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Nongoma Local Municipality
Financial statements
for the year ended 30 June 2013

General Information

Executive committee	Honourable Mayor Cllr JB Mavundla
	Honourable Deputy Mayor Cllr TB Nyoka
	Honourable Speaker Cllr NA Mchunu
	Cllr NZ Ntshangase
	Cllr SC Mataba
	Cllr P Zulu
	Cllr ME Ndwandwe
	Cllr SM Zulu
	Cllr WS Zungu
Councillors	Cllr NG Xaba
	Cllr BJ Ntshangase
	Cllr M Zungu
	Cllr EM Masango
	Cllr NC Ntshangase
	Cllr TJ Khumalo
	Cllr DV Gabuza
	Cllr TM Dludla
	Cllr NS Manqele
	Cllr VM Zulu
	Cllr NF Zulu
	Cllr ZI Mtshali
	Cllr MA Gumbi
	Cllr QM Dlamini
	Cllr SB Gumbi
	Cllr GB Nyembe
	Cllr NM Mthembu
	Cllr MS Majola
	Cllr BW Zulu
	Cllr BD Ngubo
	Cllr S Khanyi
	Cllr DL Khoza
	Cllr PD Ndlovu
	Cllr V Zulu
	Cllr MN Sokhela
	Cllr HS Ngwenya
	Cllr DV Gabazu
	Cllr Z Mthethwa
	Cllr RF Myeza
	Cllr SJ Zulu
	Cllr DT Mpanza
	Cllr M Gcina
	Cllr JM Nthangase
	Cllr BD Ngubo
	Cllr NF Zungu
Grading of local authority	3
Chief Finance Officer (CFO)	Mr MPE Mthembu
Accounting Officer	Mr BE Ntanzi

General Information

Registered office	PO Box 84 Nongoma 3950
Business address	103 Main Road Nongoma 3950
Auditors	Auditor General
Attorneys	M Magigaba Incorporated Attorneys

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

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

The financial statements set out on pages 5 to 56, which have been prepared on the going concern basis, were approved by the Accounting Officer on 30 August 2013 and were signed on its behalf of the municipality

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors,if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Mr BE Ntanzi
Accounting Officer

Statement of Financial Position as at 30 June 2013

Figures in Rand		Note(s)	2013	2012
Assets				
Current Assets				
Receivables from exchange transactions	31.20	6	10 358 594	8 734 424
Receivables from non-exchange transactions	33.20	7	(136 461)	(158 025)
VAT receivable	31.20	8	2 166 773	1 458 199
Cash and cash equivalents	32.20	10	785 265	887 582
			13 174 171	**10 922 180**
Non-Current Assets				
Property, plant and equipment	20.20	3	207 149 322	152 325 532
Intangible assets	23.22	4	397 616	572 696
			207 546 938	**152 898 228**
Total Assets			**220 721 109**	**163 820 408**
Liabilities				
Current Liabilities				
Finance lease obligation	25.29	11	12 124	19 645
Payables from exchange transactions	51.20	15	23 177 761	25 049 980
Unspent conditional grants and receipts	43.20	12	1 079 995	20 150
Instalment sale agreement	43.27	14	260 237	240 249
Bank overdraft	32.20	10	-	6 135 995
			24 530 117	**31 466 019**
Non-Current Liabilities				
Finance lease obligation	25.29	11	-	12 124
Operating lease liability	25.29		13 137	133 600
Provisions	52.20	13	4 469 049	3 943 799
Instalment sale obligation	43.27	14	660 954	900 543
			5 143 140	**4 990 066**
Total Liabilities			**29 673 257**	**36 456 085**
Net Assets			**191 047 852**	**127 364 323**
Net Assets				
Accumulated surplus	40.24		191 047 852	127 364 323

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Service charges	18	1 567 763	1 469 540
Rental of facilities and equipment		148 580	139 084
Interest received (trading)		1 753 597	1 618 874
Licences and permits		646 714	723 273
Other income		559 018	313 196
Property rates	17	7 645 715	5 758 045
Government grants & subsidies	19	147 180 156	119 025 070
Fines		71 908	95 701
Total revenue		**159 573 451**	**129 142 783**
Expenditure			
Personnel	22	(42 514 587)	(29 887 750)
Remuneration of councillors	23	(8 329 066)	(8 854 895)
Depreciation and amortisation	26	(9 951 504)	(9 787 616)
Finance costs	27	(380 607)	(415 158)
Debt impairment	24	(887 120)	(1 508 066)
Collection costs		(1 213 063)	(2 046 212)
Repairs and maintenance		(2 548 354)	(2 841 575)
Contracted services		(5 100 914)	(3 681 809)
Grants and subsidies paid		(66 620)	(31 315)
General Expenses	21	(24 493 547)	(24 737 845)
Total expenditure		**(95 485 382)**	**(83 792 241)**
Operating surplus		**64 088 069**	**45 350 542**
Loss on disposal of assets and liabilities		(382 293)	-
Fair value adjustments	25	-	171 798
		(382 293)	**171 798**
Surplus for the year		**63 705 776**	**45 522 340**
Attributable to:			
Owners of the controlling entity		63 705 776	45 522 340

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	73 890 227	73 890 227
Adjustments		
Correction of errors	8 113 537	8 113 537
Prior year adjustments on Accumulated Surplus account	(162 257)	(162 257)
Balance at 01 July 2011 as restated	**81 841 507**	**81 841 507**
Changes in net assets		
Surplus for the year	45 522 340	45 522 340
Total changes	45 522 340	45 522 340
Balance at 01 July 2012	**127 364 323**	**127 364 323**
Changes in net assets		
Prior year adjustments	(22 247)	(22 247)
Surplus for the year	63 705 776	63 705 776
Total changes	63 683 529	63 683 529
Balance at 30 June 2013	**191 047 852**	**191 047 852**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Cash receipts from ratepayers, government and other		152 041 261	121 020 880
Interest income		1 753 597	1 618 874
		153 794 858	122 639 754
Payments			
Cash paid to suppliers and employees		(81 639 925)	(63 580 097)
Finance costs		(380 607)	(415 158)
		(82 020 532)	(63 995 255)
Net cash flows from operating activities	29	**71 774 326**	**58 644 499**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(64 743 621)	(62 921 136)
Proceeds from sale of property, plant and equipment	3	-	190 863
Net cash flows used on investing activities		**(64 743 621)**	**(62 730 273)**
Cash flows from financing activities			
Movement in instalment sale obligation		(219 601)	837 866
Prior Year adjustments & Errors		(757 780)	(2 829 669)
Finance lease movement		(19 645)	31 769
Net cash flows from financing activities		**(997 026)**	**(1 960 034)**
Net increase/(decrease) in cash and cash equivalents		**6 033 679**	**(6 045 808)**
Cash and cash equivalents at the beginning of the year		(5 248 413)	797 395
Cash and cash equivalents at the end of the year	10	**785 266**	**(5 248 413)**

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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	1 567 669	-	**1 567 669**	1 567 763	**94**	
Rental of facilities and equipment	136 455	-	**136 455**	148 580	**12 125**	
Interest received (trading)	1 285 391	-	**1 285 391**	1 753 597	**468 206**	
Licences and permits	824 140	-	**824 140**	646 714	**(177 426)**	
Interest earned - External investments	456 300	-	**456 300**	559 018	**102 718**	
Total revenue from exchange transactions	**4 269 955**	**-**	**4 269 955**	**4 675 672**	**405 717**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	7 934 454	-	**7 934 454**	7 645 715	**(288 739)**	
Government grants & subsidies	150 655 000	-	**150 655 000**	147 180 156	**(3 474 844)**	
Transfer revenue						
Fines	49 900	-	**49 900**	71 908	**22 008**	
Total revenue from non-exchange transactions	**158 639 354**	**-**	**158 639 354**	**154 897 779**	**(3 741 575)**	
Total revenue	**162 909 309**	**-**	**162 909 309**	**159 573 451**	**(3 335 858)**	
Expenditure						
Personnel	(37 195 600)	-	**(37 195 600)**	(42 514 587)	**(5 318 987)**	
Remuneration of councillors	(10 416 237)	-	**(10 416 237)**	(8 329 066)	**2 087 171**	
Depreciation and amortisation	(3 298 983)	-	**(3 298 983)**	(9 951 504)	**(6 652 521)**	
Finance costs	(178 112)	-	**(178 112)**	(380 607)	**(202 495)**	
Debt impairment	(922 705)	-	**(922 705)**	(887 120)	**35 585**	
Collection costs	-	-	**-**	(1 213 063)	**(1 213 063)**	
Repairs and maintenance	(5 247 885)	-	**(5 247 885)**	(2 548 354)	**2 699 531**	
Contracted Services	(4 558 749)	-	**(4 558 749)**	(5 100 914)	**(542 165)**	
Grants and subsidies paid	(93 936)	-	**(93 936)**	(66 620)	**27 316**	
General Expenses	(20 719 963)	-	**(20 719 963)**	(24 493 547)	**(3 773 584)**	
Total expenditure	**(82 632 170)**	**-**	**(82 632 170)**	**(95 485 382)**	**(12 853 212)**	
Operating surplus	**(82 632 170)**	**-**	**(82 632 170)**	**64 088 069**	**146 720 239**	
Loss on disposal of assets and liabilities	-	-	**-**	(382 293)	**(382 293)**	
Other	(605 918)	-	**(605 918)**	-	**605 918**	
	(605 918)	**-**	**(605 918)**	**(382 293)**	**223 625**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Surplus before taxation	**(83 238 088)**	**-**	**(83 238 088)**	**63 705 776**	**146 943 864**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(83 238 088)**	**-**	**(83 238 088)**	**63 705 776**	**146 943 864**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from non-exchange transactions	1 921 034	-	**1 921 034**	(136 461)	**(2 057 495)**	
VAT receivable	1 666 238	-	**1 666 238**	2 166 773	**500 535**	
Consumer debtors	7 011 488	-	**7 011 488**	10 358 594	**3 347 106**	
Cash and cash equivalents	-	-	**-**	785 265	**785 265**	
	10 598 760	**-**	**10 598 760**	**13 174 171**	**2 575 411**	
Non-Current Assets						
Property, plant and equipment	231 687 355	-	**231 687 355**	207 149 322	**(24 538 033)**	
Intangible assets	339 809	-	**339 809**	397 616	**57 807**	
	232 027 164	**-**	**232 027 164**	**207 546 938**	**(24 480 226)**	
Total Assets	**242 625 924**	**-**	**242 625 924**	**220 721 109**	**(21 904 815)**	
Liabilities						
Current Liabilities						
Finance lease obligation	341 160	-	**341 160**	12 124	**(329 036)**	
Payables from exchange transactions	13 923 763	-	**13 923 763**	23 177 760	**9 253 997**	
Unspent conditional grants and receipts	-	-	**-**	1 079 995	**1 079 995**	
Instalment sale agreement	-	-	**-**	260 237	**260 237**	
	14 264 923	**-**	**14 264 923**	**24 530 116**	**10 265 193**	
Non-Current Liabilities						
Operating lease liability	7 592 977	-	**7 592 977**	13 137	**(7 579 840)**	
Provisions	5 541 340	-	**5 541 340**	4 469 049	**(1 072 291)**	
Instalment sale obligation	-	-	**-**	660 954	**660 954**	
	13 134 317	**-**	**13 134 317**	**5 143 140**	**(7 991 177)**	
Total Liabilities	**27 399 240**	**-**	**27 399 240**	**29 673 256**	**2 274 016**	
Net Assets	**215 226 684**	**-**	**215 226 684**	**191 047 853**	**(24 178 831)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	215 226 684	-	**215 226 684**	191 047 853	**(24 178 831)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	11 238 617	-	**11 238 617**	4 075 866	**(7 162 751)**	
Grants- operational	77 787 000	-	**77 787 000**	73 297 150	**(4 489 850)**	
Interest income	456 300	-	**456 300**	1 753 597	**1 297 297**	
Grants - Capital	72 868 000	-	**72 868 000**	74 668 245	**1 800 245**	
	162 349 917	**-**	**162 349 917**	**153 794 858**	**(8 555 059)**	
Payments						
Employee costs	(80 650 406)	-	**(80 650 406)**	(50 843 653)	**29 806 753**	
Suppliers	-	-	**-**	(30 786 278)	**(30 786 278)**	
Finance costs	(178 112)	-	**(178 112)**	(380 607)	**(202 495)**	
	(80 828 518)	**-**	**(80 828 518)**	**(82 010 538)**	**(1 182 020)**	
Net cash flows from operating activities	**81 521 399**	**-**	**81 521 399**	**71 784 320**	**(9 737 079)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(81 818 465)	-	**(81 818 465)**	(64 743 622)	**17 074 843**	
Cash flows from financing activities						
Borrowing and Re-financing	7 050 000	-	**-**	-	**-**	
Repayment	(341 160)	-	**-**	(239 246)	**(239 246)**	
Net cash flows from financing activities	**6 708 840**	**-**	**-**	**(239 246)**	**(239 246)**	
Net increase/(decrease) in cash and cash equivalents	6 411 774	-	**(297 066)**	6 801 452	**7 098 518**	
Cash and cash equivalents at the beginning of the year	(5 249 253)	-	**(5 249 253)**	(5 248 413)	**840**	
Cash and cash equivalents at the end of the year	**1 162 521**	**-**	**(5 546 319)**	**1 553 039**	**7 099 358**	

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 in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts 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:

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

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

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 5.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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.

Going Concern Assumption

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

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired 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.

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:

Accounting Policies

1.2 Property, plant and equipment (continued)

Item	Average useful life
Land and buildings	
• Buildings	25-30 years
Infrastructure	
• Roads	10-50 years
Other property, plant and equipment	
• Machinery and Equipment	4-15 years
• Furniture and office equipment	7-10 years
• Computers	5 years
• Motor vehicles	7 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each year. 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.

1.3 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.

Accounting Policies

1.3 Intangible assets (continued)

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:

Item	Useful life
Computer software, other	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.

1.4 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.

Accounting Policies

1.4 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.

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.

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.

Accounting Policies

1.4 Financial instruments (continued)

Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

Classification

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

Class	Category
Bank and Cash	Financial asset measured at fair value
Trade and other receivables	Financial asset measured at fair value

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

Class	Category
Instalment sale obligation	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at fair value
Bank overdraft	Financial liability measured at fair value

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.

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 measures a financial asset and financial liability initially at its fair value.

Accounting Policies

1.4 Financial instruments (continued)

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.

Reclassification

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

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

Accounting Policies

1.4 Financial instruments (continued)

Presentation

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

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

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

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

1.5 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.6 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.

Accounting Policies

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

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.

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.

Accounting Policies

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

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:

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Restoration cost approach

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

Service units approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.6 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.

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

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

Redesignation

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

1.7 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.

Accounting Policies

1.7 Provisions and contingencies (continued)

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.

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.

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

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.

Accounting Policies

1.7 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy and 1.6.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.8 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.

Accounting Policies

1.8 Revenue from exchange transactions (continued)

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.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest

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.

1.9 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.

Accounting Policies

1.9 Revenue from non-exchange transactions (continued)

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, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Transfers

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

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

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

Accounting Policies

1.9 Revenue from non-exchange transactions (continued)

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

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.

Services in-kind

Services in-kind are not recognised.

1.10 Comparative figures

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

1.11 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.

1.12 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.

1.13 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA 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 and the Municipal Systems Act and has not been condoned by the said Acts; or
(b) the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(c) the requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law.

Accounting Policies

1.13 Irregular expenditure (continued)

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.

1.14 Presentation of currency

These financial statements are presented in South African Rand.

1.15 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.

1.16 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 cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

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.

1.17 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:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 23: Revenue from Non-exchange Transactions	01 April 2012
• GRAP 24: Presentation of Budget Information in the Financial Statements	01 April 2012
• GRAP 103: Heritage Assets	01 April 2012
• GRAP 21: Impairment of non-cash-generating assets	01 April 2012
• GRAP 26: Impairment of cash-generating assets	01 April 2012
• GRAP 104: Financial Instruments	01 April 2012

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 01 July 2013 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after
• GRAP 18: Segment Reporting	01 April 2013
• GRAP 25: Employee benefits	01 April 2013
• GRAP 105: Transfers of functions between entities under common control	01 April 2014
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014
• GRAP 107: Mergers	01 April 2014
• GRAP 20: Related parties	01 April 2013
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013
• GRAP 12 (as revised 2012): Inventories	01 April 2013
• GRAP 13 (as revised 2012): Leases	01 April 2013
• GRAP 16 (as revised 2012): Investment Property	01 April 2013
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013
• IGRAP16: Intangible assets website costs	01 April 2013
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment

	2013			2012		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land and Buildings	82 275 348	(16 254 114)	66 021 234	69 841 652	(12 819 040)	57 022 612
Infrastructure	50 112 816	(6 945 417)	43 167 399	27 845 235	(1 670 475)	26 174 760
Other property, plant and equipment	10 480 338	(4 512 682)	5 967 656	10 052 192	(3 697 757)	6 354 435
Leased Assets	39 584	(14 426)	25 158	39 584	(1 829)	37 755
Assets Under Construction	91 967 875	-	91 967 875	62 735 970	-	62 735 970
Total	**234 875 961**	**(27 726 639)**	**207 149 322**	**170 514 633**	**(18 189 101)**	**152 325 532**

Reconciliation of property, plant and equipment - 2013

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land and Buildings	57 022 612	133 439	-	12 300 257	(2 587 146)	(847 928)	66 021 234
Infrastructure	26 174 760	-	-	22 267 581	(1 503 590)	(3 771 352)	43 167 399
Other property, plant and equipment	6 354 435	810 439	(143 408)	-	(1 216 357)	162 547	5 967 656
Leased Assets	37 755	-	-	-	(12 597)	-	25 158
Assets Under Construction	62 735 970	63 799 743	-	(34 567 838)	-	-	91 967 875
	152 325 532	**64 743 621**	**(143 408)**	**-**	**(5 319 690)**	**(4 456 733)**	**207 149 322**

Notes to the Financial Statements

Figures in Rand

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Correction of error - Pre 2011	Transfers	Depreciation	Impairment loss	Total
Land and Buildings	50 462 566	-	-	9 595 424	2 309 274	(2 105 175)	(3 239 477)	57 022 612
Infrastructure	26 032 043	169 000	-	175 603	529 924	(705 247)	(26 563)	26 174 760
Other property, plant and equipment	5 745 723	2 800 242	(190 863)	(754 225)	-	(1 078 734)	(167 708)	6 354 435
Leased Assets	-	39 584	-	-	-	(1 829)	-	37 755
Assets Under Construction	5 662 858	59 912 310	-	-	(2 839 198)	-	-	62 735 970
	87 903 190	**62 921 136**	**(190 863)**	**9 016 802**	**-**	**(3 890 985)**	**(3 433 748)**	**152 325 532**

Figures in Rand	2013	2012

3. Property, plant and equipment (continued)

Pledged as security

Carrying value of assets pledged as security:

Other Property Plant and Equipment - Motor Vehicle	-	1 054 295

The Installment Sale Agreements is with Absa Bank for the purchase of a motor vehicle at an interest rate of 8.5%. The loan is repayable over 60 months.

4. Intangible assets

	2013			2012		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	891 601	(493 985)	397 616	891 601	(318 905)	572 696

Reconciliation of intangible assets - 2013

	Opening balance	**Amortisation**	**Total**
Computer software, other	572 696	(175 080)	397 616

Reconciliation of intangible assets - 2012

	Opening balance	**Prior period adjustments**	**Amortisation**	**Total**
Computer software, other	875 155	(126 900)	(175 559)	572 696

5. Employee benefit obligations

Defined benefit plan

The Municipality's personnel are members of Natal Joint Municipal Pension retirement funds, including the Superannuation, Retirement and Provident Funds. As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore disclosure of further details such as actuarial assumptions, cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained the funds are all treated as defined contribution plans. An independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and an interim valuation on an annual basis. The 2012 interim valuations have not yet been released.

Retirement Fund

The valuation carried out on the Retirement Fund as at 31 March 2012 reflected:

- The memorandum account in respect of pensioners was fully funded on the discounted cash flow method.

- The market value of the Fund's assets was R 1 293 475 000 at the valuation date. The assets taken into account for purposes of the valuation amounted to R1 288 291 000

In line with the trend of the Super Fund, and for exactly the same reasons, membership of the Retirement Fund continues to fall. This year it is down by 7.0% over last year; down from 4008 to 3726.

The total number of pensioners and dependants increased by 1.29% to 3916

The asset value of the Fund increased from R1.84 billion to R2.06 billion, an increase of 13%.

The valuation performed on the Discounted Cash Flow basis, which is based on "best estimate" assumptions of the likely future experience of the Fund disclosed that in respect of the liabilities for service to the valuation date the overall Fund was 84.1% funded.

The Fund's financial position has deteriorated from the previous statutory valuation.

This is mainly due to the change in the valuation assumptions, which are:

It was found that the pensioner mortality assumption no longer reflects the actual mortality experience of the pensioners and that pensioner longevity is increasing. Thus it was necessary to strengthen the pensioner mortality assumptions.

- Salary increases continue to be almost double the rate expected at the previous statutory valuation
- The allowance for future pension increases was strengthened to better reflect the Fund's pension increase policy

As a result of the revised assumptions it is necessary for the basic employer contribution to be increased from 13,65% to 18,37% (13,65% plus 4,72%) in order to cover the cost of the future service benefits.

In order to fund the deficit, the surcharge (which is payable in addition to the increased basic contribution) should be increased from 17% to 17,5% from 1 July 2012 and the period of payment of the surcharge be extended from 5 to 8 years.

The total rate of contribution required from the employer, including the surcharge, is thus 34,22% (18,37% plus 17,5% less 1,65 payable by members) of pensionable salaries payable for a period of 8 years.

Figures in Rand	2013	2012

5. Employee benefit obligations (continued)

This would be the case if the Retirement Fund continued in its present form. As mentioned above for the Superannuation Fund, the merger is being implemented. Allowing for the additional benefits to remove historical discrimination when the Superannuation Fund and the Retirement Fund merge, the total rate of contribution required from the employers in the Retirement Fund is 35% from 1st July 2012 and 45% from 1st July 2013 for a period of 7 years..

Superannuation Plan

Membership decreased by 2.6% from 5620 to 5475. The main reason being that employing Municipalities, as a result of SALGA's requests, continue to admit new employees, almost exclusively, to the Provident Fund. The number of pensioners and dependants, quite naturally, continues to increase albeit very slightly this year. The number of Pensioners and dependant beneficiaries (including children) increased to 3752, an increase of 3.39%.

The assets of the fund have increased from R5.1billion to R5.6billion, an increase of 11%.

The valuation performed on the Discounted Cash Flow method, which is based on"best estimate" assumptions of the likely future experience of the Fund disclosed that in respect of the liabilities for service to the valuation date the overall Fund was 90.9% funded.

The Fund's financial position has deteriorated from the previous statutory valuation. This is mainly due to three main factors:

- Investment earnings were 8,1% per annum on the actuarial value of assets which is less than the expected 10% per annum required in the valuation assumptions;

- Salary increases averaged 13,0% per annum over the valuation period which is double the 6,5% per annum expected in the valuation assumptions;

- The change in the valuation assumptions to reflect the actual experience of the Fund.

The high salary increases, in particular, are problematic as this not only increases the deficit in respect of accrued service benefits, and therefore results in an increase in the surcharge required to fund the increased accrued service deficit but also necessitates an increase in the required contribution for future service benefits.

Thus it is necessary for the employer's basic contribution to be increased from 18,00% to 21,63% (18,00% plus 3,63%) in order to cover the cost of the future service benefits; and the total rate of contribution required from the employer, including the surcharge, is thus 31,13% (21,63% plus the surcharge of 9,5%) of pensionable salaries payable for a period of 8 years. This would be the case if the Superannuation Fund continued in its present form. However, the merger is being implemented. allowing for the additional benefits to remove historical discrimination when the Superannuation Fund and the Retirement Fund merge, the total rate of contribution required from the employers in the Superannuation Fund is 35% from 1st July 2012 and 45% from 1st July 2013 for a period of 7 years.

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Long Term Service Awards Benefits

The municipality has a policy that entitles employees to the long service award. Valuation of this provision was performed by an Actuary.

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

Carrying value		
Projected Benefit Obligation	1 957 537	1 528 596

The fair value of plan assets includes:

Notes to the Financial Statements

Figures in Rand	2013	2012

5. Employee benefit obligations (continued)

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

Opening balance	1 528 596	1 301 665
Benefits paid	(91 023)	(105 606)
Net expense recognised in the statement of financial performance	450 189	332 537
	1 887 762	**1 528 596**

Net expense recognised in the statement of financial performance

Service cost	211 886	148 682
Interest cost	115 236	106 153
Actuarial (gains) losses	123 067	77 702
	450 189	**332 537**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.75 %	7.77 %
Expected increase in salaries	6.75 %	5.77 %

The above discount rate is based on market yields on government bonds as at the end of June 2012 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation.

6. Receivables from exchange transactions

Gross amount	16 647 115	14 135 888
Provision for doubtful Debtors	(6 288 521)	(5 401 464)
	10 358 594	**8 734 424**

Reconciliation of provision for impairment of trade receivables

Opening balance	5 401 462	3 893 397
Provision for impairment	887 057	1 508 065
	6 288 519	**5 401 462**

7. Receivables from non-exchange transactions

Sundry Debtors	112 183	99 998
Unallocated Receipts	(248 644)	(258 023)
	(136 461)	**(158 025)**

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	200 000	200 000

8. VAT receivable

VAT	2 166 773	1 458 199

Notes to the Financial Statements

Figures in Rand	2013	2012

9. Consumer debtors

Gross balances		
Rates	9 692 459	6 984 774
Refuse	5 903 699	5 002 673
Other (specify)	1 050 957	2 148 441
	16 647 115	**14 135 888**
Less: Allowance for impairment		
Provision	(6 288 521)	(5 401 464)
Rates		
Current (0 -30 days)	1 005 467	(18 039)
31 - 60 days	(3 728 848)	(104 472)
61 - 90 days	1 017 438	164 270
91 - 120 days	(262 376)	(193 442)
121 - 365 days	11 660 778	7 136 458
	9 692 459	**6 984 775**
Refuse		
Current (0 -30 days)	222 870	168 883
31 - 60 days	(105 129)	(68 637)
61 - 90 days	69 484	102 835
91 - 120 days	105 962	95 093
121 - 365 days	5 610 511	4 704 499
	5 903 698	**5 002 673**
Other - Billboards, Service Levies and Grazing Fees		
Current (0 -30 days)	7 456	9 043
31 - 60 days	-	(6 748)
61 - 90 days	(3 514)	(2 711)
91 - 120 days	43	(1 375)
121 - 365 days	335 771	345 429
	339 756	**343 638**

Notes to the Financial Statements

Figures in Rand	2013	2012

9. Consumer debtors (continued)

Summary of debtors by customer classification

Residential		
Current (0 -30 days)	225 859	155 635
31 - 60 days	(156 984)	(18 460)
61 - 90 days	48 179	959
91 - 120 days	60 367	91 530
121 - 365 days	6 033 109	5 198 936
	6 210 530	**5 428 600**
Business		
Current (0 -30 days)	282 273	(47 852)
31 - 60 days	(334 943)	(121 187)
61 - 90 days	(47 453)	125 633
91 - 120 days	51 258	(361 395)
121 - 365 days	4 559 918	4 274 894
	4 511 053	**3 870 093**
Government		
Current (0 -30 days)	640 961	22 417
31 - 60 days	(2 990 838)	(12 772)
61 - 90 days	979 810	131 658
91 - 120 days	(223 157)	165 428
121 - 365 days	6 185 002	2 255 171
	4 591 778	**2 561 902**
Other		
Current (0 -30 days)	72 556	29 687
31 - 60 days	(351 213)	(27 437)
61 - 90 days	102 872	6 141
91 - 120 days	(44 839)	4 712
121 - 365 days	829 031	457 382
	608 407	**470 485**
Reconciliation of debt impairment provision (Trade and Other receivables)		
Balance at beginning of the year	5 601 464	4 093 398
Contributions to allowance	887 057	1 508 066
	6 488 521	**5 601 464**

Balances disclosed are stated prior to the reclassification of debtors with negative balances. Debtors reclassified to creditors is R711 199 (2012: R1 804 800).

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 751	840
Bank balances	161 143	275 167
Short-term deposits	619 371	611 575
Bank overdraft	-	(6 135 995)
	785 265	**(5 248 413)**

Notes to the Financial Statements

Figures in Rand	2013	2012

10. Cash and cash equivalents (continued)

Current assets	785 265	887 582
Current liabilities	-	(6 135 995)
	785 265	**(5 248 413)**

The municipality utilised an overdraft facility during the year. As at 30 June 2012, the municipality had utilised R 6,135,995 of the facility. Overdraft was utilised as a result of the unexpected shortfall in the municipality's cash resources due to grant funds withheld by National Treasury. However this shortfall will be made good by equitable share that will be received in the next financial year.

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
FNB - Cheque Account - 53153278884	118 114	(6 135 995)	144 262	118 114	(6 135 995)	144 262
FNB - Provisional Grant Cheque Account - 62203756921	-	63	363	-	63	363
FNB - Bank Licensing Cheque Account - 62203761962	9 220	169 939	39 700	9 220	169 939	39 700
FNB - MIG Cheque Account - 62202226751	1 970	4 685	28 708	1 970	4 685	28 708
FNB - Call Account - 61315000549	13 150	100 480	4 586	13 150	100 480	4 586
FNB - Fixed Deposit Account - 74023879677	619 371	611 575	579 776	619 371	611 575	579 776
FNB BANK - Account Type - 62370639373	6 986	-	-	6 986	-	-
FNB BANK - Account Type - 62373063222	6 024	-	-	6 024	-	-
FNB BANK - Account Type - 62370638573	5 679	-	-	5 679	-	-
Total	**780 514**	**(5 249 253)**	**797 395**	**780 514**	**(5 249 253)**	**797 395**

Notes to the Financial Statements

Figures in Rand	2013	2012

11. Finance lease obligation

Minimum lease payments due		
- within one year	12 124	21 592
- in second to fifth year inclusive	-	12 524
	12 124	34 116
less: future finance charges	-	(2 347)
Present value of minimum lease payments	**12 124**	**31 769**

Present value of minimum lease payments due		
- within one year	12 124	12 124
- in second to fifth year inclusive	-	19 645
	12 124	**31 769**

Non-current liabilities	-	12 124
Current liabilities	12 124	19 645
	12 124	**31 769**

It is municipality policy to lease certain cellphones from Nashua Mobile for a period of 2 years. Monthly lease instalments of an average of R310 each are payable in arrears. Interest is charged at 8.5% per annum.

Ownership will pass to the municipality at the end of the lease periods. The lease agreement does not provide for contingent lease payment. .

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	7 321 777	-
Tourism Grant from Zululand District Municipality	50 000	20 150
Integrated National Electricity Program	9 834 378	-
Pound Grant	1 000 000	-
EPWP	5 111	-
Neighbourhood Developement Partnership Grant	(17 131 271)	-
	1 079 995	**20 150**

Movement during the year

Balance at the beginning of the year	20 150	3 243 880
Additions during the year	1 059 845	62 713 339
Income recognition during the year	-	(65 937 069)
	1 079 995	**20 150**

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.

Figures in Rand	2013	2012

13. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Rehabilitation of landfill site	2 415 204	96 308	-	-	2 511 512
Employee benefit cost	1 528 595	-	(91 023)	519 965	1 957 537
	3 943 799	**96 308**	**(91 023)**	**519 965**	**4 469 049**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	3 041 339	17 913	-	(932 975)	288 927	2 415 204
Employee benefit cost	1 301 665	-	(105 608)	332 538	-	1 528 595
	4 343 004	**17 913**	**(105 608)**	**(600 437)**	**288 927**	**3 943 799**

Environmental rehabilitation provision

The provision for rehabilitation for landfill site represents management's best estimate of the municipality's liability relating to closure and rehabilitation of the site. These costs are expended in the year of closure and typically relate final shaping and compacting works, capping, top soiling and vegetation as well as constructing stormwater control systems. it also includes costs associated with erection of a proper fence (if not yet in place), decommissioning of any infrastructure and erection of end-use related infrastructure.

Rehabilitation costs were calculated based on the following assumptions:

- Site will be classified as communal

- Landfill footprint estimated on site. Coordinates of the footprint then determined through GPS. Area for rehabilitation measured from GPS

- No leachate control is required

- It is assumed that topsoil/ coversoil is available near the site

- As the site is currently not fenced, allowance has been made to fence the site.

- The site currently includes:

    - P&G's at 20% of construction item costs

    - Contingencies at 10% of total construction costs

    - Design Fees at 14% of total costs (construction and contingencies);

- All costs exclude VAT

- The Basic Assessment Report (BAR) process and waste license application requires the same effort for the licensed site. It is further assumed that no specialist studies will be required

- Post closure monitoring costs not included (assumed to be nominal as the site is communal)

The following factors may influence the actual costs of the environmental processes and construction works:

Figures in Rand	2013	2012

13. Provisions (continued)

- Consolidation of various environmental authorisation processes may potentially result in a cost saving by up to 25%. A consolidated process however carries a risk that a complication with a single project component or aspect could result in a delay of the entire application and therefore the approval and implementation of all components.

- Infrastructure and facilities associated with each of the proposed upgrade works may trigger the need for additional authorisation processes or result in the need for an expanded statutory process (e.g. EIA instead of basic Assessment), resulting in a cost variation.

- Depending on the final location and the extent of the proposed landfill works, and the local environmental opportunities and constraints, specialist studies may be required.

- Legislative and environmental authorisation requirements (and their administration) are subject to change.

- Project costs were estimated using the current market related prices and are subject to escalation. The project commencement date and overall project duration will therefore have an effect on the final project costs.

- Public participation processes are inherently unpredictable and can be influenced by the level of interest shown by Interested and Affected Parties (I&APs) and the nature of the issues raised. Any Environment Assessment Practitioner undertaking the work will be legally and procedurally required to respond to such interest with due diligence.

Provision for Long Service Award

The municipality has a policy to provide long service awards to employees who are continuously at the employment of the municipality based on the prescribed periodic brackets. The award is the remuneration of the employee as at the date of the award.

The discount rate used is based on market yields on government bonds as at the end of June 2013 as published by the Bond Exchange of South Africa. The salary escalation rate is based on underlying market inflation plus an allowance for the fact that on average salary increases generally exceed inflation. Factored into the valuation are also the demographic and mortality assumptions.

14. Instalment sale obligation

The Installment Sale Agreement is with Absa Bank for the purchase of a motor vehicle at an interest rate of 8.5%. The loan is repayable over 60 months. The liability is secured against vehicles with a net book value of price of R 1 054 295.

Refer to Appendix A for details.

15. Payables from exchange transactions

Trade payables	10 368 632	11 534 114
Other payables	-	1 291 449
Accrued Leave Pay	4 518 842	4 067 478
Deposits received	31 821	22 361
Sundry Creditors	8 253 213	8 134 578
Other creditors	5 253	-
	23 177 761	**25 049 980**

Notes to the Financial Statements

Figures in Rand	2013	2012

16. Revenue

Service charges	1 567 763	1 469 540
Rental of facilities and equipment	148 580	139 084
Interest received (trading)	1 753 597	1 618 874
Licences and permits	646 714	723 273
Sundry Income	559 018	313 196
Property rates	7 645 715	5 758 045
Government grants & subsidies	147 180 156	119 025 070
Fines	71 908	95 701
	159 573 451	**129 142 783**

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

Service charges	1 567 763	1 469 540
Rental of facilities and equipment	148 580	139 084
Interest received (trading)	1 753 597	1 618 874
Licences and permits	646 714	723 273
Sundry Income	559 018	313 196
	4 675 672	**4 263 967**

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

Taxation revenue		
Property rates	7 645 715	5 758 045
Transfer revenue		
Government grants & subsidies	147 180 156	119 025 070
Fines	71 908	95 701
	154 897 779	**124 878 816**

Notes to the Financial Statements

Figures in Rand	2013	2012

17. Property rates

Rates received

Residential	12 872 283	6 369 882
Rates Clearance Certificates	160	240
Less: Income forgone	(5 226 728)	(612 077)
	7 645 715	**5 758 045**

Valuations

Residential	88 426 620	84 005 620
Business	88 370 000	89 050 000
State Owned Properties	594 533 000	143 333 000
Agriculture	-	398 130 000
Special	7 620 000	15 820 000
Public Service Infrastructure	1 092 000	1 242 000
Vacant Land	3 150 000	3 155 000
Rural Communal Land	1 212 000	-
	784 403 620	**734 735 620**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

The new general valuation will be implemented on 01 July 2013.

18. Service charges

Refuse removal	1 567 763	1 469 540

Notes to the Financial Statements

Figures in Rand	2013	2012

19. Government grants and subsidies - Revenue from Non exchange Transactions

Equitable share	71 777 000	53 088 000
Financial Management Grant	1 500 000	1 450 000
Municipal Systems Improvement Grant (MSIG)	800 000	790 000
Provincial Grant: Libraries	245 000	233 340
National Treasury	56 376	-
Tourism Grant	20 150	79 850
Municipal Infrastructure Grant	17 935 848	22 660 202
Neigbourhood Development Partnership Grant (NDPG)	37 685 271	40 723 678
Expanded Public Works Programme	994 889	-
Integrated National Electrification	16 165 622	-
	147 180 156	**119 025 070**

Equitable Share

Current-year receipts	72 001 000	53 088 000
Conditions met - transferred to revenue	(71 777 000)	(53 088 000)
Other	(224 000)	-
	-	**-**

The shortfall of R 224 000 relates to Neighbour Development Grant that was not rolled forward. This was set off against the equitable share in November 2012. (roll over was not approved)

Financial Management Grant (FMG)

Balance unspent at beginning of year	-	1 228 000
Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 500 000)	(1 450 000)
Surrendered	-	(1 228 000)
	-	**-**

Provincial Grant: Provincialisation of Libraries

Current-year receipts	245 000	223 340
Conditions met - transferred to revenue	(245 000)	(223 340)
	-	**-**

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	-	1 792 202
Current-year receipts	25 314 000	20 868 000
Conditions met - transferred to revenue	(17 992 223)	(22 660 202)
	7 321 777	**-**

Neighbourhood Development Partnership Grant (NDPG)

Balance unspent at beginning of year	-	223 678
Current-year receipts	20 554 000	40 500 000
Conditions met - transferred to revenue	(20 554 000)	(40 723 678)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2013	2012

19. Government grants and subsidies - Revenue from Non exchange Transactions (continued)

Revenue Recognised amount to R 37 685 270.87. This was overspend. But monies have to ring fenced to address the short comings

Municipal Systems Improvement Grant (MSIG)

Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	**-**

Tourism Grant

Balance unspent at beginning of year	20 150	-
Current-year receipts	50 000	100 000
Conditions met - transferred to revenue	(20 150)	(79 850)
	50 000	**20 150**

Integrated National Electrification

Current-year receipts	26 000 000	-
Conditions met - transferred to revenue	(16 165 622)	-
	9 834 378	**-**

Pound Grant

Current-year receipts	1 000 000	-

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

Expanded Public Works Programme (EPWP)

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(994 889)	-
	5 111	**-**

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

20. Other revenue

Other Income	559 018	313 196

Notes to the Financial Statements

Figures in Rand	2013	2012

21. General expenses

Advertising	352 294	293 233
Auditors remuneration	1 523 353	1 006 050
Bank charges	44 709	170 825
Cleaning	267 087	1 215 521
Consulting and professional fees	8 697 304	7 759 210
Donations	116 704	153 797
Entertainment	430 918	614 777
Insurance	602 254	521 637
Community development and training	2 901 323	2 980 804
Disaster management	214 896	235 554
Lease rentals on operating lease	1 577 655	1 444 307
Fuel and oil	745 562	558 652
Postage and courier	11 403	18 136
LED Projects	557 511	493 574
Protective clothing	-	9 914
Software expenses	476 083	414 953
Sundry Expenses	12 250	-
Subscriptions and membership fees	443 327	219 365
Telephone and fax	732 650	564 277
Transport and freight	135 519	428 194
Training	443 572	761 568
Travel - local	2 828 233	2 342 212
Electricity	448 801	310 658
Refuse	213 656	1 007 719
Uniforms	41 029	296 601
Consumables	139 472	39 157
Other Expenses	1 200 159	1 792 212
Shared services	141 732	-
LED Projects	1 800	-
Disaster management	12 200	-
Ammunition	1 758	-
Forum meetings	15 000	-
Restructuring	(836 667)	(915 062)
	24 493 547	**24 737 845**

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Employee related costs

Basic	26 030 395	18 410 868
Bonus	1 386 960	1 033 913
Medical aid - company contributions	927 836	651 695
UIF	247 157	214 191
SDL	339 828	293 456
Leave pay provision charge	1 590 220	1 341 265
Provision for Long term Service Award	5 362 509	3 865 275
Travel, motor car, accommodation, subsistence and other allowances	3 501 954	2 433 677
Overtime payments	3 085 605	1 618 837
Other Benefits	42 123	24 573
	42 514 587	**29 887 750**

Remuneration of Municipal Manager

Annual Remuneration	407 917	664 954
Allowances	258 397	135 697
Contributions to UIF, Medical and Pension Funds	194 470	180 486
Other	12 569	23 778
	873 353	**1 004 915**

New Municipal Manager, Mr B.E. Ntanzi commenced employment with Nongoma Municipality in November 2012.

Remuneration of the Chief Finance Officer

Annual Remuneration	433 734	-
Allowance	299 723	-
Contributions to UIF, Medical and Pension Funds	16 271	-
Other	20 217	-
	769 945	**-**

The position of Chief Financial Officer was performed by use of a consulting service. The consultant is not registered on Nongoma's payroll. The cost amounting to R nil (2012: R825 673) related to this service has therefore been included under Professional fees. Refer to note 21

Remuneration of Executive Director: Corporate Services

Annual Remuneration	690 231	493 796
Allowances	160 626	153 437
Backpay	19 059	-
Contributions to UIF, Medical and Pension Funds	17 461	8 085
Other	25 851	37 215
	913 228	**692 533**

Executive Director: Corporate Services was appointed as an Acting Municipal Manager with effect from 11 January 2011.

Remuneration of Director: Technical Services

Annual Remuneration	105 000	529 550
Allowances	44 691	65 855
Contributions to UIF, Medical and Pension Funds	43 211	156 306
Other	12	18 206
	192 914	**769 917**

Technical Services Director was employed with effect from May 2013.

Notes to the Financial Statements

Figures in Rand	2013	2012

22. Employee related costs (continued)

Remuneration of Executive Director: Community Services

Annual Remuneration	561 494	401 697
Allowances	160 037	74 630
Backpay	19 059	-
Contributions to UIF, Medical and Pension Funds	57 815	91 252
Other	2 091	8 343
	800 496	**575 922**

Remuneration of Executive Director: Planning Services

Annual Remuneration	570 120	271 253
Allowances	119 503	51 112
Backpay	19 059	-
Contributions to UIF, Medical and Pension Funds	49 325	83 982
Other	25 851	-
	783 858	**406 347**

Remuneration of Executive Director: Protection Services

Annual Remuneration	573 618	529 550
Allowances	117 565	114 000
Backpay	22 090	-
Contributions to UIF, Medical and Pension Funds	30 370	46 949
Other	780	7 282
	744 423	**697 781**

23. Remuneration of councillors

Mayor's Allowance	512 690	280 570
Deputy Mayor's Allowance	431 692	224 181
Executive Committee Allowances	1 524 366	1 038 712
Speaker's Allowance	446 679	433 855
Councillors	4 497 708	6 022 112
Medical Aid and pension	915 931	855 465
	8 329 066	**8 854 895**

In-kind benefits

Speaker is on full-time basis. The Honourable Mayor and Deputy Mayor are full-time with effect from 1 July 2012. The Mayor, Deputy Mayor and Speaker are each provided with an office and secretarial support at the cost of the Council.

The Honourable Mayor has three full-time bodyguards and three full-time drivers. Speaker has two full-time bodyguards.

24. Debt impairment

Contributions to debt impairment provision	887 120	1 508 066

25. Fair value adjustments

Investment property (Fair value model)	-	171 798

Notes to the Financial Statements

Figures in Rand	2013	2012

26. Depreciation and amortisation

Property, plant and equipment	9 776 424	9 612 057
Intangible assets	175 080	175 559
	9 951 504	**9 787 616**

27. Finance costs

Interest on bank overdraft	380 607	89 881
Unwinding of Interest	-	325 277
	380 607	**415 158**

28. Auditors' remuneration

Fees	1 523 353	1 006 050

29. Cash generated from operations

Surplus	63 705 776	45 522 340
Adjustments for:		
Depreciation, Impairment and amortisation	9 951 504	9 787 616
Gain on sale of assets and liabilities	382 293	-
Fair value adjustments	-	(171 798)
Movement in provision for doubtful debtors	887 120	1 508 066
Movements in operating lease assets and accruals	(120 463)	33 936
Provisions	-	(399 205)
Actuarial Gains and Losses	519 966	332 538
Payments for long service awards	(91 023)	(105 608)
Contribution to provision	96 308	17 913
Unwinding of interest on provisions	-	288 927
Changes in working capital:		
Other receivables from non-exchange transactions	(21 564)	202 290
Consumer debtors	(2 511 290)	(3 641 406)
Payables from exchange transactions	(1 375 572)	8 074 045
VAT	(708 574)	418 575
Unspent conditional grants and receipts	1 059 845	(3 223 730)
	71 774 326	**58 644 499**

Notes to the Financial Statements

Figures in Rand	2013	2012

30. Commitments

Authorised capital expenditure

Already contracted for		
• MIG Projects	16 627 628	25 314 000
• Bypass Road	-	20 554 000
• Testing Ground	-	6 000 000
• Other Property, plant and equipment	583 350	5 500 650
• Professional Services	5 943 965	-
	23 154 943	**57 368 650**

Not yet contracted for and authorised by accounting officer		
• MIG Project	10 328 896	-

This committed expenditure relates to property and will be financed by grants, available bank facilities, retained surpluses, existing cash resources.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	(12 908)	1 006 449
- in second to fifth year inclusive	-	2 257 749
	(12 908)	**3 264 198**

Operating lease payments represent rentals payable by the municipality for printers leased from Nashua Zululand. No contingent rent is payable.

31. Contingencies

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Contingent assets

The following were the cases for which investigations were not concluded:

- Lost cheques – blank cheques disappeared from municipal offices which resulted in unknown person attempting to cash one of the cheques. This happened during the 2011-12 financial year. The matter is under investigation.
- Theft of a Tractor - municipal tractor was sold by a former municipal manager for his personal gain to another person. The case was opened and the prosecution took place. The matter is with court. The happened during the 2011-12 financial year

32. Related parties

Relationships

Employees	Refer to note 22
Councillors	Refer to note 23

Related party transactions

Employee Related Costs	42 514 587	29 887 750
Councillors Remuneration	8 329 066	8 854 895

33. Prior period errors

1. Provision for Post Retirement Benefit

Provision for post retirement benefit was done in the previous years. The municipality does not have obligation with regards thereto.

2. Operating Leases

Figures in Rand	2013	2012

33. Prior period errors (continued)

The municipality had not done the calculation to straight line operating leases in previous years.

3. Provision for Long Term Service Awards

The municipality has not provided for an obligation in respect of long term service awards in the prior years.

4. Property Rentals

The balance owed from property rentals was not accrued for in the previous year in respect of property leased by the municipality on behalf of its employees. It was subsequently discovered and therefore adjusted for.

5. Property, Plant and Equipment

Depreciation was incorrectly calculated in the prior year. The error has been adjusted for.

6. Intangible Assets

Amortisation was incorrectly calculated in the prior year. The error has been adjusted for.

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

Statement of financial position		
PPE	-	9 659 037
Intangible Assets	-	(32 627)
Other Receivables	-	(237 830)
Opening Accumulated Surplus or Deficit	-	10 617 257
Instalment Sale	-	(296 175)
Provision	-	(932 975)
Statement of Financial Performance		
Depreciation expense	-	736 507
Finance Cost	-	36 351
General expenditure	-	(40 493)

Figures in Rand		2013	2012

34. Risk management

Capital risk management

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

The capital structure of the municipality consists of debt, which includes the borrowings in the form of Instalment sale obligation as disclosed in note 14 and 11, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

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

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

There are no externally imposed capital requirements.

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

The gearing ratio at 2013 and 2012 respectively were as follows:

Total borrowings			
Finance lease obligation	11	12 124	31 769
Instalment Sale Obligation	14	921 191	1 436 967
		933 315	**1 468 736**
Less: Cash and cash equivalents	10	785 265	(5 248 413)
Net debt		148 050	6 717 149
Total equity		191 047 852	116 746 591
Total capital		**191 195 902**	**123 463 740**

Financial risk management

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

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.

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2013 and 2012, the municipality’s borrowings were denominated in the Rand.

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Fixed interest loan from Absa Bank	- %	260 237	280 885	281 837	305 188	-

Notes to the Financial Statements

Figures in Rand	2013	2012

34. Risk management (continued)

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. Sales to retail customers are settled in cash or using major credit cards.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	**2013**	**2012**
Cash deposits	662 400	611 575
Bank overdraft	118 114	(6 135 995)
Other bank balances	-	275 166
Other cash equivalents	-	840
Consumer Debtors (Net of provisions)	14 381 426	8 734 424

35. 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.

36. Events after the reporting date

There were no material events of the reporting date.

37. Unauthorised expenditure

Unauthorised expenditure	12 728 824	-
Less: Condoned by Council	(12 728 824)	-
Add Current Year	13 646 057	12 728 824
	13 646 057	**12 728 824**

Amounts overspent include Salaries, wages and allowances, Finance Costs, Depreciation, Debt impairment, Collection costs, contracted services in respect of 2012

Per municipality there is no unauthorised expenditure in 2013.

38. Irregular expenditure

Opening balance	24 882 612	9 697 461
Add: Irregular Expenditure - current year	1 124 779	38 881 177
Less: Amounts condoned	-	(23 696 026)
	26 007 391	**24 882 612**

Analysis of expenditure condoned per age classification

Prior years	24 882 612	-

Notes to the Financial Statements

Figures in Rand	2013	2012

39. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	138 853	138 853
Amount paid - current year	-	(138 853)
	138 853	**-**

The municipality is the member of South African Local Government Association (SALGA) in respect of which annual membership fees are paid.

Audit fees

Opening balance	135 273	1 437
Current year audit fee including VAT and interest charged	1 736 622	1 148 434
Amount paid - current year	(805 902)	(1 013 161)
Amount paid - previous years	(1 013 161)	(1 437)
	52 832	**135 273**

PAYE and UIF

Opening balance	405 296	-
Current year amount raised	6 110 466	4 483 733
Amount paid - current year	(5 602 198)	(4 078 437)
Amount paid - previous years	(405 295)	-
	508 269	**405 296**

Pension and Medical Aid Deductions

Opening balance	719 246	252 403
Current year amount raised	5 208 085	7 646 942
Amount paid - current year	(4 719 935)	(6 927 696)
Amount paid - previous years	(719 246)	(252 403)
	488 150	**719 246**

VAT

VAT receivable	2 166 773	1 458 199

The municipality is on the payment basis of VAT. VAT receivables are shown in note 8.

All VAT returns have been submitted by the due date throughout the year.

40. Budget differences

Material differences between budget and actual amounts

The interest earned on external investments and the transfer from capital recognised in income, exceeded the budgeted amounts as a result of capital projects not being implemented on time.
The income received from fines exceeded the budgeted income due to laws and by laws being highly enforced.

The interest expenditure on external borrowings exceeded the budgeted amount due to late payments.
The depreciation and amortisation exceeded the budget due to year end adjustments.
There were no other material differences between the final budget and the actual amounts.