LEKWA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

General Information

Nature of business and principal activities	Local Municipality (MP 305)
Municipal Council Members	
Executive Mayor	Cllr. C.M. Morajane
Speaker	Cllr. L.B.R. Dhlamini
Chief Whip	Cllr. G.S. Msibi
Municipal mayrol committee - Technical Services Development & Planning	Cllr. M.M. Ntuli
Ward councillors	Cllr. E.N.K. Shabangu Cllr. A.S. Ngwenya Cllr. B.S. Zwane Cllr. J.B. Mothopeng Cllr. M.M. Ntuli Cllr. J.F. Buthelezi Cllr. J.J. Van der Wath Cllr. J.L. Jansen van Rensburg Cllr. J.R. De Ville Cllr. L.B.R. Dhlamini Cllr. M.G. Makhanye Cllr. M.R. Tshabalala Cllr. M.Y. Mahlangu Cllr. N.T. Tshabalala Cllr. P. Mphuthi Cllr. P.T. Schnetler Cllr. S.A. Maboea Cllr. S.S. Gumede Cllr. S.S. Mosia Cllr. C.M. Morajane Cllr. F. Sarang Cllr. G.S. Msibi Cllr. H.M. Khota Cllr. J.P. Masuku Cllr. M.D. Rakitla Cllr. M.L. Molaba Cllr. N.L. Nkosi Cllr. N.Z.E. Sitshoni Cllr. S.M. Zacarias Cllr. N.S. Khumalo-Radebe
Grading of local authority	Low capacity municipality
Demarcation code	MP 305
Accounting Officer	Mr. L. Tshabalala
Chief Finance Officer (CFO)	Mr. R.T.O. Dipone
Registered office	CNR Dr Beyers Naude and Mbonani Mayisela Street Standerton 2430
Business address	CNR Dr Beyers Naude and Mbonani Mayisela Street Standerton 2430
Postal address	PO Box 66 Standerton 2430
Bankers	First National Bank Limited

General Information

Auditors	Auditor General of South Africa
Attorneys	Malisha Attorneys NS Selepe Attorneys TMN Kgomo&Associat Sheriff Standerton Pretoria Society of Advocates Langeveldt & Nel Prokureurs Matthew Buti Dlamini Ngeno & Mteto Attorneys Ngwalase & Associate Mafephe MJ Attorneys Thomson Wilks Attorneys Geldenhuys Lessing Z S Sibeko Gerrit Nel Inc
Telephone number	(017) 712 9600
Fax number	(017) 712 6808
Website address	www.lekwalm.gov.za

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

Abbreviations

ASB	Accounting Standards Board
COID	Compensation for Occupational Injuries and Diseases
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
EPWPIG	Expanded Public Works Programme Incentive Grant
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
INEP	Integrated National Electrification Programme
IMFO	Institute of Municipal Finance Officers
ASA	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WCA	Workman’s Compensation Act

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 annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual 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 June 30, 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.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 65, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2012:

Accounting Officer
Mr. L. Tshabalala
Standerton
Friday, August 31, 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended June 30, 2012.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 166,139,542 (2011: deficit R 131,061,511).

2. Going concern

We draw attention to the fact that at June 30, 2012, the municipality's current liabilities exceeded its current assets by R68,422,146. The municipality also incurred a net loss of R166,139,542. The accounting officer is aware of the negative going concern position and imediate remidial processes have been put in place, i.e Data Cleansing, Cut off of overdue accounts and Goverment assistance.

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr. L. Tshabalala

5. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Audit and risk committee

For the current financial year the chairperson of the audit committee was Mr A.C. Keyser. The committee met 4 times during the financial year to review matters necessary to fulfil its role. The other committee members during the current year are Mr D.N. Prenzlir and Mr. M.B. Dlamini as independent members.

Internal audit

The Senior Internal Audit Manager is Mr. Alfred Nzuza.

6. Bankers

First National Bank Limited have been adopted as the municipality bankers.

Accounting Officer's Report

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

8. Public Private Partnership

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Statement of Financial Position

Figures to nearest R1	Notes	2012	2011 RESTATED
Assets			
Current Assets			
Inventories	5	2,322,216	2,096,081
Receivables from exchange transactions	6	10,567,813	6,760,096
Consumer debtors	8	51,628,607	51,361,998
Cash and cash equivalents	9	15,315,859	8,941,271
Other receivables from non-exchange transactions	7	86,305	92,105
Total Current Assets		**79,920,800**	**69,251,551**
Non-Current Assets			
Property, plant and equipment	3	1,937,690,070	2,039,065,541
Total Assets		**2,017,610,870**	**2,108,317,092**
Liabilities			
Current Liabilities			
Other financial liabilities	10	1,195,572	247,811
Unspent conditional grants and receipts	12	14,161,124	13,760,382
Provisions	13	348,098	348,098
Finance lease obligation	11	154,572	441,368
Payables from exchange transactions	14	92,945,531	35,084,841
VAT payable	15	36,945,671	18,798,048
Consumer deposits	16	2,592,378	2,542,033
Total Current Liabilities		**148,342,946**	**71,222,581**
Non-Current Liabilities			
Other financial liabilities	10	1,037,212	3,309,834
Provisions	13	32,309,148	32,014,070
Total Non-Current Liabilities		**33,346,360**	**35,323,904**
Total Liabilities		**181,689,306**	**106,546,485**
Net Assets		**1,835,921,564**	**2,001,770,607**
Net Assets			
Accumulated surplus		1,835,921,564	2,001,770,607

Statement of Financial Performance

Figures to nearest R1	Notes	2012	2011 RESTATED
Revenue			
Fines		2,351,700	351,803
Government grants & subsidies	21	110,409,262	88,218,105
Income from agency services		10,401,287	4,224,150
Investment revenue	28	19,175,830	16,818,039
Connection fees		488,256	351,997
Other income		3,957,152	1,222,782
Property rates	19	32,614,831	31,681,745
Recoveries		-	60,796
Rental income		851,207	2,525,852
Service charges	20	198,598,539	169,899,161
Total Revenue		**378,848,064**	**315,354,430**
Expenditure			
Bulk purchases	33	165,129,337	117,453,527
Debt impairment	27	40,400,784	27,264,071
Depreciation and amortisation	29	134,096,397	119,277,049
Finance costs	30	532,502	468,560
General Expenses	23	67,201,850	47,510,485
Grants and subsidies paid	32	13,084,319	9,779,405
Personnel	25	97,589,346	98,102,293
Remuneration of councillors	26	7,815,679	5,056,092
Repairs and maintenance		19,137,392	21,504,459
Total Expenditure		**544,987,606**	**446,415,941**
Deficit for the year		**(166,139,542)**	**(131,061,511)**

Statement of Changes in Net Assets

Figures to nearest R1	Accumulated surplus	Total net assets
Balance at July 01, 2010	**2,132,832,118**	**2,132,832,118**
Changes in net assets		
Deficit for the year	(131,061,511)	(131,061,511)
Total changes	(131,061,511)	(131,061,511)
Balance at July 01, 2011	**2,002,061,106**	**2,002,061,106**
Changes in net assets		
Deficit for the year	(166,139,542)	(166,139,542)
Total changes	(166,139,542)	(166,139,542)
Balance at June 30, 2012	**1,835,921,564**	**1,835,921,564**

Notes

Cash Flow Statement

Figures to nearest R1	Notes	2012	2011 RESTATED
Cash flows from operating activities			
Receipts			
Taxation		31,364,933	24,166,144
Sale of goods and services		176,131,970	131,653,179
Grants		111,136,004	84,896,306
Interest income		19,175,830	16,815,046
Other receipts		12,378,367	10,029,214
		350,187,104	267,559,889
Payments			
Employee costs		(105,405,025)	(103,158,385)
Suppliers		(203,542,410)	(155,697,133)
Finance costs		(532,502)	(468,560)
		(309,479,937)	(259,324,078)
Net cash flows from operating activities	34	**40,707,167**	**8,235,811**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(32,720,922)	(14,517,445)
Cash flows from financing activities			
Decrease in other financial liabilities		(1,324,861)	(291,105)
Finance lease payments		(286,796)	(167,689)
Net cash flows from financing activities		**(1,611,657)**	**(458,794)**
Net increase/(decrease) in cash and cash equivalents		**6,374,588**	**(6,740,428)**
Cash and cash equivalents at the beginning of the year		8,941,271	15,681,699
Cash and cash equivalents at the end of the year	9	**15,315,859**	**8,941,271**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous year.

1.1 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

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

Item	Average useful life
Land	Indefinite
Buildings	2 - 50 years
Plant and machinery	2 - 15 years
Furniture and fixtures	2 - 10 years
Motor vehicles	2 - 10 years
Office equipment	2 - 10 years
IT equipment	2 - 5 years
Computer software	1 - 5 years
Infrastructure	1 - 65 years
Other property, plant and equipment	Not depreciated

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

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

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

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

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

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

1.3 Site restoration and dismantling cost

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

The related assets are measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

Accounting Policies

1.4 Financial instruments

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

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

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

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

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

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

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

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

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

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

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

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

1.4 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an municipality's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an municipality.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

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

Classification

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

Class	Category
Trade debtors	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Other financial asset	Financial asset measured at fair value

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

Class	Category
DBSA Loans	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Financial liabilities	Financial liability measured at amortised cost

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

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Accounting Policies

1.4 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

1.4 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

1.4 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

1.4 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

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

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

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

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

Financial liabilities

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

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

Accounting Policies

1.4 Financial instruments (continued)

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

Presentation

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

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

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

Distributions to holders of residual interests are debited by the municipality directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

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

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

1.5 Leases

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

Finance leases - lessee

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

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

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

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

Accounting Policies

1.5 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Accounting Policies

1.5 Leases (continued)

Operating leases - lessee

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

1.6 Inventories

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

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

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

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

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

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

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

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

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

1.7 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

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

1.7 Employee benefits (continued)

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

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

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

Post-employment benefits

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

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

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

1.8 Provisions and contingencies

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

Accounting Policies

1.8 Provisions and contingencies (continued)

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

A contingent asset or liability are a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

Accounting Policies

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

1.10 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Bequests

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

1.11 Revenue

Revenue comprises of sales to customers and service rendered to customers. Revenue is stated at the invoice amount and is exclusive of value added taxation.

1.12 Investment income

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

1.13 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.14 Comparative figures

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

1.15 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Accounting Policies

1.16 Fruitless and wasteful expenditure

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

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

1.17 Irregular expenditure

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

1.18 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.19 Presentation of currency

These annual financial statements are presented in South African Rand. All ammounts are rounded to the nearest Rand.

1.20 Offsetting

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

1.21 Investments

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

1.22 Conditional grants and receipts

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

1.23 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 44.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

Accounting Policies

1.24 Related parties (continued)

(a) A person or a close member of that person's family is related to the reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the management of the entity or its controlling entity.

(b) An entity is related to the reporting entity if any of the following conditions apply:
- (i) the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others); one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
- (ii) both entities are joint ventures of the same third party;
- (iii) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (iv) the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
- (v) the entity is controlled or jointly controlled by a person identified in (a); and
- (vi) a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Related party relationships where control exists shall be disclosed, irrespective of whether there have been transactions between the related parties. An entity shall disclose the name of its controlling party and if different, the ultimate controlling party.

Figures to nearest R1	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality has early adopted the standard for the first time in the 2012 annual financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

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

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2012.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The municipality has early adopted the standard for the first time in the 2012 annual financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

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

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

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality has early adopted the standard for the first time in the 2012 annual financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of cash-generating assets

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

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

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

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

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality has early adopted the standard for the first time in the 2012 annual financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:
- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:
- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:
- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2012.

The municipality has early adopted the standard for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2012 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	April 01, 2013	No material impact
• GRAP 25: Employee benefits	April 01, 2013	No material impact
• GRAP 105: Transfers of functions between entities under common control	April 01, 2014	No material impact
• GRAP 106: Transfers of functions between entities not under common control	April 01, 2014	No material impact
• GRAP 107: Mergers	April 01, 2014	No material impact
• GRAP 20: Related parties	April 01, 2013	No material impact
• IGRAP 11: Consolidation – Special purpose entities	April 01, 2014	No material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	April 01, 2014	No material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	April 01, 2014	No material impact
• GRAP 7 (as revised 2010): Investments in Associates	April 01, 2014	No material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	April 01, 2014	No material impact
• GRAP 1 (as revised 2012): Presentation of Financial Statements	April 01, 2013	No material impact
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	April 01, 2013	No material impact
• GRAP 7 (as revised 2012): Investments in Associates	April 01, 2013	No material impact
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	April 01, 2013	No material impact
• GRAP 12 (as revised 2012): Inventories	April 01, 2013	No material impact
• GRAP 13 (as revised 2012): Leases	April 01, 2013	No material impact
• GRAP 16 (as revised 2012): Investment Property	April 01, 2013	No material impact
• GRAP 17 (as revised 2012): Property, Plant and Equipment	April 01, 2013	No material impact
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	April 01, 2013	No material impact
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	April 01, 2013	No material impact

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• IGRAP16: Intangible assets website costs	April 01, 2013	No material impact

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after April 01, 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:
- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:
- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:
- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:
- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after April 01, 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures to nearest R1

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	291,136,197	-	291,136,197	291,136,197	-	291,136,197
Buildings	497,620,111	(149,201,340)	348,418,771	497,337,800	(124,320,334)	373,017,466
Plant and machinery	243,550	(241,650)	1,900	243,550	(236,900)	6,650
Furniture and fixtures	5,311,659	(4,378,583)	933,076	5,253,978	(3,720,726)	1,533,252
Motor vehicles	15,847,473	(14,029,432)	1,818,041	15,847,473	(12,169,129)	3,678,344
Office equipment	2,041,960	(1,779,598)	262,362	1,910,430	(1,483,622)	426,808
IT equipment	2,080,654	(1,808,310)	272,344	1,821,714	(1,682,446)	139,268
Work in Progress	84,146,185	-	84,146,185	52,887,010	-	52,887,010
Infrastructure	1,584,833,609	(620,967,125)	963,866,484	1,584,505,674	(556,802,158)	1,027,703,516
Community	1,954	(1,962)	(8)	1,954	(1,769)	185
Firearms equipment	9	-	9	12	-	12
Workshop Equipment	1,692,671	(1,575,598)	117,073	1,666,096	(1,385,570)	280,526
Laboratory equipment	480,548	(475,673)	4,875	480,548	(436,817)	43,731
Signage	36,029,548	(11,641,259)	24,388,289	36,029,548	(9,596,455)	26,433,093
Medical Equipment	214,672	(205,159)	9,513	214,672	(182,351)	32,321
Specialised vehicles	21,038,477	(15,473,845)	5,564,632	21,038,477	(13,695,013)	7,343,464
Other Specialized Equipment	1,028,912	(976,061)	52,851	1,028,912	(855,779)	173,133
Wastewater network	209,933,079	(72,434,318)	137,498,761	209,856,264	(38,049,228)	171,807,036
Water network	149,476,762	(70,311,507)	79,165,255	149,189,361	(66,838,045)	82,351,316
Other property, plant and equipment	353,537	(320,077)	33,460	340,978	(268,765)	72,213
Total	**2,903,511,567**	**(965,821,497)**	**1,937,690,070**	**2,870,790,648**	**(831,725,107)**	**2,039,065,541**

Notes to the Annual Financial Statements

Figures to nearest R1

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Depreciation	Total
Land	291,136,197	-	-	291,136,197
Buildings	373,017,466	282,311	(24,881,006)	348,418,771
Plant and machinery	6,650	-	(4,750)	1,900
Furniture and fixtures	1,533,252	57,681	(657,857)	933,076
Motor vehicles	3,678,344	-	(1,860,303)	1,818,041
Office equipment	426,808	131,530	(295,976)	262,362
IT equipment	139,268	258,940	(125,864)	272,344
Work in Progress	52,887,010	31,259,175	-	84,146,185
Infrastructure	1,027,703,516	327,935	(64,164,967)	963,866,484
Community	185	-	(193)	(8)
Firearms equipment	12	-	(3)	9
Asset found	280,526	26,575	(190,028)	117,073
Laboratory equipment	43,731	-	(38,856)	4,875
Medical Equipment	26,433,093	-	(2,044,804)	24,388,289
Spare parts	32,321	-	(22,808)	9,513
Specialised vehicles	7,343,464	-	(1,778,832)	5,564,632
Stage equipment	173,133	-	(120,282)	52,851
Wastewater network	171,807,036	76,815	(34,385,090)	137,498,761
Water network	82,351,316	287,401	(3,473,462)	79,165,255
Other property, plant and equipment	72,213	12,559	(51,312)	33,460
	2,039,065,541	**32,720,922**	**(134,096,393)**	**1,937,690,070**

Notes to the Annual Financial Statements

Figures to nearest R1

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Land	291,136,197	-	-	291,136,197
Buildings	397,884,356	-	(24,866,890)	373,017,466
Plant and machinery	12,350	-	(5,700)	6,650
Furniture and fixtures	2,218,900	4,715	(690,363)	1,533,252
Motor vehicles	6,170,334	-	(2,491,990)	3,678,344
Office equipment	767,997	124	(341,313)	426,808
IT equipment	624,158	-	(484,890)	139,268
Work in Progress	38,374,404	14,512,606	-	52,887,010
Infrastructure	1,091,867,104	-	(64,163,588)	1,027,703,516
Community	556	-	(371)	185
Firearms equipment	16	-	(4)	12
Workshop Equipment	540,571	-	(260,045)	280,526
Laboratory equipment	110,669	-	(66,938)	43,731
Signage	28,477,897	-	(2,044,804)	26,433,093
Medical Equipment	68,635	-	(36,314)	32,321
Specialised vehicles	9,447,312	-	(2,103,848)	7,343,464
Other Specialized Equipment	382,781	-	(209,648)	173,133
Wastewater network	189,789,012	-	(17,981,976)	171,807,036
Water network	85,818,860	-	(3,467,544)	82,351,316
Other property, plant and equipment	133,036	-	(60,823)	72,213
	2,143,825,145	**14,517,445**	**(119,277,049)**	**2,039,065,541**

Pledged as security

No Property, plant and equipment are given up for security.

Capitalised expenditure(excluding borrowing costs)

Infrastructure	32,206,615	14,518,479

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

3. Property, plant and equipment (continued)

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.

4. Financial assets by category

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

2012

	Fair value through surplus or deficit - held for trading	Total
Trade and other receivables	10,893,813	10,893,813
Other receivables from non-exchange transactions	86,305	86,305
Cash and cash equivalents	15,315,859	15,315,859
Consumer debtors	39,449,072	39,449,072
	65,745,049	**65,745,049**

2011

	Fair value through surplus or deficit - held for trading	Total
Trade and other receivables	6,760,096	6,760,096
Other receivables from non-exchange transactions	92,105	92,105
Cash and cash equivalents	8,941,271	8,941,271
Consumer debtors	35,211,104	35,211,104
	51,004,576	**51,004,576**

5. Inventories

Consumable Stores	2,253,541	2,018,409
Water inventory (pipes and reservor)	68,675	77,672
	2,322,216	**2,096,081**

6. Receivables from exchange transactions

Goverment Grant receivable	3,397,000	-
Sundry debtors	7,170,813	6,760,096
	10,567,813	**6,760,096**

7. Other receivables from non-exchange transactions

Staff Loans	86,305	92,105

Fair value of other receivables from non-exchange transactions

Other receivables from non-exchange transactions	86,305	92,105

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

8. Consumer debtors

Gross balances		
Rates	54,858,991	53,609,093
Electricity	49,556,878	40,240,762
Water	53,571,343	57,947,022
Sewerage	42,678,681	44,103,355
Refuse	24,769,085	23,978,174
Deposit	249,592	261,259
Other	97,987,512	92,849,924
	323,672,082	**312,989,589**
Less: Provision for debt impairment		
Rates	(50,676,656)	(48,363,282)
Electricity	(22,568,361)	(19,703,050)
Water	(46,826,999)	(49,150,542)
Sewerage	(38,859,383)	(38,494,573)
Refuse	(22,983,193)	(21,684,043)
Deposit	(175,778)	(186,330)
Other	(89,953,103)	(84,045,771)
	(272,043,473)	**(261,627,591)**
Net balance		
Rates	4,182,334	5,245,811
Electricity	26,988,517	20,537,712
Water	6,744,344	8,796,480
Sewerage	3,819,297	5,608,782
Refuse	1,785,892	2,294,131
Deposit	73,814	74,929
Other	8,034,409	8,804,153
	51,628,607	**51,361,998**
Rates		
Current (0 -30 days)	2,663,718	3,314,702
31 - 60 days	2,810,630	3,003,430
61 - 90 days	2,540,370	2,945,161
90+ Days	46,844,273	44,345,578
	54,858,991	**53,609,093**
Electricity		
Current (0 -30 days)	15,397,542	12,350,610
31 - 60 days	6,756,381	3,584,489
61 - 90 days	4,558,000	2,675,959
90+ Days	22,844,956	21,629,704
	49,556,879	**40,240,762**
Water		
Current (0 -30 days)	4,929,219	4,852,411
31 - 60 days	4,521,999	3,832,542
61 - 90 days	3,495,642	3,751,735
90+ Days	40,624,483	45,510,334
	53,571,343	**57,947,022**

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

8. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	3,418,612	4,027,502
31 - 60 days	3,382,308	3,448,246
61 - 90 days	2,943,202	3,329,774
90+ Days	32,934,558	33,297,832
	42,675,680	**44,103,354**
Refuse		
Current (0 -30 days)	2,736,696	3,180,821
31 - 60 days	2,670,013	2,612,089
61 - 90 days	2,286,227	2,459,230
90+ Days	17,076,149	15,726,033
	24,769,085	**23,978,173**
Deposits		
Current (0 -30 days)	190,121	173,503
31 - 60 days	15,199	22,001
61 - 90 days	4,723	4,890
90+ Days	39,550	60,866
	249,593	**261,260**
Other		
Current (0 -30 days)	9,486,869	10,025,855
31 - 60 days	7,745,509	7,166,614
61 - 90 days	6,303,934	6,247,322
90+ Days	74,451,200	69,410,133
	97,987,512	**92,849,924**

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

8. Consumer debtors (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	24,273,919	26,261,763
31 - 60 days	21,980,073	20,505,878
61 - 90 days	17,910,705	18,878,026
90+ Days	210,206,129	203,460,709
	274,370,826	**269,106,376**
Industrial/ commercial		
Current (0 -30 days)	14,101,365	10,623,116
31 - 60 days	5,582,361	2,752,565
61 - 90 days	3,855,604	2,095,092
90+ Days	21,674,425	23,037,766
	45,213,755	**38,508,539**
National and provincial government, schools and churches		
Current (0 -30 days)	447,493	1,040,748
31 - 60 days	339,606	410,968
61 - 90 days	365,788	440,953
90+ Days	2,934,615	3,482,006
	4,087,502	**5,374,675**
Total		
Current (0 -30 days)	38,822,776	37,925,627
31 - 60 days	27,902,040	23,669,410
61 - 90 days	22,132,097	21,414,071
91 - 120 days	234,815,173	229,980,481
	323,672,086	312,989,589
Less: Provision for debt impairment	(272,043,474)	(261,627,591)
	51,628,612	**51,361,998**
Less: Provision for debt impairment		
Gross provision	(272,043,474)	(261,627,591)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(261,627,591)	(234,485,599)
Contributions to provision	(40,323,429)	(27,141,992)
Debt impairment written off against provision	29,907,546	-
	(272,043,474)	**(261,627,591)**

Fair value of consumer debtors

Consumer debtors	50,591,751	46,928,697

Consumer debtors impaired

As of June 30, 2012, consumer debtors of R 283,186,150 (2011: R 273,345,184) were impaired and provided for.

The amount of the provision was 40,323,429 as of June 30, 2012 (2011: 27,141,992).

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,740	8,100
Bank balances	15,308,119	8,933,171
	15,315,859	**8,941,271**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2012	June 30, 2011	June 30, 2010
Current Accounts						
FNB BANK - Current Account - 62027040740	3,855,545	1,922,383	715,855	3,898,890	1,374,539	715,855
FNB BANK - Current Account - 62055246922	27,683	75,686	-	27,683	75,686	-
Call Accounts						
FNB BANK - Call Account - 62177556598	11,316,416	7,419,993	-	11,316,416	7,419,993	-
Nedbank - Call Account - 08735375	39,370	38,357	-	39,370	38,357	-
Nedbank - Call Account - 08735375	25,760	24,596	-	25,760	24,596	-
Total	**15,264,774**	**9,481,015**	**715,855**	**15,308,119**	**8,933,171**	**715,855**

10. Other financial liabilities

Held at amortised cost		
Development Bank of South Africa	2,232,784	3,557,645

Refer to Annexure A for detailed breakdown of loans payable.

Non-current liabilities		
At amortised cost	1,037,212	3,309,834
Current liabilities		
At amortised cost	1,195,572	247,811
	2,232,784	**3,557,645**

Fair value of the financial liabilities carried at amortised cost		
Bank loans	2,232,784	3,557,645

Figures to nearest R1	2012	2011

11. Finance lease obligation

Minimum lease payments due		
- within one year	163,226	244,840
- in second to fifth year inclusive	-	244,840
	163,226	489,680
less: future finance charges	(8,654)	(48,312)
Present value of minimum lease payments	**154,572**	**441,368**
Present value of minimum lease payments due		
- within one year	154,572	209,510
- in second to fifth year inclusive	-	231,858
	154,572	**441,368**

It is municipality policy to lease certain motor vehicles and under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 10% (2011: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	154,572	441,368

The fair value of finance lease liabilities approximates their carrying amounts.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	10,616,347	7,135,343
Municipal System Infrastructure Grant	29,537	745,229
Finance Management Grant	348,240	811,711
Neigbourhood Development Grant	3,167,000	5,068,099
	14,161,124	**13,760,382**

Movement during the year

Balance at the beginning of the year	13,760,382	17,082,181
Additions during the year	40,429,000	44,005,000
Income recognition during the year	(40,028,258)	(47,326,799)
	14,161,124	**13,760,382**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

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

Figures to nearest R1	2012	2011

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Landfill Sites	30,440,740	295,078	30,735,818
Long Service Provision	1,573,330	-	1,573,330
Provision for WCA	348,098	-	348,098
	32,362,168	**295,078**	**32,657,246**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Landfill Sites	-	30,440,740	-	30,440,740
Long service provision	627,784	945,546	-	1,573,330
Provision for WCA	526,881	-	(178,783)	348,098
	1,154,665	**31,386,286**	**(178,783)**	**32,362,168**

Non-current liabilities	32,309,148	32,014,070
Current liabilities	348,098	348,098
	32,657,246	**32,362,168**

Landfill site provision

Financial assumptions used:

Adjustment of unit costs:

The baseline for the unit costs used in the MLCCM was set in 2011. Unit costs were adjusted on 1 July 2012. For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the 3-month average of the CPI was used to adjust the unit cost for each cost element. The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices (drawn from the South African Federation of Civil Engineering Contractors website www.safcec.org.za) and the Contract Price Adjustment Factors (drawn from the www.dialytenders.co.za website), using the coefficients for Earthworks as provided in the General Conditions of Contract. The price adjustment resulting from these formulas amounted to 3.6595%.

CPI:

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI was obtained from Statistics SA's website www.statssa.gov.za/keyindicators/cpi.asp. The average of the CPI for the last three months as published on 30 June 2012 (reporting date) was used for the adjustment of unit costs, as well as for the determination of future value of current costs, i.e. 5.9149%.

Discount rate:

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

13. Provisions (continued)

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used as published on the RSA Retail Savings Bond website www.rsaretailbonds.gov.za. The rate most consistent with the remaining life of the landfill published on 30 June was used. In the case of this landfill the rate associated with a period of 3 years was used, i.e. 1.00% above CPI.

Long service award provision

The IAS19/GRAP25 Statement sets out the recognition, measurement and disclosure requirements in accounting for “defined benefit” plans. The Statement requires further that actuarial gains and losses and past service cost are to be recognised immediately for long-service employee benefits.

14. Payables from exchange transactions

Consumer debtors with credit balances	10,779,579	12,872,252
Retentions held	8,527,287	6,351,200
Accrued expenditure	45,955,665	2,634,334
Accrued leave pay	4,536,523	7,365,419
Accrued bonus	2,333,461	5,388,635
Accrual for long service awards	1,235,596	254,977
Deposits Held	86,278	103,951
Sundry creditors	2,271,612	114,073
Unallocated receitps	17,219,530	-
	92,945,531	**35,084,841**

15. VAT payable

Tax refunds payables	36,945,671	18,798,048

16. Consumer deposits

Deposits held from Consumer Debtors	2,592,378	2,542,033

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

17. Financial liabilities by category

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

2012

	Financial liabilities at amortised cost	Total
Trade and other payables	107,107,525	107,107,525
Finance lease obligations	154,572	154,572
DBSA Loans	2,306,310	2,306,310
VAT payable	35,290,982	35,290,982
Consumer deposits	2,592,378	2,592,378
	147,451,767	**147,451,767**

2011

	Financial liabilities at amortised cost	Total
Trade and other payables	30,651,540	30,651,540
Finance lease obligations	441,368	441,368
DBSA Loans	1,323,795	1,323,795
VAT payable	18,798,048	18,798,048
Consumer deposits	2,542,033	2,542,033
	53,756,784	**53,756,784**

18. Revenue

Property rates	32,614,831	31,681,745
Service charges	198,598,539	169,899,161
Income from agency services	10,401,287	4,224,150
Fines	2,351,700	351,803
Government grants & subsidies	110,409,262	88,218,105
	354,375,619	**294,374,964**

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

Service charges	198,598,539	169,899,161
Income from agency services	10,401,287	4,224,150
	208,999,826	**174,123,311**

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

Taxation revenue		
Property rates	32,614,831	31,681,745
Fines	2,351,700	351,803
Transfer revenue		
Levies	110,409,262	88,218,105
	145,375,793	**120,251,653**

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

19. Property rates

Rates received

Assesment rates levied	37,682,606	36,365,790
Less: Income forgone	(5,067,775)	(4,684,045)
	32,614,831	**31,681,745**

Valuations

Business & Commercial Properties	150,646,350	112,701,850
Church	12,489,500	12,758,000
Farms	14,130,926,397	14,129,892,197
Municipal Properties	3,844,682,105	4,100,276,580
Residential Properties	1,179,361,550	1,678,503,300
Schools	52,208,900	54,033,000
State Owned Properties	28,760,000	20,085,000
Vacant	1,917,300	1,935,393
	19,400,992,102	**20,110,185,320**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2012.

20. Service charges

Sale of electricity	136,698,974	121,628,774
Sale of water	30,861,908	21,146,195
Sewerage and sanitation charges	21,247,525	18,041,154
Refuse removal	9,790,132	9,083,038
	198,598,539	**169,899,161**

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

21. Government grants and subsidies

Equitable share	69,959,000	62,871,692
Municipal Infrastructure Grant	32,395,996	23,957,859
Municipal System Infrastructure Grant	1,505,692	1,238,290
Financial Management Grant	1,713,471	150,264
Expanded Public Works Grant	2,861,000	-
Intergrated National Electrification Programme	1,901,099	-
Government grant (operating) 13	73,004	-
	110,409,262	**88,218,105**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	7,135,343	11,263,202
Current-year receipts	35,877,000	29,830,000
Conditions met - transferred to revenue	(32,395,996)	(33,957,859)
	10,616,347	**7,135,343**

Conditions still to be met - remain liabilities (see note 12).

Municipal System Infrastructure Grant

Balance unspent at beginning of year	745,229	745,229
Current-year receipts	790,000	-
Conditions met - transferred to revenue	(1,505,692)	-
	29,537	**745,229**

Conditions still to be met - remain liabilities (see note 12).

Financial Management Grant

Balance unspent at beginning of year	811,711	901,157
Current-year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,713,471)	(1,089,446)
	348,240	**811,711**

Conditions still to be met - remain liabilities (see note 12).

Neighbourhood Development Grant

Balance unspent at beginning of year	5,068,099	5,068,099
Conditions met - transferred to revenue	(1,901,099)	-
	3,167,000	**5,068,099**

Conditions still to be met - remain liabilities (see note 12).

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 5 of 2012), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

22. Other revenue

Rental income - third party	851,207	2,525,852
LG Seta Grant	-	60,796
New Connections and re-connection fees	488,256	351,997
Other income	3,957,152	1,222,782
	5,296,615	**4,161,427**

23. General expenses

Advertising	1,822,828	1,403,859
Auditors remuneration	2,379,178	1,879,809
Bank charges	624,954	426,526
Bursaries	156,927	5,000
Commission paid	193,939	835,293
Community development and training	560,223	429,763
Conferences and seminars	853,476	910,996
Consulting and professional fees	16,022,902	4,315,090
Consumables	4,163,105	2,876,596
Donations	-	10,411
Fleet	8,937,935	8,493,119
Fruitless and wastefull expenditure	(28,346)	-
Horticulture	-	59,145
IDP AND LED	1,532,433	1,528,966
IT expenses	387,303	359,662
Insurance	2,872,818	1,693,566
Meter reading costs	2,154,133	2,441,154
Motor vehicle expenses	20,247	146,036
Project maintenance costs	6,471,401	9,230,627
Protective clothing	366,064	444,386
Security (Guarding of municipal property)	11,025,469	5,277,919
Staff welfare	209,830	141,284
Subscriptions and membership fees	1,929,554	787,720
Telephone and fax	2,875,232	2,773,551
Training	1,670,245	1,040,007
	67,201,850	**47,510,485**

24. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Depreciation on property, plant and equipment	134,096,397	119,277,049
Employee costs	105,405,025	103,158,385

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

25. Employee related costs

Acting allowances	1,393,876	1,419,353
Basic	55,159,077	62,517,132
Leave pay provision charge	722,363	355,778
Long-service awards	1,403,307	447,604
Medical aid - company contributions	5,221,682	4,646,478
Overtime payments	13,703,851	10,452,652
Post-employment benefits - Pension - Defined contribution plan	12,373,557	11,538,590
SDL	836,197	731,301
Standby Levies	1,627,452	1,430,056
Travel, motor car, accommodation, subsistence and other allowances	3,639,332	3,569,300
UIF	618,345	484,707
WCA	805,770	-
	97,504,809	**97,592,951**

Remuneration of municipal manager

The position of Municipal Manager was vacant during the 2012 and 2011 financial year. The Chief Financial Officer was the acting Munisipal Manager during the year.

Remuneration of chief finance officer

Annual Remuneration	40,551	324,411
Car Allowance	11,667	93,333
Contributions to UIF, Medical and Pension Funds	11,167	91,598
Acting Allowance	21,152	-
	84,537	**509,342**

The position of municipal manager was vacant for 2011.

26. Remuneration of councillors

Councillors	7,815,679	5,056,092

27. Debt impairment

Contributions to debt impairment provision	10,415,883	27,141,992
Debts impaired	29,984,901	122,079
	40,400,784	**27,264,071**

The municipality provides for debtors based on a payment ratio calculation per debtor.

28. Investment revenue

Interest revenue		
Interest charged on financial instruments	18,449,769	16,048,106
Interest on investments and current account	726,061	769,933
	19,175,830	**16,818,039**

29. Depreciation and amortisation

Property, plant and equipment	134,096,397	119,277,049

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

30. Finance costs

Bank	201,637	407,705
Other interest paid	330,865	60,855
	532,502	**468,560**

31. Auditors' remuneration

Fees	2,379,178	1,879,809

32. Grants and subsidies paid

Other subsidies		
Free Basic Services	13,084,319	9,779,405

33. Bulk purchases

Electricity	161,832,526	115,452,605
Water	3,296,811	2,000,922
	165,129,337	**117,453,527**

34. Cash generated from operations

Deficit	(166,139,542)	(131,061,511)
Adjustments for:		
Depreciation and amortisation	134,096,397	119,277,049
Debt impairment	40,400,784	27,264,071
Movements in provisions	295,078	766,764
Changes in working capital:		
Inventories	(226,135)	(71,142)
Receivables from exchange transactions	(3,807,717)	1,199,729
Other receivables from non-exchange transactions	5,800	(92,105)
Consumer debtors	(40,376,898)	(41,575,008)
Payables from exchange transactions	57,860,690	(11,127,302)
VAT	18,147,623	25,545,959
Unspent conditional grants and receipts	400,742	18,839,216
Consumer deposits	50,345	(729,909)
	40,707,167	**8,235,811**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	13,777,612	22,163,049

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	154,572	209,510
- in second to fifth year inclusive	-	231,858
	154,572	**441,368**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

36. Contingencies

Current court cases involving Lekwa Local Municipality

Description/Citation of Parties	Nature or Details of the Case	Citation @ Court	Amount of Dispute	Estimated Costs or Fees	Current Status
AT Manana / Lekwa Munic.	Allegation of unfair dismissal	JR185/2010 @ JHB Labour Court	-	40,000	Pending
Runaway Investments (Pty) Ltd / Lekwa Munic	Allegation of breach of unfair termination of contract	8003/2011 @ PTA High Court	3,626,488	40,000	Pending
Hayes Matkovich Developments / Lekwa Munic.	Allegation of breach of contract		30,000,000	300,000	Pending
Various Farmers / Lekwa Munic	Allegation of damage to property	Various @ PTA High Court 459 10/2009; etc	13,000,000	300,000	Pending (01/1O/ 2012 - 10/10/2012)
Sipho Dlamin i / Lekwa Munic.	Allegation of non-payment of remuneration for extra work	37897/2 012 @ PTA High Court	350,000	40,000	Pending
Agavelle Bester / Lekwa Munic	Allegation of liability for loss of support from breadwinner	4268/2009 @ PTA High Court	2,000,000	150,000	Pending
Silinda Mokoena & Associates / Lekwa Munic.	Allegation of unilateral termination of contract	68615/2009 @ PTA High Court	2,285,555	300,000	Pending
Izamix (Pty) Ltd / Lekwa Munic	Allegation of violation of rights	257/2012 @ Standerton Court	-	25,000	Pending
Phumi Trading JV Mosallo Zwane / Lekwa Munic.	Allegati on of non-payment of full amount of contract		2,430,000	100,000	Pending
Telkom SA Limit ed / Lekwa Munic.	Allegation of damage to property	207/ 2011 @ Standerton Court	39,815	25,000	Pending
Lekwa Munic. / Lewende Woord Kerk	Violation of M unicipal Zoning Regulations		-	10,000	Pending

Notes to the Annual Financial Statements

Figures to nearest R1				2012	2011
36. Contingencies (continued)					
Lekwa Munic. / MJ Thanjekwayo	Damage to Municipal property		25,000	10,000	Pending
Lekwa Munic. / Lindiwe Cindi & Sonnyboy Motaung	Review of outcome of internal disciplinary case		-	40,000	Pending
Dumisane Elijah Nkonde / Lekwa Munic.	Allegation off unfair labour practice	J1496/2012 @ JHB Labour Court	-	40,000	Finalised
Lekwa Munic. / Unlawful Invaders	Unlawful invasion and occupation of Municipal land	34612/2011 @ PTA High Court	-	100,000	Pending

37. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note

Related party transactions

Purchases from related parties		
TSHABALALA SJ	175,550	419,727
Standerton Printing Works (Proprietary) Limited	-	22,078
Madimande Donsi Trading cc	-	159,536

Figures to nearest R1	2012	2011

38. Prior period errors

During the year the municipality correct prior period errors that occurred in the prior year. These errors relate to misstatements that occurred in the 2010/11 Financial year.

The following errors occurred during the previous financial year:

1. Other financial assets were overstated by -7534036 . The reason for the misstatement is as follows: reclassification of investments from other assets to cash and cash equivalents due to the nature thereof.
2. Inventories were understated by 555667 . The reason for the misstatement is as follows: Inventories were not accounted for in terms GRAP 12 (Lower of Cost or NRV). Water inventory was not recognised.
3. Receivables from exchange transactions were understated by 6361510 . The reason for the misstatement is as follows: reclassification of sundry debtors to receivables from exchange transactions.
4. Consumer debtors were overstated by -9548979 . The reason for the misstatement is as follows: change in provision assumptions. Consumer debtors are now provided on payment ratio per consumer debtor.
5. Cash and cash equivalents were understated by 7514046 . The reason for the misstatement is as follows: reclassification of investments from other assets to cash and cash equivalents due to the nature thereof.
6. Property, plant and equipment were understated by 1992845840 . The reason for the misstatement is as follows: Deemed cost method applied on asset unbundeling as per Directive 7.
7. Other financial liabilities were understated by -1269101 . The reason for the misstatement is as follows: DBSA loans were incorrect.
8. Unspent conditional grants and receipts were understated by -4586562 . The reason for the misstatement is as follows: Roll over and income recognition was reworked.
9. Provisions were understated by -11202765 . The reason for the misstatement is as follows: Provisions were not accounted for ito GRAP 19.
10. Payables from exchange transactions were understated by -21543253 . The reason for the misstatement is as follows: Correction of payables with no substance.
11. Finance lease obligation were overstated by 242061 . The reason for the misstatement is as follows: Short term portion incorrectly calculated.
12. VAT payable were understated by -1656740 . The reason for the misstatement is as follows: Vat on accruals for acounted incorrectly.
13. Other financial liabilities were overstated by 1270428 . The reason for the misstatement is as follows: DBSA loans were incorrect.
14. Finance lease obligation were understated by -236682 . The reason for the misstatement is as follows: Short term portion incorrectly calculated.
15. Provisions were overstated by 32014070 . The reason for the misstatement is as follows: Provisions were not accounted for ito GRAP 19.

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

38. Prior period errors (continued)

Statement of financial position		
Assets		
Current Assets		
Other financial assets	-	(7,534,036)
Inventories	-	555,667
Receivables from exchange transactions	-	6,361,510
Consumer debtors	-	(9,548,979)
Cash and cash equivalents	-	7,514,046
Other receivables form non exchange transactions	-	92,105
Total Current Assets	-	(2,559,687)
Non-Current Assets	-	-
Property, plant and equipment	-	1,992,845,840
Liabilities	-	-
Current Liabilities	-	-
Other financial liabilities	-	(1,269,101)
Unspent conditional grants and receipts	-	(4,586,562)
Provisions	-	(11,202,765)
Payables from exchange transactions	-	(21,543,253)
Finance lease obligation	-	242,061
VAT payable	-	(1,656,740)
Total Current Liabilities	-	(40,016,360)
Non-Current Liabilities	-	-
Other financial liabilities	-	1,270,428
Finance lease obligation	-	(236,682)
Provisions	-	32,014,070
Total Non-Current Liabilities	-	33,047,816
Total Liabilities	-	(6,968,544)
Net Assets	-	1,371,048,204

39. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 11, 10, cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to members, return capital to members, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

The municipality's strategy is to maintain a gearing ratio of between 1% to 1.5%.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2012 and 2011 respectively were as follows:

Total borrowings			
Finance lease obligation	11	154,572	-
Other financial liabilities	10	2,232,784	3,557,645
		2,387,356	**3,557,645**
Less: Cash and cash equivalents	9	15,315,859	1,427,225
Net debt		(12,928,503)	2,130,420
Total equity		1,835,921,564	12,090,530
Total capital		**1,822,993,061**	**14,220,950**

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality’s operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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.

Figures to nearest R1	2012	2011

39. Risk management (continued)

Interest rate risk

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

40. Unauthorised expenditure

Opening balance	2,153,326	2,153,326
Unauthorised for the year	196,333,419	-
	198,486,745	**2,153,326**

41. Fruitless and wasteful expenditure

Opening balance	3,202,332	2,183,302
Fruitless and wasteful expenditure	28,346	1,019,030
Overtime above threshold R 172 000 per annum	1,271,543	-
Overtime above threshold - 160 hours per month	37,076	-
Leave taken exceeding 48 days	59,891	-
Interest paid on bulk purchases of water and electricity	3,616,220	-
Interest paid on accounts in arrears	18,431	-
Closing balance	**8,233,839**	**3,202,332**

42. Irregular expenditure

Suppliers couldn't be traced to the Tender Register	2,408,290	-
Point system not followed	1,468,130	-
Employees have interest in contracts	209,305	-
Payment records for the transaction was not provided	5,928	-
Suppliers not rotated	420,286	-
Payment records for the following transaction was not provided	55,867	-
Other	1,396,856	-
Closing balance	**5,964,662**	**-**

Details of irregular expenditure not recoverable (not condoned)

Shortages on bank	28,346
Overtime above threshold R 172 000 per annum	1,271,543
Overtime above threshold - 160 hours per month	37,076
Leave taken exceeding 48 days	59,891
	1,396,856

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

43. Additional disclosure in terms of Municipal Finance Management Act

Material losses

Distribution losses	51,205,077	-

Electricity losses for the current year amounted to 31% i.e. R50,183,066. These losses comprise of technical and non-technical losses. Technical losses, being losses within the network which are inherent in any network, account for 10% . Non-technical losses, being theft, faults, billing errors etc., account for 21%. Attempts are currently being made to reduce these non-technical losses.
Non revenue water i.e. non billed water amounted to 31% i.e. R1,022,011. 10% of these losses can be accounted for it terms of the National Guidelines for nonrevenue water. 21% of these losses cannot be accounted for mainly due to the non-metering of this water, being theft, faults, billing errors etc.. This problem is currently being addressed whereby additional meters are being installed and a data cleansing process will be initiated to address losses.

Audit fees

Amount paid - current year	2,712,263	1,879,809

VAT

VAT payable	36,945,671	18,798,048

VAT output payables and VAT input receivables are shown in note 15.

Councillors' arrear consumer accounts

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

June 30, 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Cllr. M.S. Khumalo (Acc. Holder: T.T. Radebe)	(330)	5,722	5,392
Cllr. L.B.R. Dhlamini (Acc. Holder: S.Z. Dhlamini)	734	23,076	23,810
Cllr. M.M. Ntuli (Acc. Holder: M.M. Mnisi)	919	32,410	33,329
Cllr. J.B. Mothopeng (Acc. Holder: J.B. Mothopeng)	(161)	965	804
Cllr. E.N.K. Shabangu (Acc. Holder: S.B. Mahlangu)	158	8,583	8,741
Cllr. J.P. Masuku (Acc. Holder: L.M. Motaung)	54	8,654	8,708
Cllr. J.J. Van der Wath (Acc. Holder: J.J. Van der Wath)	5,988	1,773	7,761
Cllr. P.T. Schnetler (Acc. Holder: P.T. Schnetler)	1,047	7,611	8,658
Cllr. S.S. Mosia (Acc. Holder: M.B. Mosia)	200	1,536	1,736
Cllr. M.G. Makhanye (Acc. Holder: M.G. Makhanye)	28	(27)	1
Cllr. N. Tshabalala (Acc. Holder: N. Tshabalala)	167	6,382	6,549
Cllr. H.M. Khota (Acc. Holder: T.B. Nhleko)	636	36,495	37,131
Cllr. N.I. Nkosi (Acc. Holder: F.J. Nkosi)	620	24,140	24,760
Cllr. F. Sarang (Acc. Holder: R.A. Sarang)	463	498	961
Cllr. S.M. Zacarias (Acc. Holder: R.A. Hlatshwayo)	131	130	261
Cllr. M.Y. Mahlangu (Acc. Holder: S.P. Khumalo)	1,169	630	1,799
Cllr. M.L. Molaba (Acc. Holder: T.B. Mbale)	587	11,289	11,876
Cllr. J.F. Buthelezi (Acc. Holder: E.S. Buthelezi)	796	9,870	10,666
Cllr. P. Mphuthi (Acc. Holder: T.A. Mphuti)	998	18,591	19,589
Cllr. S.S. Gumede (Acc. Holder: B.J. Gumede)	1,554	63,258	64,812
	15,758	**261,586**	**277,344**

Notes to the Annual Financial Statements

Figures to nearest R1	2012	2011

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	2,232,784	3,557,645
	2,232,784	3,557,645
Cash set aside for the repayment of long-term liabilities	(2,232,784)	-
	-	**3,557,645**

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E1 for the comparison of actual operating expenditure versus budgeted expenditure.

46. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E2 for the comparison of actual capital expenditure versus budgeted expenditure.

47. Deviation from supply chain management regulations

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

Notes to the Annual Financial Statements

Figures to nearest R1

48. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance										
Property rates	28,449,807	-	28,449,807	-	28,449,807	32,614,831		4,165,024	115 %	115 %
Service charges	233,019,513	-	233,019,513	-	233,019,513	198,598,539		(34,420,974)	85 %	85 %
Investment revenue	19,355,568	-	19,355,568	-	19,355,568	19,175,830		(179,738)	99 %	99 %
Transfers recognised - operational	72,789,000	(1,278,000)	71,511,000	-	71,511,000	110,409,262		38,898,262	154 %	152 %
Other own revenue	8,938,567	(65,000)	8,873,567	-	8,873,567	18,049,602		9,176,035	203 %	202 %
Total revenue (excluding capital transfers and contributions)	**362,552,455**	**(1,343,000)**	**361,209,455**	**-**	**361,209,455**	**378,848,064**		**17,638,609**	**105 %**	**104 %**
Employee costs	(109,583,000)	8,000,000	(101,583,000)	-	(101,583,000)	(97,589,346)	-	3,993,654	96 %	89 %
Remuneration of councillors	(7,538,000)	-	(7,538,000)	-	(7,538,000)	(7,815,679)	44,499	(277,679)	104 %	104 %
Debt impairment	-	-	-		-	(40,400,784)	39,825,867	(40,400,784)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	-	-	-		-	(134,096,397)	134,096,397	(134,096,397)	DIV/0 %	DIV/0 %
Finance charges	(5,573,000)	-	(5,573,000)	-	(5,573,000)	(532,502)	-	5,040,498	10 %	10 %
Materials and bulk purchases	(155,847,000)	-	(155,847,000)	-	(155,847,000)	(165,129,337)	9,282,337	(9,282,337)	106 %	106 %
Transfers and grants	-	-	-	-	-	(13,084,319)	13,084,319	(13,084,319)	DIV/0 %	DIV/0 %
Other expenditure	(68,631,000)	(18,435,000)	(87,066,000)	-	(87,066,000)	(86,339,242)	-	726,758	99 %	126 %
Total expenditure	**(347,172,000)**	**(10,435,000)**	**(357,607,000)**	**-**	**(357,607,000)**	**(544,987,606)**	**196,333,419**	**(187,380,606)**	**152 %**	**157 %**
Surplus/(Deficit) for the year	**15,380,455**	**(11,778,000)**	**3,602,455**	**-**	**3,602,455**	**(166,139,542)**		**(169,741,997)**	**(4,612)%**	**(1,080)%**

Notes to the Annual Financial Statements

Figures to nearest R1

48. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2011										
						Reported unauthorised expenditure	**Expenditure authorised in terms of section 32 of MFMA**	**Balance to be recovered**		**Restated audited outcome**
Financial Performance										
Property rates										31,681,745
Service charges										169,899,161
Investment revenue										16,818,039
Transfers recognised - operational										88,218,105
Other own revenue										8,737,380
Total revenue (excluding capital transfers and contributions)										**315,354,430**
Employee costs						-	-	-		(98,102,293)
Remuneration of councillors						-	-	-		(5,056,092)
Debt impairment						-	-	-		(27,264,071)
Depreciation and asset impairment						-	-	-		(119,277,049)
Finance charges						-	-	-		(468,560)
Materials and bulk purchases						-	-	-		(117,453,527)
Transfers and grants						-	-	-		(9,779,405)
Other expenditure						-	-	-		(69,014,944)
Total expenditure						**-**	**-**	**-**		**(446,415,941)**
Surplus/(Deficit) for the year										**(131,061,511)**

Notes to the Annual Financial Statements

Figures to nearest R1

48. Statement of comparative and actual information (continued)

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
Capital expenditure and funds sources				
Total capital expenditure				52,887,010
Cash flows				
Net cash from (used) operating				8,235,811
Net cash from (used) investing				(14,517,445)
Net cash from (used) financing				(458,794)
Net increase/(decrease) in cash and cash equivalents				**(6,740,428)**
Cash and cash equivalents at the beginning of the year				15,681,699
Cash and cash equivalents at year end				**8,941,271**

Schedule of external loans as at 30 June 2012

	Loan Number	Redeemable	Balance at Thursday, June 30, 2011 Rand	Received during the period Rand	Paid during the period Rand	Balance at Saturday, June 30, 2012 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
	61000031		3,311,106	1,455,178	2,606,782	2,159,502	-	-
	61002390		97,922	5,568	30,208	73,282	-	-
	61003266		148,618	-	148,618	-	-	-
			3,557,646	**1,460,746**	**2,785,608**	**2,232,784**	**-**	**-**
Finance Lease Liabilities								
Standard Bank Limited	17452333-0020		101,510	-	62,866	38,644	-	-
Standard Bank Limited	17452333-0024		101,510	-	101,510	-	-	-
Standard Bank Limited	17452333-0022		101,510	-	62,866	38,644	-	-
Standard Bank Limited	17452333-0021		101,510	-	62,866	38,644	-	-
Standard Bank Limited	17452333-0023		101,510	-	62,866	38,644	-	-
Standard Bank Limited	17452333-0019		101,510	-	101,510	-	-	-
			609,060	**-**	**454,484**	**154,576**	**-**	**-**
Total external loans								
Development Bank of South Africa			3,557,646	1,460,746	2,785,608	2,232,784	-	-
Finance Lease Liabilities			609,060	-	454,484	154,576	-	-
			4,166,706	**1,460,746**	**3,240,092**	**2,387,360**	**-**	**-**

Lekwa Local Municipality
Lekwa Local Municipality
Appendix B
June 2012

Analysis of property, plant and equipment as at 30 June 2010

Total

		Cost					Accumulated depreciation				
CLASS	SUB CLASS	OPENING BALANCE 2011	ADDITIONS 2011	DEPR 2011	ACC DEPR 2011	CLOSING 2011	OPENING BALANCE 2012	ADDITIONS 2012	DEPR 2012	ACC DEPR 2012	CLOSING 2012
Land & Buildings	Land	291,136,197.00	-	-	-	291,136,197.00	291,136,197.00	-	-	-	291,136,197.00
Land & Buildings	Buildings	497,337,800.00	-	24,866,890.00	124,320,334.44	373,017,465.56	497,337,800.00	282,311.23	24,881,005.56	149,201,340.00	348,418,771.23
Infrastructure	House Connections	77,991,090.64	-	1,575,100.97	41,319,998.88	36,671,091.76	77,991,090.64	-	1,575,100.97	42,895,099.85	35,095,990.79
Infrastructure	WATER Equipment	71,198,270.34	-	1,892,443.02	25,518,046.36	45,680,223.98	71,198,270.34	287,400.95	1,898,361.28	27,416,407.64	44,069,263.65
Infrastructure	Sewer & Manholes	163,779,391.61	-	16,377,939.16	16,377,939.16	147,401,452.45	163,779,391.61	76,815.78	32,758,740.50	49,136,679.66	114,719,527.73
Infrastructure	Sewer Equipment	46,076,871.92	-	1,604,036.84	21,671,288.80	24,405,583.12	46,076,871.92	-	1,626,349.09	23,297,637.89	22,779,234.03
Infrastructure	Roads	1,327,011,888.60	-	57,542,208.73	457,537,299.85	869,474,588.75	1,327,011,888.60	-	57,542,208.73	515,079,508.58	811,932,380.02
Infrastructure	Intersections	29,735,149.23	-	1,249,072.10	10,596,672.89	19,138,476.34	29,735,149.23	-	1,249,072.10	11,845,744.99	17,889,404.24
Infrastructure	Road Furniture	12,129,751.00		1,088,812.43	3,124,251.67	9,005,499.33	12,129,751.00		1,088,812.43	4,213,064.10	7,916,686.90
Infrastructure	Electricity Equipment	126,180,978.41	-	2,808,434.21	35,364,347.53	90,816,630.87	126,180,978.41	327,534.64	2,809,812.35	38,174,159.88	88,334,353.16
Infrastructure	Street Lights	23,899,796.87	-	955,991.87	6,472,203.19	17,427,593.68	23,899,796.87	-	955,991.87	7,428,195.06	16,471,601.81
Infrastructure	Electricity Cables	65,531,687.10	-	1,362,341.31	34,680,086.60	30,851,600.50	65,531,687.10	-	1,362,341.31	36,042,427.91	29,489,259.20
Infrastructure	Electricity Poles	36,045,970.68	-	1,201,532.36	18,623,751.52	17,422,219.16	36,045,970.68	-	1,201,532.36	19,825,283.87	16,220,686.81
Work in Progress	Work in Progress	38,374,404.00	14,512,606.00	-	-	52,887,010.00	52,887,010.00	31,259,175.00	-	-	84,146,185.00
		2,806,429,247.40	**14,512,606.00**	**112,524,802.99**	**795,606,220.88**	**2,025,335,632.52**	**2,820,941,853.40**	**32,233,237.60**	**128,949,328.55**	**924,555,549.43**	**1,928,619,541.57**

CLASS	SUB CLASS	OPENING BALANCE 2011	ADDITIONS 2011	DEPR 2011	ACC DEPR 2011	CLOSING 2011	OPENING BALANCE 2012	ADDITIONS 2012	DEPR 2012	ACC DEPR 2012	CLOSING 2012
Movable assets	COMMUNITY ASSETS	1,954.00	-	371.00	1,768.50	185.50	1,954.00	692.11	193.84	1,962.34	683.77
Movable assets	COMPUTER EQUIPMENT	1,821,714.00	-	484,889.46	1,682,445.84	139,268.16	1,821,714.00	263,307.90	125,864.35	1,808,310.20	276,711.70
Movable assets	FURNITURE AND FIXTURES	5,249,263.34	4,714.50	690,362.45	3,720,725.93	1,533,251.90	5,253,977.84	128,620.68	657,856.64	4,378,582.57	1,004,015.95
Movable assets	LABORATORY EQUIPMENT	480,548.00	-	66,938.20	436,817.30	43,730.70	480,548.00	2,746.71	38,855.52	475,672.82	7,621.89
Movable assets	MACHINERY	243,550.00	-	5,700.00	236,900.00	6,650.00	243,550.00	-	4,750.00	241,650.00	1,900.00
Movable assets	MEDICAL EQUIPMENT	214,672.00	-	36,314.11	182,351.09	32,320.91	214,672.00	-	22,807.84	205,158.93	9,513.07
Movable assets	MOTOR VEHICLES	15,847,473.00	-	2,491,990.20	12,169,129.40	3,678,343.60	15,847,473.00	-	1,860,302.90	14,029,432.30	1,818,040.70
Movable assets	OFFICE EQUIPMENT	1,910,306.00	123.50	341,313.47	1,483,621.97	426,807.53	1,910,429.50	66,760.67	295,976.47	1,779,598.44	197,591.73
Movable assets	OTHER ASSETS	340,978.00	-	60,823.49	268,765.17	72,212.83	340,978.00	-	51,312.29	320,077.46	20,900.54
Movable assets	OTHER SPECIALIZED EQUIPMENT	1,028,912.43	-	209,647.34	855,778.81	173,133.61	1,028,912.43	2,635.96	120,282.64	976,061.46	55,486.93
Movable assets	SPECIALIZED VEHICLES	21,038,477.00	-	2,103,847.70	13,695,012.50	7,343,464.50	21,038,477.00	-	1,778,832.70	15,473,845.20	5,564,631.80
Movable assets	WORKSHOP EQUIPMENT	1,666,096.39	-	260,044.91	1,385,569.64	280,526.76	1,666,096.39	22,922.28	190,028.77	1,575,598.40	113,420.27
Movable assets	Firearms	20.00	-	3.33	7.67	12.33	20.00	-	3.33	11.00	9.00
		49,843,964.16	**4,838.00**	**6,752,245.67**	**36,118,893.82**	**13,729,908.34**	**49,848,802.16**	**487,686.31**	**5,147,067.29**	**41,265,961.11**	**9,070,527.35**
TOTAL	**TOTAL**	**2,856,273,211.56**	**14,517,444.00**	**119,277,048.66**	**831,725,114.70**	**2,039,065,540.86**	**2,870,790,655.56**	**32,720,923.91**	**134,096,395.84**	**965,821,510.54**	**1,937,690,068.93**

Lekwa Local Municipality
Appendix E(1)
June 2012

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

	2012 Act. Bal. Rand	2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	32,614,831	28,449,807	4,165,024	14.6	Decrease was due to over budget of property rates revenue.
Service charges	198,598,539	233,019,513	(34,420,974)	(14.8)	Overbudget of deemed income on electricity and significant distribution losses.
Income from agency services	10,401,287	4,246,069	6,155,218	145.0	Increase in tarrifs
Fines	2,351,700	1,275,977	1,075,723	84.3	Control environemnt over traffic fines increased.
Government grants & subsidies	110,409,262	71,511,000	38,898,262	54.4	As per DorA Allocation
Rental income	851,208	1,424,646	(573,438)	(40.3)	Overestimation of rental income
Recoveries	-	-	-	-	
Other income	488,256	1,923,400	(1,435,144)	(74.6)	
Sundry income	3,957,152	-	3,957,152	-	
Interest received - investment	19,175,830	19,355,568	(179,738)	(0.9)	
	378,848,065	361,205,980	17,642,085	4.9	
Expenses					
Personnel	(97,589,345)	(101,583,000)	3,993,655	(3.9)	
Remuneration of councillors	(7,815,679)	(7,538,000)	(277,679)	3.7	
Depreciation	(134,096,396)	-	(134,096,396)	-	
Finance costs	(532,502)	(5,573,000)	5,040,498	(90.4)	Overestimation of finance costs.
Debt impairment	(40,400,784)	-	(40,400,784)	-	Actual debt written off.
Repairs and maintenance - General	(19,137,392)	-	(19,137,392)	-	Allocation of additions.
Bulk purchases	(165,129,338)	(153,230,000)	(11,899,338)	7.8	Increase in eskom bulk account.
Grants and subsidies paid	(13,084,319)	-	(13,084,319)	-	Less free services issued than budgeted.
General Expenses	(67,201,851)	(89,683,000)	22,481,149	(25.1)	
	(544,987,606)	(357,607,000)	(187,380,606)	52.4	
Other revenue and costs					

Lekwa Local Municipality
Appendix E(1)
June 2012

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

	2012 Act. Bal.	2012 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Net surplus/ (deficit) for the year	(166,139,541)	3,598,980	(169,738,521)	,716.3)	

Lekwa Local Municipality
Appendix E(2)
June 2012

Budget Analysis of Capital Expenditure as at 30 June 2012

	Year to Date				Year to Date
	Additions Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Municipality					
Executive & Council/Mayor and Council	-	2,001	2,001	**100**	Allocation difference
Public Safety/Police	-	15,595	15,595	**100**	Allocation difference
Environmental Protection/Pollution Control	40,827	40,827	-	**-**	Allocation difference
Other/Air Transport	37,721	17,327	(20,394)	**(118)**	Allocation difference
	78,548	**75,750**	**(2,798)**	**(4)**	
	-	**-**	**-**	**-**	