AbaQulusi Municipality
Financial statements
for the year ended June 30, 2013
Auditor General

General Information

Mayoral committee	
Executive Mayor	P N Khaba
Deputy Mayor	NP Ndlela
Speaker	P M Mtshali
Executive Committee Member	G M Dlamini
Executive Committee Member	H E Heyns
Executive Committee Member	M B Khumalo
Executive Committee Member	S S Siyaya
Executive Committee Member	B L Zwane
Executive Committee Member	B S Zwane
Councillors:	Z S Buthelezi
	I S M Hadebe
	X A Hlela
	H V Khumalo
	M M Kunene
	A D Lotter-Resigned
	M M Mavuso
	A M Masondo
	M E Masondo
	D J Mahlase
	M A Mazibuko
	D P Mazibuko
	M Mdlalose
	C N Molefe
	T Ndlovu
	G Nkohla
	S R Nkosi
	H D Ntshangase
	M S Ntshangase
	B Ntombela
	S E Qwabe
	T V Radebe
	M J Sibua
	T V Vilakazi
	S M Vilakazi
	M P William
	S B Zwane
	M E Zungu
	R B Mhlungu
	PP Mkwanazi
	A D Mkhulise
	J S Mncube
	J Mthembu
Grading of local authority	Grade 8
	Low Capacity
Chief Finance Officer (CFO)	T S Mkhwanazi
	cfo@abaqulusi.gov.za
Accounting Officer	R S Mokoena

General Information

Bankers	ABSA
Auditors	Auditor General

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 27 of these Annual Financial Statements are within the upper limits of the framework envisaged in section 219 of the Constitution, read with Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The financial statements set out on pages 6 to 78, which have been prepared on the going concern basis, were approved by the accounting officer on 27 November 2013 and were signed on its behalf by:

Accounting Officer
R S Mokoena

Statement of Financial Position as at June 30, 2013

Figures in Rand	Note(s)	2013	Restated 2012
Assets			
Current Assets			
Inventories	9	7,621,054	7,259,973
Receivables from non-exchange transactions	10	28,445,149	28,060,714
VAT receivable	11	1,221,466	266,738
Receivables from exchange transactions	12	13,377,787	15,203,273
Cash and cash equivalents	13	54,985,180	35,757,933
		105,650,636	**86,548,631**
Non-Current Assets			
Investment property	3	4,883,124	4,883,124
Property, plant and equipment	4	963,109,467	1,021,425,030
Intangible assets	5	257,985	515,971
Heritage assets	6	2,942,039	-
Other financial assets	7	28,225,426	26,909,907
		999,418,041	**1,053,734,032**
Non-Current Assets		999,418,041	1,053,734,032
Current Assets		105,650,636	86,548,631
Total Assets		**1,105,068,677**	**1,140,282,663**
Liabilities			
Current Liabilities			
Other financial liabilities	14	-	1,856,000
Payables from exchange transactions	17	29,608,605	29,644,185
Consumer deposits	18	12,286,457	11,377,706
Unspent conditional grants and receipts	15	35,971,114	19,193,178
		77,866,176	**62,071,069**
Non-Current Liabilities			
Retirement benefit obligation	8	47,172,911	40,587,258
Provisions	16	49,919,105	47,213,757
		97,092,016	**87,801,015**
Non-Current Liabilities		97,092,016	87,801,015
Current Liabilities		77,866,176	62,071,069
Liabilities of disposal groups		-	-
Total Liabilities		**174,958,192**	**149,872,084**
Assets		1,105,068,677	1,140,282,663
Liabilities		(174,958,192)	(149,872,084)
Net Assets		**930,110,485**	**990,410,579**
Net Assets			
Accumulated surplus		930,110,485	990,410,579

Statement of Financial Performance

Figures in Rand	Note(s)	2013	Restated 2012
Revenue			
Service charges	21	185,879,204	166,315,713
Rental of facilities and equipment	33	799,887	651,184
Interest received (trading)	50	8,747	17,477
Licences and permits		5,215,870	6,206,999
Retention forfeited		2,802,223	-
Other income	23	1,601,237	1,264,789
Interest received - investment	28	3,970,429	3,522,342
Property rates	20	41,574,200	35,131,478
Property rates - penalties imposed		851,319	881,036
Government grants & subsidies	22	116,884,702	107,818,336
Fines		1,845,054	1,496,793
Total revenue		**361,432,872**	**323,306,147**
Expenditure			
Employee related costs	25	(101,301,879)	(88,369,212)
Remuneration of councillors	26	(12,093,447)	(11,264,369)
Contribution landfill site rehabilitation allowance		(2,705,348)	-
Depreciation and amortisation	29	(71,759,677)	(69,784,544)
Impairment loss	30	(95,926)	-
Finance costs	31	(2,324,835)	(126,280)
Provision for doubtful debts	49	(7,350,562)	(5,648,638)
Post employment benefits	8	(6,585,653)	(7,910,613)
Repairs and maintenance		(14,298,245)	(15,345,721)
Bulk purchases	35	(112,199,872)	(101,328,354)
Contracted services	47	(26,703,438)	(22,886,812)
Grant expenditure	34	(19,155,256)	(27,871,304)
Lease rentals on operating leases	27	(8,828,549)	(5,159,388)
General Expenses	24	(27,542,700)	(32,775,373)
Total expenditure		**(412,945,387)**	**(388,470,608)**
		-	-
Total revenue		361,432,872	323,306,147
Total expenditure		(412,945,387)	(388,470,608)
Operating deficit		**(51,512,515)**	**(65,164,461)**
Gain on disposal of assets and liabilities		382,160	956,407
Deficit before taxation		(51,130,355)	(64,208,054)
Taxation		-	-
Deficit for the year		**(51,130,355)**	**(64,208,054)**
Attributable to:			
Owners of the controlling entity		(51,130,355)	(64,208,054)

Statement of Changes in Net Assets

Figures in Rand	Capitalisation reserve	Accumulated surplus	Total net assets
Balance at July 01, 2011	**776,947**	**1,057,390,023**	**1,058,166,970**
Changes in net assets			
Prior year adjustments	-	(2,771,390)	(2,771,390)
Net income (losses) recognised directly in net assets	-	(2,771,390)	(2,771,390)
Surplus for the year	-	(64,208,054)	(64,208,054)
Total recognised income and expenses for the year	-	(66,979,444)	(66,979,444)
Housing Development Fund	(776,947)	-	(776,947)
Total changes	(776,947)	(66,979,444)	(67,756,391)
Balance at July 01, 2012	**-**	**981,240,840**	**981,240,840**
Changes in net assets			
Surplus for the year	-	(51,130,355)	(51,130,355)
Total changes	-	(51,130,355)	(51,130,355)
Balance at June 30, 2013	**-**	**930,110,485**	**930,110,485**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2013	Restated 2012
Cash flows from operating activities			
Receipts			
Sale of goods and services		177,667,590	192,371,596
Grants and Subsidies		133,637,809	117,608,409
Interest income-external investments		3,970,429	3,522,342
Other receipts		-	8,236,661
Vat received		3,587,437	1,249,371
		318,863,265	322,988,379
Payments			
Employee costs		(109,263,355)	(99,633,581)
Suppliers		(168,776,391)	(197,297,335)
Finance costs		(2,324,835)	(126,280)
		(280,364,581)	(297,057,196)
Total receipts		318,863,265	322,988,379
Total payments		(280,364,581)	(297,057,196)
Net cash flows from operating activities	36	**38,498,684**	**25,931,183**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(16,946,768)	(13,360,222)
Proceeds from sale of property, plant and equipment	4	846,850	956,407
(Decrease)/Increase in Non-Current Investments		(1,315,519)	19,069,559
Decrease in Reserves		-	(776,947)
Net cash flows from investing activities		**(17,415,437)**	**5,888,797**
Cash flows from financing activities			
Repayment of other financial liabilities		(1,856,000)	-
Net cash flows from financing activities		**(1,856,000)**	**-**
Net increase/(decrease) in cash and cash equivalents		**19,227,247**	**31,819,980**
Cash and cash equivalents at the beginning of the year		35,757,933	3,937,953
Cash and cash equivalents at the end of the year	13	**54,985,180**	**35,757,933**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	198,609,120	(3,142,120)	**195,467,000**	185,879,204	**(9,587,796)**	
Rental of facilities and equipment	377,250	465,000	**842,250**	799,887	**(42,363)**	
Interest received (trading)	18,530	(2,000)	**16,530**	8,747	**(7,783)**	
Licences and permits	5,779,830	(770,000)	**5,009,830**	5,215,870	**206,040**	
Other income 1	-	-	**-**	2,802,223	**2,802,223**	
Other income	33,163,000	(7,614,000)	**25,549,000**	1,601,237	**(23,947,763)**	
Interest received - investment	3,000,000	(350,000)	**2,650,000**	3,970,429	**1,320,429**	
Total revenue from exchange transactions	**240,947,730**	**(11,413,120)**	**229,534,610**	**200,277,597**	**(29,257,013)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	39,453,337	727,000	**40,180,337**	41,574,200	**1,393,863**	
Property rates - penalties imposed	859,390	(159,000)	**700,390**	851,319	**150,929**	
Government grants & subsidies	118,684,000	13,240,000	**131,924,000**	116,884,702	**(15,039,298)**	
Transfer revenue						
Fines	1,705,880	205,000	**1,910,880**	1,845,054	**(65,826)**	
Total revenue from non-exchange transactions	**160,702,607**	**14,013,000**	**174,715,607**	**161,155,275**	**(13,560,332)**	
'Total revenue from exchange transactions'	240,947,730	(11,413,120)	**229,534,610**	200,277,597	**(29,257,013)**	
'Total revenue from non-exchange transactions'	160,702,607	14,013,000	**174,715,607**	161,155,275	**(13,560,332)**	
Total revenue	**401,650,337**	**2,599,880**	**404,250,217**	**361,432,872**	**(42,817,345)**	
Expenditure						
Personnel	(115,576,908)	9,937,188	**(105,639,720)**	(101,301,879)	**4,337,841**	
Remuneration of councillors	(12,306,242)	(689,240)	**(12,995,482)**	(12,093,447)	**902,035**	
Landfill Rehabilation Allowance	-	-	**-**	(2,705,348)	**(2,705,348)**	
Depreciation and amortisation	(18,226,350)	-	**(18,226,350)**	(71,759,677)	**(53,533,327)**	
Impairment loss/ Reversal of impairments	-	-	**-**	(95,926)	**(95,926)**	
Finance costs	(30,000)	(2,320,100)	**(2,350,100)**	(2,324,835)	**25,265**	
Provision for doubtful debts	(2,000,000)	2,000,000	**-**	(7,350,562)	**(7,350,562)**	
Post employment benefits	(3,212,000)	-	**(3,212,000)**	(6,585,653)	**(3,373,653)**	
Repairs and maintenance	(19,143,500)	(5,469,000)	**(24,612,500)**	(14,298,245)	**10,314,255**	
Bulk purchases	(114,446,480)	(2,954,000)	**(117,400,480)**	(112,199,872)	**5,200,608**	
Contracted Services	(27,521,970)	(2,658,030)	**(30,180,000)**	(26,703,438)	**3,476,562**	
Grants and subsidies paid	(16,805,000)	(18,320,000)	**(35,125,000)**	(19,155,256)	**15,969,744**	
Lease rentals on operating leases	(7,179,000)	839,000	**(6,340,000)**	(8,828,549)	**(2,488,549)**	
General Expenses	(31,699,500)	7,027,000	**(24,672,500)**	(27,542,700)	**(2,870,200)**	
Total expenditure	**(368,146,950)**	**(12,607,182)**	**(380,754,132)**	**(412,945,387)**	**(32,191,255)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
	401,650,337	2,599,880	**404,250,217**	361,432,872	**(42,817,345)**	
	(368,146,950)	(12,607,182)	**(380,754,132)**	(412,945,387)	**(32,191,255)**	
Operating deficit	**33,503,387**	**(10,007,302)**	**23,496,085**	**(51,512,515)**	**(75,008,600)**	
Gain on disposal of assets and liabilities	-	-	**-**	382,160	**382,160**	
	33,503,387	(10,007,302)	**23,496,085**	(51,512,515)	**(75,008,600)**	
	-	-	**-**	382,160	**382,160**	
Deficit before taxation	**33,503,387**	**(10,007,302)**	**23,496,085**	**(51,130,355)**	**(74,626,440)**	
Surplus before taxation	33,503,387	(10,007,302)	**23,496,085**	(51,130,355)	**(74,626,440)**	
Taxation	-	-	**-**	-	**-**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**33,503,387**	**(10,007,302)**	**23,496,085**	**(51,130,355)**	**(74,626,440)**	

Appropriation Statement

Figures in Rand

	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)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2013											
Financial Performance											
Property rates	40,312,000	568,000	40,880,000	-		40,880,000	42,425,519		1,545,519	104 %	105 %
Service charges	198,609,000	(3,142,000)	195,467,000	-		195,467,000	185,879,204		(9,587,796)	95 %	94 %
Investment revenue	3,000,000	(350,000)	2,650,000	-		2,650,000	3,970,429		1,320,429	150 %	132 %
Transfers recognised - operational	85,240,000	21,240,000	106,480,000	-		106,480,000	94,084,094		(12,395,906)	88 %	110 %
Other own revenue	41,045,000	(7,716,000)	33,329,000	-		33,329,000	12,655,178		(20,673,822)	38 %	31 %
Total revenue (excluding capital transfers and contributions)	**368,206,000**	**10,600,000**	**378,806,000**	**-**		**378,806,000**	**339,014,424**		**(39,791,576)**	**89 %**	**92 %**
Employee costs	(115,577,000)	9,937,000	(105,640,000)	-	5,284,370	(100,355,630)	(101,301,879)	-	(946,249)	101 %	88 %
Remuneration of councillors	(12,306,242)	(689,240)	(12,995,482)	-	-	(12,995,482)	(12,093,447)	-	902,035	93 %	98 %
Debt impairment	(2,000,000)	2,000,000	-			-	(7,350,562)	-	(7,350,562)	DIV/0 %	368 %
Depreciation and asset impairment	(18,226,350)	-	(18,226,350)			(18,226,350)	(71,855,603)	-	(53,629,253)	394 %	394 %
Finance charges	(30,000)	(2,320,100)	(2,350,100)	-	-	(2,350,100)	(2,324,835)	-	25,265	99 %	7,749 %
Materials and bulk purchases	(114,446,480)	(2,954,000)	(117,400,480)	-	-	(117,400,480)	(112,199,872)	-	5,200,608	96 %	98 %
Transfers and grants	(16,805,000)	(18,320,000)	(35,125,000)	-	-	(35,125,000)	(19,155,256)	-	15,969,744	55 %	114 %
Other expenditure	(88,755,000)	(261,000)	(89,016,000)	-	(5,284,370)	(94,300,370)	(86,663,933)	-	7,636,437	92 %	98 %
Total expenditure	**(368,146,072)**	**(12,607,340)**	**(380,753,412)**	**-**	**-**	**(380,753,412)**	**(412,945,387)**	**-**	**(32,191,975)**	**108 %**	**112 %**
Total revenue (excluding capital transfers and contributions)	368,206,000	10,600,000	378,806,000	-	-	378,806,000	339,014,424	-	(39,791,576)	89 %	92 %
Total expenditure	(368,146,072)	(12,607,340)	(380,753,412)	-	-	(380,753,412)	(412,945,387)	-	(32,191,975)	108 %	112 %
Surplus/(Deficit)	**59,928**	**(2,007,340)**	**(1,947,412)**	**-**		**(1,947,412)**	**(73,930,963)**		**(71,983,551)**	**3,796 %**	**(123,366)%**

Appropriation Statement

Figures in Rand

	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)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	33,444,000	(8,000,000)	25,444,000	-		25,444,000	22,800,608		(2,643,392)	90 %	68 %
Surplus/(Deficit)	59,928	(2,007,340)	(1,947,412)	-	-	(1,947,412)	(73,930,963)	-	(71,983,551)	3,796 %	123,366)%
Capital transfers and contributions	33,444,000	(8,000,000)	25,444,000	-	-	25,444,000	22,800,608	-	(2,643,392)	90 %	68 %
Surplus (Deficit) after capital transfers and contributions	**33,503,928**	**(10,007,340)**	**23,496,588**	**-**		**23,496,588**	**(51,130,355)**		**(74,626,943)**	**(218)%**	**(153)%**
Surplus (Deficit) after capital transfers and contributions	33,503,928	(10,007,340)	23,496,588	-	-	23,496,588	(51,130,355)	-	(74,626,943)	(218)%	(153)%
Surplus/(Deficit) for the year	**33,503,928**	**(10,007,340)**	**23,496,588**	**-**		**23,496,588**	**(51,130,355)**		**(74,626,943)**	**(218)%**	**(153)%**
Capital expenditure and funds sources											
Total capital expenditure	(33,444,000)	8,000,000	(25,444,000)	-		(25,444,000)	(19,186,930)		6,257,070	75 %	57 %

Accounting Policies

1. Presentation of Financial Statements

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

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

Impairment testing

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

Provisions

Provisions were raised. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the 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.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

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 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Accounting Policies

1.2 Investment property (continued)

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

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

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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

Fair value

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

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

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

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

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, 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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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.

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
Buildings	30 years
Leasehold property	5-7 years
Plant and machinery	5-9 years
Furniture and fixtures	5-9 years
Motor vehicles	5-7 years
Office equipment	5-7 years
IT equipment	5-7 years
Infrastructure	5-50 years
Community	10-30 years
Work in Progress	No depreciation

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

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

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

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

Items of municipality 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 municipality.

Accounting Policies

1.4 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Computer software, internally generated	5 years

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

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Accounting Policies

1.5 Heritage assets (continued)

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Accounting Policies

1.5 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

Transitional provision

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have accordingly been recognised at provisional amounts, as disclosed in . The transitional provision expires on 6/30/2015.

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.6 Financial instruments

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

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.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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

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

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity'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.

Accounting Policies

1.6 Financial instruments (continued)

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

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

A financial 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 entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity 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 entity'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 entity.

Accounting Policies

1.6 Financial instruments (continued)

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 entity 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 entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

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.

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

The entity 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.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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.

Financial liabilities

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

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

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

1.7 Leases

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

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

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.

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

Operating leases - lessee

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

Accounting Policies

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, 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.

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.

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

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

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

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

1.9 Impairment of cash-generating assets

Cash-generating assets are those assets held by the 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.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

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

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

Recognition and measurement (individual asset)

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.

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality 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.

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The 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, the entity estimates the recoverable amount of that asset.

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

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

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

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

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

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

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

Redesignation

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

1.10 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the 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.

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

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

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
(a) the period of time over which an asset is expected to be used by the municipality; or
(b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

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

The 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, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Restoration cost approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.11 Employee benefits

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

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

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

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

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

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

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

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.

Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

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

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

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.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

Accounting Policies

1.12 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

Accounting Policies

1.12 Provisions and contingencies (continued)

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.13 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.

Sale of goods

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

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

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, Service Fees

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

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

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

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

1.14 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.

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.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

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.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

Accounting Policies

1.14 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.

Gifts and donations, including goods in-kind

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

1.15 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.

1.16 Comparative figures

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

1.17 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.18 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.

1.19 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies

1.19 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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.

1.20 Use of estimates

The preparation of 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 financial statements are disclosed in the relevant sections of the 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.

1.21 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.

1.22 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 approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2012 to 6/30/2013.

The budget for the economic entity includes all the entities approved budgets under its control.

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

The Statement of comparative and actual information has been included in the financial statements as the recommended disclosure when the financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Accounting Policies

1.23 Related parties

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

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

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

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

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 adopted the standard for the first time in the 2013 financial statements.

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 financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and 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 financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and 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.

The municipality has adopted the standard for the first time in the 2013 financial statements.

GRAP 103: Heritage Assets

Notes to the Financial Statements

2. New standards and interpretations (continued)

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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

The municipality has adopted the standard for the first time in the 2013 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

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 adopted the standard for the first time in the 2013 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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 adopted the standard for the first time in the 2013 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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 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 adopted the standard for the first time in the 2013 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, 2013 or later periods:

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 financial statements.

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

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;

Notes to the Financial Statements

2. New standards and interpretations (continued)

- 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.

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 financial statements.

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

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2014.

The municipality expects to adopt the standard for the first time in the 2015 financial statements.

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

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The standard states that 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:

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

The standard furthermore states that 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.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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 financial statements.

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

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of 'minority interest' has been amended to 'non-controlling interest', and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

Notes to the Financial Statements

2. New standards and interpretations (continued)

An entity shall apply this amendment for financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipality expects to adopt the amendment for the first time in the 2015 financial statements.

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

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

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

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

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

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

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

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

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

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

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

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

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

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

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

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

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

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

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

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

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

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

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

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

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

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:

- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

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

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

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

Notes to the Financial Statements

Figures in Rand	2013	2012

3. Investment property

	2013			Restated 2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	4,883,124	-	4,883,124	4,883,124	-	4,883,124

Reconciliation of investment property - 2013

	Opening balance	**Total**
Investment property	4,883,124	4,883,124

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	4,883,124	4,883,124

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.

Details of valuation

The effective date of the revaluations was Sunday, June 30, 2013. Revaluations were performed by an independent valuer, of DDP Valuers. DDP Valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

No valuation was performed for the prior year reporting period. The current year value has been used as the prior year value.

4. Property, plant and equipment

	2013			Restated 2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	68,148,357	-	68,148,357	68,613,047	-	68,613,047
Buildings	32,526,683	(10,512,422)	22,014,261	32,526,683	(9,412,630)	23,114,053
Infrastructure	2,591,214,579	(1,746,546,456)	844,668,123	2,572,467,242	(1,678,576,248)	893,890,994
Community	22,567,797	(6,481,943)	16,085,854	22,567,797	(5,685,786)	16,882,011
Work in Progress	9,414,479	-	9,414,479	11,512,628	-	11,512,628
Bins and containers	-	-	-	2,942,039	-	2,942,039
Other property, plant and equipment	10,169,927	(7,391,534)	2,778,393	10,433,512	(5,963,254)	4,470,258
Total	**2,734,041,822**	**(1,770,932,355)**	**963,109,467**	**2,721,062,948**	**(1,699,637,918)**	**1,021,425,030**

Figures in Rand	2013	2012

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	68,613,047	-	(464,690)	-	-	-	68,148,35
Buildings	23,114,053	-	-	-	(1,099,792)	-	22,014,26
Infrastructure	893,890,994	-	-	18,747,337	(67,970,208)	-	844,668,12
Community	16,882,011	-	-	-	(796,157)	-	16,085,85
Work in progress	11,512,628	16,649,188	-	(18,747,337)	-	-	9,414,47
Heritage Assets	2,942,039	-	-	(2,942,039)	-	-	
Other property, plant and equipment	4,470,258	297,580	-	-	(1,893,519)	(95,926)	2,778,39
	1,021,425,030	**16,946,768**	**(464,690)**	**(2,942,039)**	**(71,759,676)**	**(95,926)**	**963,109,46**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Total
Land	21,399,290	-	-	47,213,757	-	68,613,047
Buildings	24,209,845	-	-	-	(1,095,792)	23,114,053
Infrastructure	950,411,814	-	9,621,335	(9,169,738)	(56,972,417)	893,890,994
Community	17,644,242	-	-	-	(762,231)	16,882,011
Work in Progress	8,575,692	12,558,271	(9,621,335)	-	-	11,512,628
Heritage Assets	2,942,039	-	-	-	-	2,942,039
Other property, plant and equipment	5,452,674	801,951	-	-	(1,784,367)	4,470,258
	1,030,635,596	**13,360,222**	**-**	**38,044,019**	**(60,614,807)**	**1,021,425,030**

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.

During the financial year, there were no leased assets, no assets held as pledged assets, no amount of contractual commitments for assets and no amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

5. Intangible assets

	2013			Restated 2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Intangible assets	1,289,927	(1,031,942)	257,985	1,289,927	(773,956)	515,971

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Intangible assets	515,971	(257,986)	257,985

Notes to the Financial Statements

Figures in Rand	2013	2012

5. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Intangible assets	773,957	(257,986)	515,971

6. Heritage assets

	2013			Restated 2012		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	2,942,039	-	2,942,039	-	-	-

Reconciliation of heritage assets 2013

	Opening balance	Transfers	Total
Heritage Assets	-	2,942,039	2,942,039

Transitional provisions

The municipality has opted to adopt Directive 5 with regards to the Heritage Assets of the municipality whose cost or fair value can not be determined at reporting date. Full compliance of GRAP 103 will be done at 30 June 2015. As per Directive 7 a list of all Heritage Assets has been included in the Fixed Asset Register of the municpality. This list is availble for viewing at the main offices of the municipality. The list includes the following Heritage Assets whose cost or fair value has not been determined at reporting date.

Works of Art

Antiquities

Technology Artifacts

Stamps Collections

Collections of Rare Books

7. Other financial assets

At amortised cost		
Investments	28,225,426	26,909,907
	-	-
	-	-
	28,225,426	26,909,907
Non-current assets		
At amortised cost	28,225,426	26,909,907
Non-current assets	28,225,426	26,909,907
Current assets	-	-

Notes to the Financial Statements

Figures in Rand	2013	2012

Financial assets at amortised cost

SIMS Sanlam MUNVRY	20,720,985	19,686,091
ABSA 55-9809-8427	1,489,830	1,489,830
ABSA 91-2286-1337	62,950	2,194
ABSA - 92-2981-0534	709,394	685,081
First National Bank	5,242,267	5,046,711
	28,225,426	**26,909,907**

8. Employee benefit obligations

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

Carrying value		
Post-employment medical benefits	(40,668,203)	(36,832,033)
Long Service Award	(6,504,708)	(3,755,225)
	(47,172,911)	**(40,587,258)**

Net expense recognised in the statement of financial performance

Post-employment medical benefits	3,836,170	7,313,725
Long Service Award	2,749,483	596,888
	6,585,653	**7,910,613**

Figures in Rand	2013	2012

8. Employee benefit obligations (continued)

Post-employment medical benefits

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

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

Assumptions used at the reporting date:

Average retirement age- Males	63years	63years
Average retirement age-Females	58years	58years
Mortality during employment	SA 85-90 ultimate	SA 85-90 ultimate
Mortality post-retirement	PA90-1 ultimate	PA90-1 ultimate
Discount rates used	8.92 %	7.84 %
Health care cost inflation rate	7.81 %	7.00 %
Proportion continuing membership at retirement	100.00 %	100.00 %
Proportion of retiring members who are married	90.00 %	90.00 %

(No explicit assumption was made about additional mortality or health care costs due to AIDS).

Percentage of in-service members withdrawing before retirement:		
Age 20	40%	40%
Age 30	25%	25%
Age 40	12%	12%
Age 50	4%	4%
Age 55+	0%	0%
The amounts recognised in the Statement of Financial Position were determined as being the present value of the obligation:	40 668 203	36 832 033

Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	36,832,033	29,518,308
Current service cost	1,379,408	1,203,217
Interest cost	2,836,169	2,358,491
Benefit payments	(1,326,732)	(1,139,583)
Actuarial (gains)/losses	947,325	4,891,600
	40,668,203	**36,832,033**

The amounts recognised in the Statement of Financial		
Current service cost	1,379,408	1,203,217
Interest cost	2,836,169	2,358,491
Benefit payments	(1,326,732)	(1,139,583)
Actuarial (gains)/losses	947,325	4,891,600
	3,836,170	**7,313,725**

Long service awards

The independent valuers, ARCH actuarial consulting, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

Notes to the Financial Statements

Figures in Rand	2013	2012

8. Employee benefit obligations (continued)

Discount rate per annum	7.13%	6.46%
General Salary Inflation (long term)	6.73%	5.97%
Net effective discount rate	0.38%	0.49%

Examples of mortality rates used were as follows:

Average retirement age Males	63 years		63 years	
Average retirement age Females	58 years		58 years	
Mortality during employment	SA85-90 Ultimate		SA85-90 Ultimate	
Members withdrawn from service:	Females		Males	Females
Males				
Age 20	24%	16%	24%	16%
Age 30	15%	10%	15%	10%
Age 40	6%	6%	6%	6%
Age 50	2%	2%	2%	2%
Age 55	0%	0%	0%	0%

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

Liability in the Statement of Finacial Position		
Present value of funded obligations	6,504,708	3,755,225
Movement in the defined benefit obligation is as follows:		
Balance at beginning of the year	3,755,225	3,158,337
Current service cost	540,952	437,866
Interest cost	228,652	232,757
Actuarial (Gain)/losses	2,422,826	806,977
Benefit vesting	(442,947)	(880,712)
	6,504,708	**3,755,225**
The amounts recognised in the Statement of Financial		
Current service cost	540,952	437,866
Interest cost	228,652	232,757
Actuarial (Gain)/losses	2,422,826	806,977
Benefit vesting	(442,947)	(880,712)
	2,749,483	**596,888**

9. Inventories

Water inventory	78,454	94,663
Consumable stores	7,644,214	7,300,112
	7,722,668	7,394,775
Inventories (write-downs)	(101,614)	(134,802)
	7,621,054	**7,259,973**

10. Receivables from non-exchange transactions

Other debtors	8,148,632	9,372,632
Rates	16,024,248	12,705,299
Prepayment	1,220,449	-
Sundry Debtors	4,971,416	4,482,930
Provision for doubtful debts - rates	(2,636,164)	-
Other receivables	716,568	1,690,561
Accrued Interest	-	(190,708)
	28,445,149	**28,060,714**

Notes to the Financial Statements

Figures in Rand	2013	2012

11. VAT receivable

VAT	1,221,466	266,738

Vat is payable on the receipts basis. Only once payment is received fron debtors is vat paid over to SARS.

12. Receivables from exchange transactions

Gross balances		
Electricity	8,453,972	7,663,874
Water	7,780,499	7,343,415
Sewerage	9,045,766	6,957,236
Refuse	6,398,451	5,076,712
Value Added Taxation	-	(97,153)
Other (specify)	8,107,130	9,952,823
	39,785,818	**36,896,907**
Less: Allowance for impairment		
Electricity	(1,591,813)	(2,000,000)
Water	(5,159,251)	(5,000,000)
Sewerage	(6,480,510)	(4,000,000)
Refuse	(4,589,166)	(3,000,000)
Value Added Taxation	(2,708,675)	(2,000,000)
Other (specify)	(5,878,616)	(5,693,634)
	(26,408,031)	**(21,693,634)**
Net balance		
Electricity	6,862,159	5,663,874
Water	2,621,248	2,343,415
Sewerage	2,565,256	2,957,236
Refuse	1,809,285	2,076,712
Value Added Taxation	(2,708,675)	(2,097,153)
Other (specify)	2,228,514	4,259,189
	13,377,787	**15,203,273**
Other Receivables from exchange includes		
Adjustments	366,824	336,704
Service charges	431,559	477,226
Interest	3,106,135	2,815,115
Old debt	2,523	3,691
Penalties	4,210,810	3,700,490
Coll fees	59,824	62,093
Legal fees	367,384	368,995
Sundry charge	184,976	53,126
Indigent support	(2,073)	99,886
Agreements	181,354	266,503
Receipts	(802,186)	-
Contribution Provision for vat on bad debts	-	1,768,994
	8,107,130	**9,952,823**
Net balance	**8,107,130**	**9,952,823**

Notes to the Financial Statements

Figures in Rand	2013	2012

12. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	6,601,879	5,282,203
31 - 60 days	159,744	174,895
61 - 90 days	54,877	133,628
91 - 120 days	45,659	73,148
	6,862,159	**5,663,874**
Water		
Current (0 -30 days)	1,854,303	1,430,256
31 - 60 days	392,020	405,008
61 - 90 days	191,030	315,803
91 - 120 days	183,895	192,348
	2,621,248	**2,343,415**
Sewerage		
Current (0 -30 days)	1,706,906	1,537,764
31 - 60 days	464,613	395,204
61 - 90 days	202,627	331,405
91 - 120 days	191,110	268,905
121 - 365 days	-	423,958
	2,565,256	**2,957,236**
Refuse		
Current (0 -30 days)	1,224,950	1,158,102
31 - 60 days	316,525	284,370
61 - 90 days	139,560	249,364
91 - 120 days	128,250	196,880
121 - 365 days	-	187,996
	1,809,285	**2,076,712**
Vat		
91 - 120 days	(87,771)	(60,091)
121 - 365 days	(2,620,904)	(2,037,062)
	(2,708,675)	**(2,097,153)**
Other (specify)		
Current (0 -30 days)	744,219	511,334
31 - 60 days	287,077	123,664
61 - 90 days	201,315	236,126
91 - 120 days	299,084	193,698
121 - 365 days	696,819	3,194,367
	2,228,514	**4,259,189**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(21,693,634)	(24,444,995)
Contributions to allowance	(4,714,397)	-
Reversal of allowance	-	2,751,361
	(26,408,031)	**(21,693,634)**

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

Notes to the Financial Statements

Figures in Rand	2013	2012

13. Cash and cash equivalents (continued)

Cash on hand and Petty cash	6,397	6,970
Bank balances	5,120,015	4,501,434
Short-term deposits	49,858,768	31,249,529
	54,985,180	**35,757,933**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2013	June 30, 2012	June 30, 2011	June 30, 2013	June 30, 2012	June 30, 2011
ABSA - Cheque - 1005001109	5,499,232	5,029,273	1,003,076	5,120,015	4,501,434	949,989

Short term deposits		
Absa 9195460586	19,854,550	2,884,441
Absa 9229810136	2,091,300	2,019,625
Absa 9061060389	909,345	901,396
Standard Bank	10,563,292	5,125,245
Investec	10,844,989	10,279,214
Standard Bank 068461763-004	-	5,039,608
Standard Bank 068461763-005	5,595,292	5,000,000
	49,858,768	**31,249,529**

14. Other financial liabilities

At amortised cost		
Annuity loan	-	1,856,000
Loan granted to the municipality by DBSA at an interest rate of 6.75% per annum, being redeemed in six monthly instalments, including interest, in April and October until 2014 only commencing repayment after two years.		

Council took decision to repay the loan in full in the current year.

Current liabilities		
At amortised cost	-	1,856,000

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Integrated National Electrification Grant	4,262,728	243,176
Gijima Grant	38,830	38,830
EDI Grant	55,518	55,518
Land Use Management Grant	229,850	229,850
Provincial Housing Grant	60,000	60,000
Municipal Infrastructure Grant	7,124,643	8,336,412
Upgrade Billing Emondlo	3,166	3,166
Performance Management System	29,045	29,045
Housing Grant	225,383	225,383
COGTA Grant : Thusong Centre	5,786,430	5,867,700
Emergency Repair Grant (COGTA)	4,550,283	3,600,000
Small Town Rehabilitation	10,563,792	-
Expanded Public Works Programme Grant	148,593	-
Municipal Assistance Programme Grant (MAP)	426,853	504,098
Unspent grant 32	2,466,000	-
	35,971,114	**19,193,178**

Figures in Rand	2013	2012

15. Unspent conditional grants and receipts (continued)

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

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

See note 17 for reconciliation of grants from National/Provincial Government and receipts.

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

16. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	47,213,757	2,705,348	49,919,105

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	-	47,213,757	47,213,757

Environmental rehabilitation provision

Vryheid landfill site has a base year for the value determination of 2012. The landfill site is not licenced but is in the process of being licenced. The assumption was made that the landfill site will be full in 33 years time from the base year , provided the site is not progressively rehabilitated. The cost estimate is based on 30% Preliminary and General and a 10% contigency of the construction amount for unseen items. The rates used to determine the construction amount are based on current or recent contracts undertaken in similar circumstances in the KZN area. The calcualted cost estimate to close the site will need to be esclated using the CPI for the area to the year of final rehabillitation.

Vryheid	47,027,859	44,479,201
Emondlo	1,263,180	1,194,722
Louwburg	1,628,066	1,539,834
	49,919,105	**47,213,757**

17. Payables from exchange transactions

Trade payables	17,231,547	17,157,638
Other payables	746,717	248,188
Accrued finance costs DBSA	-	25,242
Deposits received	31,095	34,431
Special purpose departments	25,680	179,900
Medical aid paid in advance	18,544	22,530
Debtors in advance	-	961,717
Staff leave accrual	7,940,604	6,013,714
Retentions	3,614,418	5,000,825
	29,608,605	**29,644,185**

Notes to the Financial Statements

Figures in Rand	2013	2012

18. Consumer deposits

Electricity	11,353,051	10,543,783
Water	933,406	833,923
	12,286,457	**11,377,706**

19. Revenue

Service charges	185,879,204	166,315,713
Rental of facilities and equipment	799,887	651,184
Interest received (trading)	8,747	17,477
Licences and permits	5,215,870	6,206,999
Other income 1	2,802,223	-
Other income	1,601,237	1,264,789
Interest received - investment	3,970,429	3,522,342
Property rates	41,574,200	35,131,478
Property rates - penalties imposed	851,319	881,036
Government grants & subsidies	116,884,702	107,818,336
Fines	1,845,054	1,496,793
	361,432,872	**323,306,147**

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

Service charges	185,879,204	166,315,713
Rental of facilities and equipment	799,887	651,184
Interest received (trading)	8,747	17,477
Licences and permits	5,215,870	6,206,999
Other income 1	2,802,223	-
Other income	1,601,237	1,264,789
Interest received - investment	3,970,429	3,522,342
	200,277,597	**177,978,504**

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

Taxation revenue		
Property rates	41,574,200	35,131,478
Property rates - penalties imposed	851,319	881,036
Transfer revenue		
Government grants & subsidies	116,884,702	107,818,336
Fines	1,845,054	1,496,793
	161,155,275	**145,327,643**

Notes to the Financial Statements

Figures in Rand	2013	2012

20. Property rates

Rates received

Property rates	43,046,944	37,657,892
Rates Rebate	(370,605)	(593,164)
Rates Reduction	(1,102,139)	(997,391)
Phase in Rates 75%	-	(935,859)
	41,574,200	35,131,478
Property rates - penalties imposed	851,319	881,036
	42,425,519	**36,012,514**

Valuations

Residential	3,140,905,000	3,120,446,000
Commercial	942,814,100	935,898,100
State	713,741,000	481,121,000
Donation: Sport & Welfare	34,030,000	160,462,000
Schools: Non Government	2,700,000	2,700,000
Vacant land	68,559,000	77,754,000
Non Taxable	317,810,300	220,505,300
Public Service Infrastructure	47,332,000	53,020,000
S P L	5,300,000	2,800,000
Agriculture	1,062,602,800	1,078,737,494
	6,335,794,200	**6,133,443,894**

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on a quartely basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on monthly basis with the final date for payment being the 9th of every month. Interest at prime plus 1% per annum is levied on outstanding rates.

21. Service charges

Sale of electricity	126,393,792	116,770,411
Sale of water	30,842,126	23,240,540
Sewerage and sanitation charges	16,411,471	14,808,522
Refuse removal	12,231,815	11,496,240
	185,879,204	**166,315,713**

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies

Operating grants		
Equitable share	79,053,000	69,224,000
Municipal Systems Improvement Grant	800,000	1,000,000
Municipal Assistance Programme (MAP) Grant	77,245	-
EDI Grant	-	84,375
Expanded Public Works Programme Grant	851,407	-
Emergency Repair Water Grant (COGTA)	5,239,717	-
Finance Management Grant	1,500,000	1,450,000
Upgrade Billing Emondlo	-	26,438
Tourism Operating Grant ZDM	100,000	100,000
Intergrated National Electrification Programme Grant	3,980,447	17,821,067
COGTA Grant: Thusong Centre	81,270	132,300
Small Town Rehabilitation Grant	836,208	-
Library Grant (operating)	1,430,800	1,361,408
Museum Grant (operating)	134,000	125,000
	94,084,094	91,324,588
Capital grants		
Municipal Infrastructure Grant	22,800,608	16,493,748
	22,800,608	16,493,748
	116,884,702	**107,818,336**

Equitable Share

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

Equitable Share		
Current year receipts	79,053,000	69,224,000
Conditions met-transferred to revenue	(79,053,000)	(69,224,000)
	-	**-**

Municipal Systems Improvement Grant

Current-year receipts	800,000	1,000,000
Conditions met - transferred to revenue	(800,000)	(1,000,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Intergrated National Electrification Programme Grant

Balance unspent at beginning of year	243,176	4,291,243
Less Rolled over expenditure	(243,176)	-
Current-year receipts	8,000,000	13,773,000
Conditions met - transferred to revenue	(3,737,272)	(17,821,067)
	4,262,728	**243,176**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Gijima Grant

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Balance unspent at beginning of year	38,830	38,830

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

EDI Grant

Balance unspent at beginning of year	55,518	55,518

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Land Use Management Grant

Balance unspent at beginning of year	229,850	229,850

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Provincial Housing Grant

Balance unspent at beginning of year	60,000	60,000

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Municipal Infrastructure Grant

Balance unspent at beginning of year	8,336,412	3,855,160
Less 2010/2011 unspent grants forfieted	(3,855,160)	-
Less: Expenditure for Rolled over funds	(4,481,252)	-
Current-year receipts	25,444,000	20,975,000
Conditions met - transferred to revenue	(18,319,357)	(15,136,526)
Other	-	(1,357,222)
	7,124,643	**8,336,412**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Finance Management Grant

Current-year receipts	1,500,000	1,450,000
Conditions met - transferred to revenue	(1,500,000)	(1,450,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Upgrade Billing Emondlo

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Balance unspent at beginning of year	3,166	29,603
Conditions met - transferred to revenue	-	(26,437)
	3,166	**3,166**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Performance Management Systems

Balance unspent at beginning of year	29,045	29,045

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Housing Grant

Balance unspent at beginning of year	225,383	225,383

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

COGTA Grant: Thusong Centre

Balance unspent at beginning of year	5,867,700	5,867,700
Conditions met - transferred to revenue	(81,270)	-
	5,786,430	**5,867,700**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Emergency Repair Grant (COGTA)

Balance unspent at beginning of year	3,600,000	3,600,000
Current-year receipts	6,190,000	-
Conditions met - transferred to revenue	(5,239,717)	-
	4,550,283	**3,600,000**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Tourism Operation Grant ZDM

Current-year receipts	100,000	100,000
Conditions met - transferred to revenue	(100,000)	(100,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Library Grants

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Current-year receipts	1,430,800	1,361,408
Conditions met - transferred to revenue	(1,430,800)	(1,361,408)
Library expenditure funded internally	(479,098)	-
Internal Funding	479,098	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Museum Grant

Current-year receipts	134,000	125,000
Conditions met - transferred to revenue	(134,000)	(125,000)
Museum expenditure funded internally	(90,311)	-
Internal Funding	90,311	-
	-	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Small Town Rehabilitation Grant

Current-year receipts	11,400,000	-
Conditions met - transferred to revenue	(836,208)	-
	10,563,792	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Expanded Public Works Programme Grant

Current-year receipts	1,000,000	-
Conditions met - transferred to revenue	(851,407)	-
	148,593	**-**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Municipal Assistance Programme Grant (MAP)

Balance unspent at beginning of year	504,098	504,098
Conditions met - transferred to revenue	(77,245)	-
	426,853	**504,098**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Forfeited Grants

Electrification	542,520	-

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Government grants and subsidies (continued)

Municipal Infrastructure Grant	1,923,480	-
	2,466,000	**-**

Unspent Grant Forfieted for 2010/2011 amounted to R4 932 000 and R2466 000 was withheld against the current year and the balance of R2 466 000 will be withheld agaist 2013 2014 Equitable Shar

23. Other income

Burial fees	156,299	162,426
Encroachment fees	27,340	24,854
Entrance fees	14,145	8,167
Swimming pool gate fees	6,921	11,237
Klipfontein gate fees	61,970	61,660
Advert/Signs fees	7,231	7,905
IEC Election income	500	(1,000)
Lost book charges	4,186	5,410
Membership fees	7,286	9,205
Monument erection	21,639	35,290
Park fees	26,839	17,165
Photostat copies	29,702	31,532
Plan fees	80,598	61,907
Print fees	124	222
Rates clearances	55,031	48,169
Rezoning	22,070	8,095
Sale of premix	-	8,772
SETA	516,288	511,358
Special consent	28,904	60,028
Vehicle entrance	14,450	-
Sundry income	19,527	40,928
Sundry	351,818	6,061
Tender deposits	145,636	54,422
Bad debts recovered	-	36,315
Building permits	88	2,781
Business licence	454	2,645
Donation income	1,754	49,123
Valuation certificate	437	112
	1,601,237	**1,264,789**

Notes to the Financial Statements

Figures in Rand	2013	2012

24. General expenses

Advertising	293,397	567,882
Allowance & contributions pensioners	1,312,439	1,142,583
Auditors remuneration	1,283,004	1,560,639
Bank charges	1,134,804	1,024,623
Cleaning	232,180	165,161
Commission paid	500,915	384,499
Computer expenses	529,830	-
Legal expenses	531,980	4,733,667
Debt collection	7,258	120,351
Delivery expenses	-	90,950
Discount allowed	28,134	2,908
Donations	-	41,990
Entertainment	174,594	102,606
Electricity & Water services	1,050,998	5,417,771
Indigent burials	219,501	250,070
Insurance	954,521	1,033,759
Council community projects	598,544	592,816
Conferences and seminars	44,861	69,440
Bus diesel	84,548	45,688
Minor loose tools	213,137	97,309
Prayer day	45,010	19,618
Levies	936,789	836,661
Magazines, books and periodicals	6,792	50,622
Medical expenses	69,887	13,260
Motor vehicle expenses	8,760	8,400
Radio licences	21,535	6,309
News slot	15,054	88,692
Fuel and oil	3,911,429	3,671,897
Placement fees	3,760	3,880
Postage and courier	838,984	626,815
Printing and stationery	772,917	761,388
Professional fees	60,744	122,501
Pension for retrenched people	384,133	501,278
Public participation	20,750	589,411
Sports and comm services functions	1,164,595	948,727
Wellness program	20,270	11,479
Membership fees	903,109	535,462
Telephone and fax	1,391,369	1,219,805
Training	406,245	182,267
Travel and subsistence	1,595,830	1,694,221
Refuse	3,759	4,350
Title deed search fees	41,471	16,603
Uniforms	28,065	8,205
Tourism development	1,480	230
Inventory write off	68,155	-
First aid suppliers	-	219
Corporate gifts	-	2,850
Equipment less than R1000	3,670	1,530
Planning shared services	-	151,877
User group expenses	32,325	34,297
Ward committee members allowance	2,158,300	1,346,070
Valuation roll costs	1,232,448	264,957
Chemicals	1,096,878	1,103,924
Budget roadshows	445,647	-
Other expenses	657,895	502,856
	27,542,700	**32,775,373**

Notes to the Financial Statements

Figures in Rand	2013	2012

25. Employee related costs

Employee related costs- Salaries and Wages	53,496,153	49,141,744
Performance and other bonuses	4,315,425	2,466,107
Employee related costs-Contributons for UIF, Pensions and Medical aids	16,241,617	13,178,610
Leave pay provision charge	3,743,389	1,400,000
Travel, motor car, accommodation, subsistence and other allowances	6,425,100	6,026,322
Overtime payments	10,403,081	9,825,122
Long-service awards	27,804	25,793
Housing benefits and allowances	341,546	433,718
Other employee related costs	1,944,307	1,705,047
	96,938,422	**84,202,463**

Remuneration of municipal manager

Annual Remuneration	710,000	690,833
Travel, Motor Car and Other Allowances	17,500	186,092
Other	80,011	-
	807,511	**876,925**

Subsistence and travelling is carried under general expenses.

Remuneration of chief finance officer

Annual Remuneration	1,135,695	513,242
Travel, Motor Car and Other Allowances	18,000	132,805
	1,153,695	**646,047**

Subsistence and travelling is carried under general expenses

Remuneration director technical

Annual Remuneration	419,915	557,764
Travel, Motor Car and Other Allowances	81,744	176,537
	501,659	**734,301**

Subsistence and travelling is carried under general expensest

Remuneration director corporate

Annual Remuneration	654,271	577,273
Travel, Motor Car and Other Allowances	114,000	104,500
	768,271	**681,773**

Subsistence and travelling is carried under general expenses

Remuneration director community

Annual Remuneration	416,757	425,879
Travel, Motor Car and Other Allowances	100,758	154,000
	517,515	**579,879**

Subsistence and travelling is carried under general expenses

Notes to the Financial Statements

Figures in Rand	2013	2012

25. Employee related costs (continued)

Remuneration director planning & development

Annual Remuneration	528,528	521,324
Travel, Motor Car and Other Allowances	86,278	126,500
	614,806	**647,824**

Subsistence and travelling is carried under general expenses

Total employees related costs reconcilliation

Employee related costs excluding directors and municipal manager	96,938,422	84,202,463
Remuneration of municipal manager (disclosed separately)	807,511	876,925
Remuneration of chief finance officer (disclosed separately)	1,153,695	646,047
Remuneration director technical (disclosed separately)	501,659	734,301
Remuneration director corporate (disclosed separately)	768,271	681,773
Remuneration director community (disclosed separately)	517,515	579,879
Remuneration director planning & development (disclosed separately)	614,806	647,824
Amount disclosed in the Statement of Financial Performance	(101,301,879)	(88,369,212)
	-	**-**

26. Remuneration of councillors

Mayor	651,302	628,700
Deputy Mayor	533,872	500,361
Executive Committee Members	3,495,758	2,806,512
Speaker	525,778	507,346
Councillors	6,443,570	6,134,797
Councillors travel allowance	47,651	282,426
Councillors cell allowance	395,516	404,227
	12,093,447	**11,264,369**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle for official duties.

The Mayor, deputy mayor and the speaker each has a full-time bodyguard and a driver .

27. Operating leases

Rental of equipment & vehicles	8,291,879	5,159,388
Other	536,670	-
	8,828,549	**5,159,388**

28. Investment revenue

Interest revenue

Investments	3,970,429	3,522,342
	-	-
	3,970,429	3,522,342

Notes to the Financial Statements

Figures in Rand	2013	2012

29. Depreciation and amortisation

Property, plant and equipment	71,759,677	69,784,544

30. Impairment of assets

Impairments		
Property, plant and equipment	95,926	-
	95,926	-
	-	-

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

The main classes of assets affected by impairment losses are:

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

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

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

31. Finance costs

Interest on external loan	2,324,835	126,280

32. Auditors' remuneration

Fees	1,283,004	1,560,639

33. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	152,393	149,801
Rental of equipment	-	6,903
Rental income	647,494	494,480
	799,887	**651,184**
Premises	-	-
Garages and parking	-	-
Facilities and equipment	799,887	651,184

34. Grants and subsidies paid

Grants Expenditure	19,018,915	27,739,445
Grant Aid	56,341	51,859
SPCA Grant	80,000	80,000
	19,155,256	**27,871,304**
Grants paid to ME's	-	-
Other subsidies	19,155,256	27,871,304

35. Bulk purchases

Electricity	112,199,872	101,328,354

Notes to the Financial Statements

Figures in Rand	2013	2012

36. Cash generated from operations

Deficit	(51,130,355)	(64,208,054)
Adjustments for:		
Depreciation and amortisation	71,759,677	69,784,544
Loss (Profit) on sale of assets and liabilities	(382,160)	(956,407)
Impairment	95,926	-
Debt impairment	7,350,562	5,648,638
Movements in retirement benefit assets and liabilities	6,585,653	7,910,613
Movements in provisions	2,705,348	-
Prior year adjustments on debtors	(9,169,735)	(2,207,413)
Impairment on intangibles	257,986	-
Changes in working capital:		
Inventories	(361,081)	(542,628)
Other receivables from non-exchange transactions	(3,020,599)	(11,349,866)
Consumer debtors	(2,888,911)	3,910,313
Payables from exchange transactions	(35,586)	7,571,973
VAT	(954,728)	100,515
Unspent conditional grants and receipts	16,777,936	9,790,073
Consumer deposits	908,751	478,882
	38,498,684	**25,931,183**

37. Distribution losses

The actual loss in distribution water cannot be determined in view of the fact that eMondlos consumers are not billed. The difference between water purified and sold can therefor not be regarded as lost in distribution, seeing that a large percentage of it is not metered.

Electricity		
Number of consumers (Residential & Commercial)	19,278	18,795
Units purchased. (kwh)	160,162,224	160,576,566
Units sold (Total)	120,376,791	124,324,124
Units lost in Distribution	39,785,433	36,252,442
% Lost in distribution	24,84%	22,58%
Total Costs (Expenses)	144,146,001	141,105,635
Cost per unit purchased.	R0.90	R0,88
TOTAL COST LOST THROUGH DISTRIBUTION	35,806,889	31,902,148

Water		
Number of consumers	10,149	10,127
Kilolitres purified	8,048,920	9,762,100
Kilolitres sold (Total)	3,638,718	3,166,233
Kilolitres lost in distribution	4,410,202	6,595,867
% Lost in distribution	54.79%	67,57%
Total Cost (Expense)	28,654,155	22,851,660
Cost per kilolitre purified	R3.56	R2,34
TOTAL COST LOST THROUGH DISTRIBUTION	15,700,319	15,434,328

Notes to the Financial Statements

Figures in Rand	2013	2012

38. Commitments

Authorised capital expenditure

Approved and contracted for		
• Infrastructure	30,653,665	29,945,964
Approved but not yet contracted for		
• Property, plant and equipment	31,000,000	6,417,163
• Other financial assets	5,786,430	5,867,700
	36,786,430	**12,284,863**

This expenditure will be financed from Government Grants.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	5,649,277	3,937,881
- in second to fifth year inclusive	8,241,148	59,323
	13,890,425	**3,997,204**

Notes to the Financial Statements

Figures in Rand	2013	2012

39. Contingencies

Contingent liabilities

M I Sangweni-Eviction and rental collection. 01A000910	-	122,770

In this matter Mr Sangweni entered into a rental agreement with Abaqulusi Municipality for a portion of land and we received instructions to cancel the agreement and to evict Mr Sangweni from the property. The arrears rental in terms of the agreement was approximately R 122 770.00 and our litigation department is currently attending the collection of the arrear rental in terms of the agreement.

Nyathi Village 01A005506	-	500,000
Lakeside-Evictions 01A001609	-	30,000

Approximately 1078 RDP houses were built at Lakeside and most of the properties were invaded by illegal occupants which

refuse to vacate the properties.Instructions were received to proceed with applications for the eviction of the illegal occupants but the court requires Abaqulusi Municipalityto show alternative accommodation for the illegal occupants to be evicted to.

Quantum Leap 01A001609	5,337	50,000

Attorneys Botha & Olivier are on record, assisted by Cox & partners. Our present instructions are not to proceed with litigation.

Aon 01A003610	-	3,500

Aon disputed tghe awarding of tender regarding short term insurance to an alternative company by Abaqulusi Municipality

Fire damages (Edcom) 01A0021009	-	5,957,101

Summons were issued against Abaqulusi Municipality as a result of damages caused as a result of fireat Jet Stores

Claveshay 01A005506	-	2,200,000

In this matter Abaqulusi Municipality is the defendant. Our present instruction are not to proceed with the litigation

Metgovis (Pty) Ltd 06A003912	-	100,000

Claim for payment interms of tender to update valuation roll

Legal counsel believe the claim should be dismissed with cost and part of legal cost paid thus far should be recovered

Martin & Marthinius Pretotious 01A001013	400,000	400,000
African Oxygen LTD t/a Afrox 01A001012 837/2011-Magistrate Court Vryheid	8,000	8,000

Dispute on value of invoice

Certainty unknown

Notes to the Financial Statements

Figures in Rand	2013	2012

39. Contingencies (continued)

VAT Assessment Tender -Regulation 49 & 50 enquiry 01A001017	-	12,000
Housing Project Gluckstadt Regulation 49 & 50 enquiry 01A001018	-	11,000
G M Ngobese-Eviction- 01A001015 145/06-Magistrate Court Nquthu	-	30,000
Isithwalandwe Projects CC 01A001019	700,000	700,000
Dispute on an unpaid invoice		
Certainty unknown		
Kwazulu Infra 01A001024	2,000,000	-
Claim for consulting fees on Emondlo Roads & Stormwater Project		
Certainty unknown		
Case of 51 Employees 01A0011021	50,000	-
Review of legallity of employment of 51 General Workers		
Hlongwane Sphiwe/Zwane Linda 01A001025	2,000	-
Eviction case of Mr Hlongwane Siphiwe//Zwane Linda and Abaqulusi Municipality		
Certainty unknown		
Mr S E Mkhwanazi-court interdict 01A001026	10,000	-
Case of Mr S. E. Mkhwanazi court interdict on eviction case		
Certainty unknown		
IFP 01A0011029	100,000	-
Dispute against MEC for COGTA on the appointment of the Municipal Manager		
Mrs Martha Laas 01A001030	200,000	-
Riaz Ally/Umnotho Wezibi Recycling 01A001031	10,000	-
Review of Memorandum of Agreement		
Certainty known		
Johannes C van der Colff 01A001032	50,000	-

Notes to the Financial Statements

Figures in Rand	2013	2012

39. Contingencies (continued)

Dolphin Coast Waste & Aqua Transport and Plant hire 01A001033	9,087	-

Review of service level agreement between Abaqulusi Municipality and Dolphin Coast Waste & Aqua Transport & Plant Hire

Certainty known

Linda Zwane 01A001034	10,000	-

Case of Abaqulusi Municipality//Linda Zwane: Eviction

Certainty Unknown

Edcon Limited	200,000	-
FJ Bender 09A002010	-	-

Claim against Abaqulusi Municipality at SALGBC is not specified

FJ Bender 09A002910	70,000	-

Claim against Abaqulusi Municipality for the sum of R70 000 plus interest and costs.

MP Mdletshe 04A000406	31,373	-

Magistrate's Court action against Abaqulusi Municipality for payment of R31 373 plus interest and costs.

Gracelands Investments 04A006108	27,720	-

Magistrate Court claim against Abaqulusi Municipality for payment of R27 720

J D Hofman 06A003607	40,000	-

Claim for an amount of R95 301 for damages to maize crop as a result Abaqulusi Municipality not reconnecting power supply soon enough

The plaintiff has problems with the merits of his claim. The matter will have to go to trial for 2 days and expert withnesses on maize will have to testify inorder to defend the matter properly.

Contingencies arising from pending litigation on wage curve agreement

On 21 April 2010 SALGA signed the “Categorisation and job evaluation wage curves collective agreement” (wage curve agreement) with IMATU and SAMWU on behalf of municipalities. The agreement established the wage curves and wage scales to be used by municipalities in determining the wages of municipal employees, based on an evaluation of employees’ jobs per the TASK job evaluation system.

Subsequent to the signing of the agreement, the unions declared a dispute with the agreement. The dispute was referred to the Labour Court and the court delivered a ruling on 22 June 2012 that employees receive a salary increase backdated with effect from 1 July 2010 instead of 1 July 2011. SALGA, on behalf of municipalities, applied for leave to appeal this ruling and was granted the right to appeal against the judgement on 29 August 2012. To date this Labour Court of Appeal case has not been finalised.

Figures in Rand	2013	2012

39. Contingencies (continued)

Employees' job evaluations have not been done and the municipality did not pay employees the 8.48% when the Labour Court handed down its ruling.

As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional receivable/ payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this receivable/ payable prior to the outcome of the pending litigation.

Total Contingent Liabilities	3,923,517	10,124,371

40. Risk management

Liquidity risk

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

Cash flow forecasts are prepared and adequate, utilised borrowing facilities are monitored.

Interest rate risk

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

At June 30, 2013, financial instruments exposed to interest rate risk were call and notice deposits.

Credit risk

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

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

41. Going concern

The 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.

42. Unauthorised expenditure

Opening balance	19,173,112	-
Current year expenditure	-	19,173,112
Approved by council in current year	(19,173,112)	-
	-	**19,173,112**

There was no anauthorised in the current financial year.

Council approved the prior year unauthorised expenditure.

Notes to the Financial Statements

Figures in Rand	2013	2012

43. Fruitless and wasteful expenditure

Opening balance	618,087	497,098
M Z Mkhwanazi-Acting Allowance 01/07/2011-30/04/2012	-	4,173
S S Mdlalose-Acting Allowance 01/07/2011-30/04/2012	-	4,691
M S Mdluli-Acting Allowance 01/07/2011-30/04/2012	-	50,985
J P Hadebe-Acting Allowance 01/07/2011-30/04/2012	-	4,691
E S Madi-Acting Allowance 01/07/2011-30/04/2012	-	4,691
M P Mdlalose-Acting Allowance 01/07/2011-30/04/2012	-	18,946
R Mtshali-Acting Allowance 01/07/2011-30/04/2012	-	4,691
B Nkosi-Acting Allowance 01/07/2011-30/04/2012	-	4,691
T Sithole-Acting Allowance 01/07/2011-30/04/2012	-	23,430
Eskom interest	9,314	-
Approved by Council	(618,087)	-
	9,314	**618,087**

Incident acting allowances were paid in excess of 6 months in the prior year.

The total fruitless and wasteful expenditure was approved by council during the current financial year after a detail investigation was performed on the irregularity of the expenditures.

44. Irregular expenditure

Opening balance	24,220,359	4,067,487
Add: Irregular Expenditure - current year	2,864,722	20,152,872
Approved by Council	(26,233,997)	-
	851,084	**24,220,359**

Analysis of expenditure awaiting condonation per age classification

Current year	851,084	-

45. Deviation from supply chain management regulations

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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Supply Chain Management Deviations more than R200 000		
Electrification	-	364,947
Installation of the Time and Attendance	445,864	-
Supply and delivery of Mayoral Cup items	271,833	-
Supply and delivery of chemicals	208,164	-
Refuse Removal	1,680,000	-
	2,605,861	**364,947**

Supply Chain Management Deviations less than R200 000		
Various deviations less than R200 000	3,607,626	169,696

Notes to the Financial Statements

Figures in Rand	2013	2012

46. Related party disclosure

During the year tenders were awarded to companies with spouses of the companies directors in the service of the state. The details of the spouses are as follows:

Thandazile P Mayise	18,751,584	-
Wife to member of Dolphin Coast is an administration assistant at Ilembe Municipality		
Winile Mntungwa	34,505	-
Wife to member of Sengikhona Solutions CC, works at Ethekwini Municipality		

47. Contracted Services

Internal Audit	-	385
Meter Reading	2,131,629	2,067,197
Computer Services	1,743,025	1,323,148
Other Financial Services	362,361	703,874
Parks	5,551,695	5,479,047
Security	10,049,151	6,023,834
Refuse Removal	5,755,173	5,961,846
Steiner	81,837	515,038
Digging of graves	59,610	77,800
Engineer	187,277	304,915
Water Purification	499,921	249,602
Contract Payments Technical Services	-	67,393
Contract payments Community Services	-	53,218
Contract Payments Planning	-	59,515
Nurses Working with Traffic	37,389	-
Mikros Traffic	60,432	-
Brandfin Trade CC	124,838	-
Total Client Services	56,100	-
Commissio on vendor sales	3,000	-
	26,703,438	**22,886,812**

48. Additional Note in terms of Municipal Finance Management Act

40.1 Contributions to organised local government

	-	-
Council subscriptions	891,328	525,360
Amount paid-current year	(891,328)	(525,360)

40.2 PAYEand UIF

Current year payroll deductions	14,510,948	13,987,613
Amount paid-current year	(14,510,948)	(13,987,613)
	-	-

40.3 Pension and medical aid deduction

Current year payroll deductions and council contributions	23,144,332	19,634,452
Amount paid-current year	(23,144,332)	(19,634,452)
	-	-

40.4 Councillor's arrear consumer accounts

M Mdlalose	-	3,985
M S Ntshangase	-	329
M Mdlalose	2,691	-
M Hadede	5,449	-
	8,140	**4,314**

Notes to the Financial Statements

Figures in Rand	2013	2012

48. Additional Note in terms of Municipal Finance Management Act (continued)

40.5 Non Compliance with MFMA in terms of Section 125(2)(e)

None

49. Provision for doubtful debts

For receivables from exchange transactions	4,714,397	5,648,638
For receivables from non-exchange transactions	2,636,164	-
	7,350,561	**5,648,638**

50. Interest earned - outstanding debtors

Current year	8,747	17,477