JOE MOROLONG LOCAL MUNICIPALITY

Formerly Moshaweng Local Municipality
(Registration number NC 451)

AUDITED ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

General Information

Legal form of entity	Local Municipality	
Demarcation code	NC 451	
Nature of business and principal activities	Local Municipality	
Municipal Council Members		
Mayor	Cllr. B.M. Mbolekwa (Acting)	
Speaker	Cllr. M.R. Maneng	
Chief Whip	Cllr. E.O.T. Leshope	
Executive Members	Cllr. B.M. Mbolekwa	
	Cllr. M.D. Moremi	
	Cllr. N. Selebalo	
Party Representatives	Cllr. K.J. Masiapoa	
	Cllr. J. Freedman	
	Cllr. V. Jordan	
	Cllr. T.P. Tshipo	
	Cllr. M.C. Tihelo	
	Cllr. M.M. Nhlapo	
	Cllr. T.M. Mokgoje	
	Cllr. S.J. Segano	
Ward Councillors	Cllr. O.N. Mokweni	Ward 01
	Cllr. O.I. Kaotsane	Ward 02
	Cllr. I.S. Ortel	Ward 03
	Cllr. R.M. Shuping	Ward 04
	Cllr. S.J. Matshidiso	Ward 05
	Cllr. M.G. Sephekolo	Ward 06
	Cllr. K.J. Modise	Ward 07
	Cllr. M.E. Mmolawa	Ward 08
	Cllr. G.G. Moriri	Ward 09
	Cllr. D.C. Kubang	Ward 10
	Cllr. S.P. Segaetsho	Ward 11
	Cllr. O.S. Moagi	Ward 12
	Cllr. O.H. Kgopodithata	Ward 13
	Cllr. D.S. Josop	Ward 14
	Cllr. K.T. Teteme	Ward 15

Council committees

1. Finance and Infrastructure development plan

Chairperson	Cllr. B.M. Mbolekwa
Committee Members	Cllr. O.H. Kgopodithata
	Cllr. I.S. Ortel
	Cllr. K.J. Masiapoa
	Cllr. M.M. Nhlapo

2. Planning and Devolopment

Chairperson	Cllr. E.O.T. Leshope
Committee Members	Cllr. M.E. Mmolawa
	Cllr. S.P. Segaetsho
	Cllr. T.M. Mokgoje
	Cllr. M.S. Nkgobang

3. Infrastructure

Chairperson	Cllr. B.M. Mbolekwa
Committee Members	Cllr. D.S. Josop
	Cllr. M.C. Tihelo
	Cllr. T.P. Tshipo
	Cllr. K.J. Modise

General Information

3. Community Service

Chairperson	Cllr. N. Selebalo
Committee Members	Cllr. J. Freedman
	Cllr. S.J. Matshidiso
	Cllr. O.S. Moagi
	Cllr. D.C. Kubang
	Cllr. M.G. Sephekolo

4. Human Recource and Administration

Chairperson	Cllr. M.D. Moremi
Committee Members	Cllr. O.I. Kaotsane
	Cllr. O.N. Mokweni
	Cllr. K.T. Teteme
	Cllr. V. Jordan
	Cllr. R.M. Shuping

Grading of local authority	Low Capacity Municipality
Category	Category B Municipality as defiend by the Municipal Structures Act Nr. 117 of 1998
Municipal Manager	Mr. T.M. Bloom
Chief Finance Officer (CFO)	Mrs. B.D. Motlhaping
Business address	D320 Cardington Road Churchill Village 8474
Postal address	Private Bag X 117 Mothibistad 8474
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa
Telephone number	(053) 773 9300
Fax number	(053) 773 9350
Email adress	bloomt@joemorolong.gov.za
Web adress	www.joemorolong.gov.za

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

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Abbreviations

ASB	Accounting Standards Board
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
ES	Equitable Share
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognized Accounting Practice
HDF	Housing Development Fund
IDP	Infrastructure Development Plan
INEP	Integrated National Electrification Programme
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Government Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WSOG	Water Services Operating Subsidy Grant

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 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 audited annual financial statements. The audited annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The audited annual financial statements set out on pages 5 to 60, which have been prepared on the going concern basis, were approved by the accounting officer and was signed by him:

Mr. T.M. Bloom
Municipal Manager (Accounting Officer)
Joe Morolong Local Municipality
31 August 2013

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2013.

1. Review of activities

Main business and operations

The municipality is engaged in local municipality and operates principally in South Africa.

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

Net deficit of the municipality was R 37 560 752 (2012: deficit R 119 791 127).

2. Going concern

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

3. Subsequent events

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

4. Accounting Officer's interest in contracts

The accounting officer has no interest in contracts awarded either direct or indirect.

5. Accounting policies

The audited annual financial statements prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name
Mr. T.M. Bloom

7. Corporate governance

General

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

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

Chair person and chief executive

The Chairperson is a non-executive and independent councillor.

The roles of Chairperson and Chief Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Audit and Internal audit committee

The municipality has outsourced its internal audit function to John Taolo Gaetsewe District Municipality. This is in compliance with the Municipal Finance Management Act, 2003

Accounting Officer's Report

8. Bankers

The municipality's primary bank accounts was with ABSA Bank Limited for the current financial year. The municipality will move their primary bank accounts to Standard Bank in the new financial year.

9. Auditors

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

Statement of Financial Position as at 30 June 2013

Figures to the nearest R1	Notes	2013	2012
Assets			
Current Assets			
Inventories	7	1 311 649	2 121 474
Receivables from non-exchange transactions	8	11 372 587	10 582 963
Receivables from exchange transactions	10	19 126 221	15 368 065
Cash and cash equivalents	11	2 008 111	13 292 767
VAT receivable	9	5 284 058	13 598 571
Total Current Assets		**39 102 626**	**54 963 840**
Non-Current Assets			
Property, plant and equipment	3	1 061 253 496	890 324 401
Intangible assets	4	22 626	27 945
Investments	5	-	361 731
Total Non-Current Assets		**1 061 276 122**	**890 714 077**
Total Assets		**1 100 378 748**	**945 677 917**
Liabilities			
Current Liabilities			
Bank overdraft	11	4 576 564	-
Other financial liabilities	12	626 638	610 890
Unspent conditional grants and receipts	13	-	17 062 677
Payables from exchange transactions	15	90 855 498	97 628 684
Provisions	14	645 049	519 274
Total Current Liabilities		**96 703 749**	**115 821 525**
Non-Current Liabilities			
Other financial liabilities	12	3 535 993	4 162 631
Provisions	14	1 551 210	1 243 676
Total Non-Current Liabilities		**5 087 203**	**5 406 307**
Total Liabilities		**101 790 952**	**121 227 832**
Net Assets		**998 587 796**	**824 450 085**
Net Assets			
Accumulated surplus		998 587 796	824 450 085

Statement of Financial Performance

Figures to the nearest R1	Notes	2013	2012
Revenue			
Revenue from exchange transactions			
Service charges	19	17 222 913	12 648 054
Rental of facilities and equipment		171 113	37 015
Other income	21	3 083 983	23 451 488
Interest received - investment		3 508 065	1 303 220
Total revenue from exchange transactions		**23 986 074**	**37 439 777**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	18	6 786 384	3 116 338
Transfer revenue			
Government grants & subsidies	20	198 583 271	128 102 028
Total revenue from non-exchange transactions		**205 369 655**	**131 218 366**
Total revenue	17	**229 355 729**	**168 658 143**
Expenditure			
Personnel cost	23	(27 633 113)	(36 562 956)
Remuneration of councillors	24	(6 718 185)	(9 283 987)
Depreciation and amortisation	27	(26 169 284)	(67 953 833)
Impairment loss	28	-	(121 780)
Finance costs	29	(95 644)	(2 401 723)
Debt impairment	25	(32 577 505)	(56 089 223)
Repairs and maintenance		(8 515 195)	(5 357 250)
Bulk purchases	33	(8 926 463)	(6 306 273)
Grants and subsidies paid	32	(107 879 934)	(66 067 300)
General expenses	22	(49 059 403)	(38 304 945)
Total expenditure		**(267 574 726)**	**(288 449 270)**
Operating deficit		**(38 218 997)**	**(119 791 127)**
Deficit for the year		**(38 218 997)**	**(119 791 127)**
Attributable to:			
Owners of the controlling entity		(38 218 997)	(119 791 127)

Statement of Changes in Net Assets

Figures to the nearest R1	Accumulated surplus	Total net assets
Balance at 01 July 2011	**1 155 939 677**	**1 155 939 677**
Changes in net assets		
Prior period error	(211 698 465)	(211 698 465)
Net income (losses) recognised directly in net assets	(211 698 465)	(211 698 465)
Surplus for the year	(119 791 127)	(119 791 127)
Total recognised income and expenses for the year	(331 489 592)	(331 489 592)
Total changes	(331 489 592)	(331 489 592)
Balance at 01 July 2012	**1 036 148 548**	**1 036 148 548**
Changes in net assets		
Surplus for the year	(37 560 752)	(37 560 752)
Total changes	(37 560 752)	(37 560 752)
Balance at 30 June 2013	**998 587 796**	**998 587 796**

Notes

Cash Flow Statement

Figures to the nearest R1	Notes	2013	2012
Cash flows from operating activities			
Receipts			
Taxation		6 799 370	3 143 661
Sale of goods and services		(94 428 163)	(64 915 501)
Grants		181 520 594	129 579 714
Interest income		3 508 066	1 303 219
Consumers and other receipts		3 255 096	23 488 503
		100 654 963	92 599 596
Payments			
Employee costs		(35 817 586)	(43 190 830)
Suppliers		(90 478 300)	(62 848 520)
Finance costs		(95 644)	(2 401 723)
		(126 391 530)	(108 441 073)
Net cash flows from operating activities	34	**(25 736 567)**	**(15 841 477)**
Cash flows from investing activities			
Purchase of Property, Plant and Equipment	3	(196 778 228)	(2 643 251)
Purchase of other intangible assets	4	-	(12 435)
Increase in investments		361 731	(18 162)
Revaluation of assets		206 902 734	-
Net cash flows from investing activities		**10 486 237**	**(2 673 848)**
Cash flows from financing activities			
Repayment of other financial liabilities		(610 890)	2 393 877
Net cash flows from financing activities		**(610 890)**	**2 393 877**
Net increase/(decrease) in cash and cash equivalents		**(15 861 220)**	**(16 121 448)**
Cash and cash equivalents at the beginning of the year		13 292 767	29 414 215
Cash and cash equivalents at the end of the year	11	**(2 568 453)**	**13 292 767**

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures to the nearest R1	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	12 360 663	-	**12 360 663**	17 222 913	**4 862 250**	
Rental of facilities and equipment	33 966	10 000	**43 966**	171 113	**127 147**	
Other income - (rollup)	192 726	900 772	**1 093 498**	3 083 983	**1 990 485**	
Interest received - investment	172 900	(160 000)	**12 900**	3 508 065	**3 495 165**	
Total revenue from exchange transactions	**12 760 255**	**750 772**	**13 511 027**	**23 986 074**	**10 475 047**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	10 410 670	588 000	**10 998 670**	6 786 384	**(4 212 286)**	
Government grants & subsidies	134 226 000	30 257 496	**164 483 496**	198 583 271	**34 099 775**	
Total revenue from non-exchange transactions	**144 636 670**	**30 845 496**	**175 482 166**	**205 369 655**	**29 887 489**	
Total revenue	**157 396 925**	**31 596 268**	**188 993 193**	**229 355 729**	**40 362 536**	
Expenditure						
Personnel	(29 646 737)	512 695	**(29 134 042)**	(27 633 113)	**1 500 929**	
Remuneration of councillors	(6 103 562)	-	**(6 103 562)**	(6 718 185)	**(614 623)**	
Depreciation and amortisation	(1 151 984)	-	**(1 151 984)**	(26 169 284)	**(25 017 300)**	
Finance costs	(675 000)	-	**(675 000)**	(95 644)	**579 356**	
Debt impairment	(158 850)	-	**(158 850)**	(32 577 505)	**(32 418 655)**	
Repairs and maintenance	(25 585 324)	18 583 393	**(7 001 931)**	(8 515 195)	**(1 513 264)**	
Bulk purchases	(11 394 602)	(1 982 144)	**(13 376 746)**	(8 926 463)	**4 450 283**	
Grants and subsidies paid	(42 151 672)	(42 736 680)	**(84 888 352)**	(107 879 934)	**(22 991 582)**	
General Expenses	(35 967 828)	(30 621 486)	**(66 589 314)**	(49 059 403)	**17 529 911**	
Total expenditure	**(152 835 559)**	**(56 244 222)**	**(209 079 781)**	**(267 574 726)**	**(58 494 945)**	
Deficit before taxation	**4 561 366**	**(24 647 954)**	**(20 086 588)**	**(38 218 997)**	**(18 132 409)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**4 561 366**	**(24 647 954)**	**(20 086 588)**	**(38 218 997)**	**(18 132 409)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures to the nearest R1	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	-	**-**	1 311 649	**1 311 649**	
Receivables from non-exchange transactions	-	-	**-**	11 372 587	**11 372 587**	
VAT receivable	-	-	**-**	5 284 057	**5 284 057**	
Consumer debtors	-	-	**-**	19 126 221	**19 126 221**	
Cash and cash equivalents	-	-	**-**	2 008 111	**2 008 111**	
	-	**-**	**-**	**39 102 625**	**39 102 625**	
Non-Current Assets						
Property, plant and equipment	4 597 346	(168 592)	**4 428 754**	1 061 253 496	**1 056 824 742**	
Intangible assets	-	-	**-**	22 626	**22 626**	
	4 597 346	**(168 592)**	**4 428 754**	**1 061 276 122**	**1 056 847 368**	
Total Assets	**4 597 346**	**(168 592)**	**4 428 754**	**1 100 378 747**	**1 095 949 993**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	**-**	626 638	**626 638**	
Payables from exchange transactions	-	-	**-**	90 855 492	**90 855 492**	
Provisions	-	-	**-**	645 049	**645 049**	
Bank overdraft	-	-	**-**	4 576 564	**4 576 564**	
	-	**-**	**-**	**96 703 743**	**96 703 743**	
Non-Current Liabilities						
Other financial liabilities	-	-	**-**	3 535 993	**3 535 993**	
Provisions	-	-	**-**	1 551 210	**1 551 210**	
	-	**-**	**-**	**5 087 203**	**5 087 203**	
Total Liabilities	**-**	**-**	**-**	**101 790 946**	**101 790 946**	
Net Assets	**4 597 346**	**(168 592)**	**4 428 754**	**998 587 801**	**994 159 047**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	4 597 346	(168 592)	**4 428 754**	998 587 801	**994 159 047**	

Accounting Policies

1. Presentation of Audited Annual Financial Statements

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

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

A summary of the significant accounting policies, which have been consistently applied, except where an exemption or transitional provision has been granted, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

Allowance for slow moving, damaged and obsolete stock

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

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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 14 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

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.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Allowance for doubtful debts

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

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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.

Subsequently all property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Item	**Average useful life**
Buildings	
• Improvements	25-30
Plant and machinery	
• Specialist plant and equipment	10-15
• Other plant and equipment	2-15
Furniture and fixtures	
• Office equipment	3-15
• Furniture and Fittings	5-15
Motor vehicles	
• Specialist vehicles	10-15
• Other vehicles	5-15
Infrastructure	
• Roads and paving	10-100
• Pedestrian malls	15-30
• Electricity	15-60
• Water	15-100
• Sewerage	15-60
Community	
• Community facilities	25-30
• Recreational facilities	15-30

Accounting Policies

1.2 Property, plant and equipment (continued)

Land

Land is stated at historical cost and is not depreciated as it is deemed to have an indefinate useful life.

Incomplete construction work

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

Finance leases

Assets capitalised under finance leases are depreciated on their expected useful lives on the same basis as property, plant and equipment controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Infrastructure assets

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

Derecognition

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

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

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.

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.

Accounting Policies

1.3 Intangible assets (continued)

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	2 years

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Capitalised development costs are recorded as intangible assets and recognised from the point at at which the asset is ready for use on a straight line basis over its usefl life, which is between 3 and 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period. However, such intangible assets are subject to an annual impairment test.

Development assets are tested for impairment annually in accordance with GRAP 102. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

1.4 Financial instruments

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

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

A concessionary loan is a loan granted to or received by an municipality 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 municipality's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

Accounting Policies

1.4 Financial instruments (continued)

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

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 potentialy favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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
Loans and receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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
Long term liabilities	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

Accounting Policies

1.4 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

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.

Accounting Policies

1.4 Financial instruments (continued)
Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-forsale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

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

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, 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 through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

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.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the 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, in the statement of financial performance.

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.

Accounting Policies

1.5 Leases (continued)

Finance leases - lessee

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

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

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

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

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.

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.

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

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

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

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

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

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

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

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

Accounting Policies

1.6 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development.

Subsequent measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Accounting Policies

1.6 Inventories (continued)

Water inventory

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

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

1.7 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Accounting Policies

1.7 Construction contracts and receivables (continued)

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.8 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

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

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

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.9 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

Accounting Policies

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

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.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

Identification

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.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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.

Accounting Policies

1.10 Employee benefits

Short-term employee benefits

- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

The municipality has opted to treat its provision for leave pay as an accrual.

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

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employement plans.

Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Accounting Policies

1.10 Employee benefits (continued)

Defined benefit plans

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

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Provincially-administered defined benefit plans

The municipality contributes to various national and provincial-administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued triennially on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Defined benefit pension plans

The municipality has an obligation to provide post-retirement pension benefits to certain of its retirees. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred. Staff provident funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various pension funds. The municipality contributes monthly to the funds.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using 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 to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Accounting Policies

Other post retirement obligations

Long-service Allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial serformance.

1.11 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 discount 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.

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

1.11 Provisions and contingencies (continued)

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

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

Accounting Policies

1.11 Provisions and contingencies (continued)

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:
- The business or part of a business concerned;
- The principal locations affected;
- The location, function, and approximate number of employees who will be compensated for terminating their services;
- The expenditures that will be undertaken; and
- When the plan will be implemented.

(b) The municipality 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.

Provision for environmental rehabilitation of landfill sites

The municipality provides for the rehabilitation of the landfill site based on a provision done by professional assessors.

1.12 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.

Service charges

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

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

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

Prepaid electricity

Revenue from the sale of electricity prepaid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards made seven days before year-end are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Accounting Policies

Finance income

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

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

Revenue from agency services

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

Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:
- 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.

Measurement

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

1.13 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.

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

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

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Non exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, without giving approximately equal value to another entity in exchange.

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.

Rates and taxes

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

Fines

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

Public contributions

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

Other donations and contributions

Other donations and contributions are generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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

Measurement

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

1.14 Borrowing costs

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established – the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities necessary to prepare the qualifying assets for its intended use have been completed.

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

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

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

1.15 Unauthorised expenditure

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

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

1.16 Fruitless and wasteful expenditure

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

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

1.17 Irregular expenditure

(a) this Act; or

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.

Accounting Policies

1.18 Cash and cash equivalents

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

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.19 Presentation of currency

These audited annual financial statements are presented in South African Rand.

- Credit risk
- Liquidity risk
- Market risk

1.20 Offsetting

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

1.21 Investments

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

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.22 Budget information

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

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

The audited annual 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.

Accounting Policies

1.23 Government grants and receipts

Government grants and receipts are recognised as revenue when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

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.

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

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

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

1.24 Value added Tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

1.25 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

1.26 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself tofuture transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

Accounting Policies

1.27 Change on accounting policies estimates and errors

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

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

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.28 Related parties

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

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

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel 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 issued, but not yet effective

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 18: Segment Reporting	01 April 2013	No material impact
• GRAP 25: Employee benefits	01 April 2013	No material impact
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	No maretial impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	No material impact
• GRAP 107: Mergers	01 April 2014	No material impact
• GRAP 20: Related parties	01 April 2013	No material impact
• IGRAP 11: Consolidation – Special purpose entities	01 April 2014	No material impact
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2014	No material impact
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2014	No material impact
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2014	No material impact
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2014	No material impact
• GRAP 1 (as revised 2012): Presentation of Financial Statements	01 April 2013	No material impact
• GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors	01 April 2013	No material impact
• GRAP 7 (as revised 2012): Investments in Associates	01 April 2013	No material impact
• GRAP 9 (as revised 2012): Revenue from Exchange Transactions	01 April 2013	No material impact
• GRAP 12 (as revised 2012): Inventories	01 April 2013	No material impact
• GRAP 13 (as revised 2012): Leases	01 April 2013	No material impact
• GRAP 16 (as revised 2012): Investment Property	01 April 2013	No material impact
• GRAP 17 (as revised 2012): Property, Plant and Equipment	01 April 2013	No material impact
• GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)	01 April 2013	No material impact
• GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)	01 April 2013	No material impact
• IGRAP16: Intangible assets website costs	01 April 2013	No material impact
• IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue	01 April 2013	No material impact

The municipality has not early adopted the following standards and interpretations, which have been issued but are not yet effective;

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

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 & Buildings	126 568 803	(15 231 937)	111 336 866	118 526 673	(11 519 899)	107 006 774
Motor vehicles	8 759 315	(3 535 874)	5 223 441	5 193 193	(2 140 785)	3 052 408
Office equipment	1 920 438	(1 207 847)	712 591	1 797 938	(880 885)	917 053
Computer equipment	1 614 645	(1 114 715)	499 930	1 225 404	(637 522)	587 882
Investment property	3 084 900	-	3 084 900	3 084 900	-	3 084 900
Work-in-progress	28 221 834	-	28 221 834	-	-	-
Roads	4 086	(3 271)	815	4 086	(2 454)	1 632
Other infrastructure assets	974 853 869	(64 228 053)	910 625 816	818 417 468	(44 689 910)	773 727 558
Road furniture and equipment	850 000	-	850 000	850 000	-	850 000
Water reticulation	239 062	(115 389)	123 673	239 062	(86 562)	152 500
Other property, plant and equipment	1 777 081	(1 203 451)	573 630	1 777 081	(833 387)	943 694
Total	**1 147 894 033**	**(86 640 537)**	**1 061 253 496**	**951 115 805**	**(60 791 404)**	**890 324 401**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	.	Additions	Revaluations	Depreciation	Total
Land & Buildings	107 006 774	8 042 129	314 830	(4 026 867)	111 336 866
Motor vehicles	3 052 408	3 566 123	-	(1 395 090)	5 223 441
Office equipment	917 053	122 500	-	(326 962)	712 591
Computer equipment	587 882	389 241	-	(477 193)	499 930
Investment property	3 084 900	-	-	-	3 084 900
Work in progress	-	28 221 834	-	-	28 221 834
Roads	1 632	-	-	(817)	815
Other infrastructure assets	773 727 558	156 436 401	-	(19 538 143)	910 625 816
Road furniture and equipment	850 000	-	-	-	850 000
Water reticulation	152 500	-	-	(28 827)	123 673
Other property, plant and equipment	943 694	-	-	(370 064)	573 630
	890 324 401	**196 778 228**	**314 830**	**(26 163 963)**	**1 061 253 496**

Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

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

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

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	37 859	(15 233)	22 626	37 859	(9 914)	27 945

Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Computer software	27 945	(5 319)	22 626

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	18 019	12 435	(2 509)	27 945

Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the intangible assets of the municipality.

Refer to Appendix B for more details on intangible assets.

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

5. Investments

At amortised cost		
ABSA Fixed Deposit	-	361 731
Account number: 20 6360 4388		
This account was closed op 27 June 2013.		
Non-current assets		
At amortised cost	-	361 731

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

6. Financial assets by category

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

2013

	Loans and receivables	Total
Trade and other receivables	16 656 645	16 656 645
Cash and cash equivalents	2 008 111	2 008 111
Consumer debtors	19 126 221	19 126 221
	37 790 977	**37 790 977**

2012

	Loans and receivables	Held to maturity investments	Total
Trade and other receivables	10 582 963	-	10 582 963
Consumer debtors	15 368 065	-	15 368 065
Cash and cash equivalents	13 292 767	-	13 292 767
VAT receivable	13 598 571	-	13 598 571
Investments	-	361 731	361 731
	52 842 366	**361 731**	**53 204 097**

7. Inventories

Consumables	1 305 018	2 107 958
Water	6 631	13 516
	1 311 649	**2 121 474**

8. Receivables from non-exchange transactions

Employee costs in advance	5 386 201	4 654 028
Unallocated receipts	5 986 386	5 928 935
	11 372 587	**10 582 963**

9. VAT receivable

South African Revenue Service	5 284 058	13 598 571

10. Receivables from exchange transactions

Gross balances		
Rates	7 154 720	2 682 205
Electricity	4 483 768	4 357 439
Water	13 155 861	7 046 232
Sewerage	321 902	1 098 280
Refuse	395 415	852 795
Service debtors	102 904 769	55 420 337
	128 416 435	**71 457 288**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

10. Receivables from exchange transactions (continued)

Less: Allowance for impairment		
Rates	(7 165 007)	(2 679 506)
Electricity	(3 276 478)	(3 201 909)
Water	(10 756 414)	(5 470 911)
Sewerage	(90 567)	(841 246)
Refuse	(217 872)	(655 572)
Service debtors	(87 783 876)	(43 240 079)
	(109 290 214)	**(56 089 223)**

Net balance		
Rates	(10 287)	2 699
Electricity	1 207 290	1 155 530
Water	2 399 447	1 575 321
Sewerage	231 335	257 034
Refuse	177 543	197 223
Other	15 120 893	12 180 258
	19 126 221	**15 368 065**

Rates		
Current (0 -30 days)	1 161 495	182 295
31 - 60 days	557 297	180 974
61 - 90 days	549 664	178 386
91 - 120 days	542 433	174 807
121 + days	4 343 831	1 965 743
Less impairment	(7 165 007)	(2 679 506)
	(10 287)	**2 699**

Electricity		
Current (0 -30 days)	384 856	296 098
31 - 60 days	272 613	395 903
61 - 90 days	172 388	264 204
91 - 120 days	252 230	292 523
121 + days	3 401 681	3 108 711
Less impairment	(3 276 478)	(3 201 909)
	1 207 290	**1 155 530**

Water		
Current (0 -30 days)	3 141 865	638 096
31 - 60 days	516 099	456 571
61 - 90 days	655 251	580 185
91 - 120 days	743 076	545 959
121 + days	8 099 570	4 825 421
Less impairment	(10 756 414)	(5 470 911)
	2 399 447	**1 575 321**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

10. Receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	212 577	106 434
31 - 60 days	8 686	103 571
61 - 90 days	7 926	101 078
91 - 120 days	7 525	99 897
121 + days	85 187	687 300
Less impairment	(90 566)	(841 246)
	231 335	**257 034**

Refuse		
Current (0 -30 days)	148 666	76 698
31 - 60 days	16 208	75 232
61 - 90 days	15 354	73 389
91 - 120 days	14 818	72 367
121 + days	200 369	555 109
Less impairment	(217 872)	(655 572)
	177 543	**197 223**

Other (specify)		
Current (0 -30 days)	14 783 989	4 152
31 - 60 days	4 948 489	4 152
61 - 90 days	203 346	4 152
91 - 120 days	3 992	4 152
121+ days	82 964 952	55 403 729
Less impairment	(87 783 875)	(43 240 079)
	15 120 893	**12 180 258**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

10. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers/Other		
Current (0 -30 days)	16 879 577	1 997 625
31 - 60 days	5 362 561	978 505
61 - 90 days	548 779	956 010
91 - 120 days	415 167	1 087 313
121 + days	87 894 129	14 114 720
Less impairment	(15 635 291)	(1 803 100)
	95 464 922	17 331 073
Less: Allowance for impairment	(78 174 783)	(13 964 877)
	17 290 139	**3 366 196**
Industrial/ commercial		
Current (0 -30 days)	1 928 381	130 595
31 - 60 days	945 468	58 713
61 - 90 days	1 043 582	67 209
91 - 120 days	1 135 247	108 033
121 + days	10 995 188	284 915
Less impairment	(1 774 143)	(118 546)
	14 273 723	530 919
Less: Allowance for impairment	(12 631 120)	(345 816)
	1 642 603	**185 103**
National and provincial government		
Current (0 -30 days)	1 025 488	138 864
31 - 60 days	11 363	39 373
61 - 90 days	11 568	42 876
91 + days	13 661	35 581
121 + days	206 274	49 713 062
> 365 days	(895 387)	(119 056)
	372 967	49 850 700
Less: Allowance for impairment	(179 489)	(38 034 282)
	193 478	**11 816 418**
Total		
Current (0 -30 days)	19 833 447	2 520 176
31 - 60 days	6 319 392	1 201 394
61 - 90 days	1 603 929	1 189 706
91 - 120 days	1 564 075	1 353 337
121 + days	99 095 591	65 192 675
Less impairment	(18 304 821)	(2 293 667)
	110 111 613	69 163 621
Less: Allowance for impairment	(90 985 392)	(53 795 556)
	19 126 221	**15 368 065**
Less: Provision for debt impairment		
Balance at beginning of the year	(56 089 223)	(53 795 602)
Contributions to allowance	(53 200 991)	(2 293 621)
	(109 290 214)	**(56 089 223)**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

10. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(56 089 223)	(53 795 602)
Contributions to allowance	(53 200 991)	(2 293 621)
	(109 290 214)	**(56 089 223)**

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Allowance for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the allowance for bad debt.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	11 292 171
Short-term deposits	2 008 111	2 000 596
Bank overdraft	(4 576 564)	-
	(2 568 453)	**13 292 767**
Current assets	2 008 111	13 292 767
Current liabilities	(4 576 564)	-
	(2 568 453)	**13 292 767**

The municipality had the following bank accounts

Account description / number	**Bank statement balances**			**Cash book balances**		
	30 June 2013	**30 June 2012**	**30 June 2011**	**30 June 2013**	**30 June 2012**	**30 June 2011**
Primary Bank Account						
ABSA Bank Limited - Current account - 4054 38 5292	21 081	770 160	1 959 563	21 081	11 292 171	1 959 563
Call Investment Deposits						
ABSA Bank Limited - 32 Day Notice Deposit - 90 9988 9345	-	1 987 252	1 923 619	-	1 987 252	1 923 619
ABSA Bank Limited - Call Deposit - 90 9268 8429	3 547	3 159	4 732 356	3 547	3 159	4 732 356
ABSA Bank Limited - Call Deposit - 91 5245 5805	2 552	2 276	1 954 389	2 552	2 276	1 954 389
ABSA Bank Limited - Call Deposit - 92 7930 6228	1 000	-	-	1 000	-	-
Standard Bank - Call Deposit - 54 8529973 001	-	4 714	5 271 232	-	4 714	5 271 232
First National Bank - Call Deposit - 62 2471 177 09	-	3 194	5 001 000	-	3 194	5 001 000
Total	**28 180**	**2 770 755**	**20 842 159**	**28 180**	**13 292 766**	**20 842 159**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1		2013	2012
12. Other financial liabilities			
At amortised cost			
Development Bank of South Africa		2 647 662	3 198 186
Loan number:	101251/1		
Starting date:	01/07/2007		
Redemption date:	30/06/2017		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	1.000% (Fixed)		
Development Bank of South Africa		1 514 969	1 575 335
Loan number:	101797/1		
Starting date:	01/07/2011		
Redemption date:	30/06/2027		
Capital and Interest repayment frequency:	6 Months		
Interest rate:	8.848% (Fixed)		
		4 162 631	**4 773 521**
Total other financial liabilities		**4 162 631**	**4 773 521**
Non-current liabilities			
At amortised cost		3 535 993	4 162 631
Current liabilities			
At amortised cost		626 638	610 890

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructural Grant	-	9 553 161
Library Grant	-	423 051
Rural Household Infrastsructure Grant	-	4 707 164
Expanded Public Works Program	-	2 379 301
	-	**17 062 677**

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

See note 20 for reconciliation of grants from National/Provincial Government.

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

14. Provisions

Reconciliation of provisions - 2013

	Opening Balance	Additions	Change in discount factor	Total
Landfill site provision	1 243 676	-	341 249	1 584 925
Long service award provision	519 274	92 060	-	611 334
	1 762 950	**92 060**	**341 249**	**2 196 259**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Landfill site provision	1 217 860	25 816	1 243 676
Long service award provision	353 675	165 599	519 274
	1 571 535	**191 415**	**1 762 950**

Non-current liabilities	1 551 210	1 243 676
Current liabilities	645 049	519 274
	2 196 259	**1 762 950**

Long service award provision

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.66% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.13%. These rates do not reflect any adjustment for taxation.

15. Payables from exchange transactions

Trade payables	27 948 577	11 629 387
Debtors with credit balances	7 884 247	3 716 689
Accrued interest	11 520 700	11 713 946
Accruals	7 538 660	35 202 181
Deposits received	400	400
Other payables	33 913 840	32 041 033
Sundry deposits	668 935	668 935
Retention fees	190 314	-
Accrued leave pay	483 903	1 667 950
13th Cheque accrual	705 922	988 163
	90 855 498	**97 628 684**

Figures to the nearest R1	2013	2012

16. Financial liabilities by category

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

2013

	Financial liabilities at amortised cost	Total
Trade and other payables	90 855 498	90 855 498
Other financial liabilities	4 162 631	4 162 631
	95 018 129	**95 018 129**

2012

	Financial liabilities at amortised cost	Total
Trade and other payables	97 628 684	97 628 684
Other financial liabilities	4 773 521	4 773 521
	102 402 205	**102 402 205**

17. Revenue

Service charges	17 222 913	12 648 054
Rental of facilities and equipment	171 113	37 015
Other income - (rollup)	3 083 983	23 451 488
Interest received - investment	3 508 065	1 303 220
Property rates	6 786 384	3 116 338
Government grants & subsidies	198 583 271	128 102 028
	229 355 729	**168 658 143**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	17 222 913	12 648 054
Rental of facilities and equipment	171 113	37 015
Other income	3 083 983	23 451 488
Interest received - investment	3 508 065	1 303 220
	23 986 074	**37 439 777**

The amount included in revenue arising from non-exchange transactions is as follows:		
Rendering of Services & Other revenue		
Property rates	6 786 384	3 116 338
Transfer revenue		
License fees - motor vehicles	198 583 271	128 102 028
	205 369 655	**131 218 366**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

18. Property rates

Rates received

Residential	231 813	(285 515)
Commercial	158 686	229 328
Agricultural	29 607 777	29 856 687
Less: Income forgone	(23 211 892)	(26 684 162)
	6 786 384	**3 116 338**

19. Service charges

Sale of electricity	5 177 111	7 467 223
Sale of water	10 252 714	6 295 041
Solid waste	652 175	729 310
Sewerage and sanitation charges	1 140 913	(1 843 520)
	17 222 913	**12 648 054**

20. Government grants and subsidies

Operating grants		
Equitable share	67 506 000	54 260 000
Municipal Systems Improvements Grant (MSIG)	800 000	964 540
Finance Management Grant (FMG)	1 500 000	1 887 188
Municipal Infrastructural Grant (MIG)	56 479 000	33 114 296
Library Grant	222 500	683 975
Water Operation and Subsidy Grant	1 875 000	3 875 000
Expanded Public Works Program	5 705 335	392 692
John Taolo District Municipality	-	525 157
	134 087 835	95 702 848
Capital grants		
Rural Household Infrastsructure Grant	58 397 643	5 235 402
ACIP sanitation	6 097 793	27 163 778
	64 495 436	32 399 180
	198 583 271	**128 102 028**

Equitable Share

The Equitable Share is the unconditional share of the revenue raised nationally and is being allocated in terms of Section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.

Municipal Infrastructural Grant (MIG)

Balance unspent at beginning of year	9 553 161	13 678 043
Current-year receipts	60 211 543	41 128 000
Conditions met - transferred to revenue	(69 764 704)	(40 852 882)
Other	-	(4 400 000)
	-	**9 553 161**

MIG is a conditional grant that was established to address national priorities regarding municipal infrastructure that may not be realised through unconditional grants such as equitable share. Among other conditions no MIG funds may be spent outside the framework of the municipality's pre-existing Integrated Development Plan and its approved budget.

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

21. Other income

Admin charges	141 841	5 480 364
Bargaining council	16 376	7 091
Cemetery fees	329	90
Connection fees	37 949	83 822
Grading fees	23 254	2 603
Insurance claims received	609 298	2 930
Medical aid	292 506	852 893
Miscellaneous income	1 901 449	16 979 747
Photocopies	9 036	4 417
Rental income	2 267	-
Sale of Pre-paid water	9 001	(43)
Telephone cost reclaimed	(26 804)	16 224
Tender documents	67 481	21 350
	3 083 983	**23 451 488**

22. General expenses

Advertising	674 825	913 451
Auditors remuneration	1 186 589	1 644 392
Bank charges	79 144	183 529
Consulting and professional fees	13 123 874	5 592 340
Capacity buildings	137 950	591 747
Chemicals	38 574	7 099
Cleaning	56 376	169 914
Commission paid	-	72 917
Community development and training	4 327 492	4 062 311
Community participation	605 867	1 316 489
Computer expenses	47 425	55 631
Conferences and seminars	18 967	28 996
Departmental expenses	6 316 622	2 081 020
Disaster assistance	14 438	160 660
Entertainment	456 725	1 027 814
Fuel and oil	3 192 732	4 601 653
Indigent subsidies	3 269 644	1 695 975
Insurance	-	640 565
Lease rentals on operating lease	-	19 369
Magazines, books and periodicals	243 696	237 141
Motor vehicle expenses	4 669 568	806 823
Name branding	45 700	338 613
Postage and courier	27 700	2 951
Printing and stationery	340	844
Pump operation cost	1 163 126	1 672 479
Security	796 978	416 311
Small, medium and micro enterprises support	98 032	505 146
Stores and materials	2 214 613	3 196 725
Subscriptions and membership fees	551 890	535 520
Telephone and fax	2 663 558	2 823 947
Training	62 518	54 505
Travel and subsistence	2 983 512	2 273 191
Uniforms	2 188	26 280
Ward committee expenses	(11 260)	548 597
	49 059 403	**38 304 945**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

23. Employee related costs

Basic	14 380 242	18 550 177
Bonus	950 062	225 334
Medical aid contributions	1 762 427	2 043 108
Unemployment Insurance Fund	188 067	244 455
Industrial Council Levy	163 576	-
Skills Development Levy	215 295	970 536
Leave pay provision charge	(1 184 047)	1 667 950
Post-employment benefits - Pension Fund Contributions	2 466 260	2 723 178
Overtime	1 056 140	1 756 487
Long-service awards	92 060	165 599
Transport allowance	3 434 115	4 959 210
Cell phone allowances	607 648	833 171
Non-Pensionable allowances	17 061	8 689
	24 148 906	**34 147 894**

Remuneration of Municipal Manager

Remuneration	462 808	187 500
Subsistance allowance	27 000	-
Transport allowance	334 500	107 500
Other	71 247	17 500
	895 555	**312 500**

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, he was still the active municipal manager on year end.

Remuneration of Chief Finance Officer

Remuneration	385 000	30 000
Transport allowance	180 000	15 000
Other	60 000	5 000
Cell phone allowance	11 000	-
Back pay	31 843	-
	667 843	**50 000**

Mrs. B.D..Motlhaping was appointed as chief financial officer on 1 June 2012, she was still the active chief financial officer on year end.

Remuneration of the Corporate services manager

Remuneration	358 415	324 112
Housing subsidy	3 733	-
Transport allowance	212 194	198 075
Contributions to Pension Fund	1 417	-
Back pay	-	5 144
Other	19 880	17 000
	595 639	**544 331**

Remuneration of the Community service manager

Remuneration	343 297	306 386
Housing subsidy	5 600	-
Transport allowance	202 115	187 257
Back pay	6 301	1 838

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012
23. Employee related costs (continued)		
Other	12 750	1 000
Contributions to UIF and Industrial Council Levy	-	17 000
	570 063	**513 481**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

23. Employee related costs (continued)

Remuneration of the Technical services manager

Annual Remuneration	110 833	296 845
Housing subsidy	28 833	-
Transport allowance	56 333	182 314
Other	12 333	18 927
Cell phone allowance	2 000	11 000
Back pay	-	5 145
	210 332	**514 231**

Remuneration of the Infrastructure and Development planning manager

Annual Remuneration	330 665	281 459
Housing subsidy	5 600	-
Transport allowance	189 960	170 638
Other	11 332	23 954
Cell phone allowance	1 417	-
Back pay	5 801	4 468
	544 775	**480 519**

24. Remuneration of councillors

Executive Major	532 085	-
Speaker	501 324	-
Councillors	5 684 776	9 283 987
	6 718 185	**9 283 987**

25. Debt impairment

Debt impairment	32 577 505	56 089 223

26. Investment revenue

Interest revenue		
Fixed and current deposits	122 186	318 962
Current accounts	1 213	244
Interest charged on trade and other receivables	3 384 666	984 014
	3 508 065	**1 303 220**

27. Depreciation and amortisation

Property, plant and equipment	26 163 965	67 951 325
Intangible assets	5 319	2 508
	26 169 284	**67 953 833**

28. Impairment of assets

Impairments		
Property, plant and equipment	-	121 780

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

29. Finance costs

Current borrowings	69 224	2 375 853
Other interest paid	26 420	25 870
	95 644	**2 401 723**

30. Auditors' remuneration

Fees	1 186 589	1 644 392

31. Rental of facilities and equipment

Premises		
Premises	3 937	2 347
Facilities and equipment		
Rental of facilities	167 176	34 668
	171 113	**37 015**

32. Grants and subsidies paid

Grants and subsidies paid	107 879 934	66 067 300

33. Bulk purchases

Electricity	2 193 742	3 539 984
Water	6 732 721	2 766 289
	8 926 463	**6 306 273**

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.

34. Cash used in operations

Deficit	(37 560 752)	(119 791 127)
Adjustments for:		
Depreciation and amortisation	26 169 284	67 953 833
Impairment provision	-	121 780
Debt impairment	32 577 505	56 089 223
Movements in provisions	433 309	191 415
Changes in working capital:		
Inventories	809 825	(892 534)
Receivables from non-exchange transactions	(789 624)	(10 582 963)
Consumer debtors	(31 854 759)	(83 642 994)
Payables from exchange transactions	(6 773 192)	83 206 797
VAT	8 314 514	(1 372 593)
Unspent conditional grants and receipts	(17 062 677)	(7 122 314)
	(25 736 567)	**(15 841 477)**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	26 658 826	12 198 652

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

36. Accounting Officer's emoluments

Executive

2013

	Emoluments	Total
Mr. T.M. Bloom	895 554	895 554

2012

	Emoluments	Total
Mr. T.M. Bloom	312 500	312 500

37. Going concern

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

38. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

39. Fruitless and wasteful expenditure

Opening balance	499 199	41 775
SARS - EMP 201 Penalties and Interest	318 591	132 309
SARS - VAT 201 Penalties and Interest	4 773	-
Interest paid - DBSA loans	-	436
Interest paid - Eskom	42 778	-
Interest paid - Telkom	5 584	-
Other	-	324 679
Closing balance	**870 925**	**499 199**

40. Irregular expenditure

Opening balance	2 694 475	-
Add: Deviations from SCM procedures	76 739 455	2 694 475
	79 433 930	**2 694 475**

Notes to the Audited Annual Financial Statements

Figures to the nearest R1	2013	2012

41. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Current year subscription / fee	4 621 560	4 171 023
Amount paid - current year	(4 923 796)	(4 290 533)
Amount paid - previous years	302 236	119 510
Closing balance	**-**	**-**

VAT

VAT receivable	5 284 058	13 598 571

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

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

Councillors' arrear consumer accounts

None of Joe Morolong Local Municipality's councillors have consumer accounts registered with the municipality on yearend.