</u>	<u>-14,759,914</u>	<u>5%</u>	
<b>Other revenue and costs</b>					
Gain or loss on disposal of assets and liabilities	956,407	950,000	6,407	-	
	<u>956,407</u>	<u>950,000</u>	<u>6,407</u>	<u>-</u>	
Net surplus/ (deficit) for the year	<u>-13,532,984</u>	<u>34,107,572</u>	<u>-47,640,556</u>	<u>-140%</u>	

## Budget Analysis of Capital Expenditure as at 30 June 2012

	Additions	Revised Budget	Variance	Variance	Explanation of significant variances from budget
	Rand	Rand	Rand	%	
<b>Municipality</b>					
Executive & Council/Mayor and Council	-	-	-	-	
Finance & Admin/Finance	132,300	6,000,000	-5,867,700	-	
Planning and Development/Economic Development/Plan	-	-	-	-	
Health/Clinics	-	-	-	-	
Comm. & Social/Libraries and archives	-	-	-	-	
Housing	-	-	-	-	
Public Safety/Police	-	-	-	-	
Sport and Recreation	-	-	-	-	
Environmental Protection/Pollution Control	-	-	-	-	
Waste Water Management/Sewerage	-	-	-	-	
Road Transport/Roads	16,493,748	21,332,000	-4,838,252	-	
Water/Water Distribution	-	-	-	-	
Electricity /Electricity Distribution	17,821,067	13,773,000	4,048,067	-	
Other/Air Transport	-	-	-	-	
	<b>34,447,115</b>	<b>41,105,000</b>	<b>-6,657,885</b>	<b>-</b>	
<b>Municipal Owned Entities</b>					
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	
	<b>34,447,115</b>	<b>41,105,000</b>	<b>-6,657,885</b>	<b>-</b>	
<b>Other charges</b>					
	-	-	-	-	
	-	-	-	-	
	-	-	-	-	

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Quarterly Expenditure																			
Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Apr-Jun	Mar	Grants and Subsidies delayed / withheld						Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance			
		Jul-Sept	Oct-Dec	Jan-Mar	Apr-Jun			Mar	Mar	Jun	Sep	Dec	Mar				Mar	Jun	Sep
Equitable Share	National Treasury	28,243,000	16,317,000		24,064,000												n/a	Yes	n/a
MSIG Grant	Department of Cooperative Governance	1,000,000															n/a	Yes	n/a
MIG	National Treasury	9,443,000			11,532,000												n/a	Yes	n/a
INEG	Department of Minerals & Energy		3,000,000		10,773,000												n/a	Yes	n/a
FMG	National Treasury	1,450,000															n/a	Yes	n/a
Library Grant	Department of Arts & Culture	1,175,408			186,000												n/a	Yes	n/a
Museum Grant	Department of Arts & Culture		125,000														n/a	Yes	n/a
COGTA Grant: Thusono Centre	Department of Cooperative Governance	3,500,000			2,500,000												n/a	Yes	n/a
COGTA Grant: Emergency Repair	Department of Cooperative Governance				3,600,000												n/a	Yes	n/a

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.

Quarterly Expenditure																			
Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Dec	Mar	Grants and Subsidies delayed / withheld						Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance			
		Mar	Jun	Sep	Dec			Mar	Mar	Jun	Sep	Dec	Mar						
																		Yes	

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.