



**INKWANCA LOCAL MUNICIPALITY**

**EC133**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2013**

**Inkwanca Local Municipality**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

**General information**

**Members of the Council**

M N Qamngwana	Mayor / Speaker
K J Jonga	Councillors
N Yaliwe	Councillors
N N Cwebi	Councillors
G X Mkhubukeli-Lufele	Councillors
C H Guba	Councillors
C M Botha	Councillors

**Municipal Manager**

S.G. SIGOJO

**Chief Financial Officer**

L. LABUSCHAGNE

**Nature of Business and Grading of Local Authority**

Inkwanca Municipality is a Grade 2 Local Authority

Inkwanca Municipality is a local municipality performing the functions as set out in the Constitution. (Act No 105 of 1996)

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act No 117 of 1998)

**Auditors**

Auditor-General, East London

**Bankers**

Standard Bank  
P. O. Box 14  
Molteno  
5500

**Inkwanca Local Municipality**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

**General information (continued)**

<b>Registered Office:</b>	<b>Molteno</b>
<b>Jurisdiction:</b>	<b>Inkwanca Municipality includes Molteno and Sterkstroom</b>
<b>Physical address:</b>	<b>39 Smith Street Molteno 5500</b>
<b>Postal address:</b>	<b>P.O. Box 1 Molteno 5500</b>
<b>Telephone number:</b>	<b>045 - 967 0021</b>
<b>Fax number:</b>	<b>045 - 967 0467</b>
<b>E-mail address:</b>	<a href="mailto:louisal@gmail.com"><u>louisal@gmail.com</u></a>

**Inkwanca Local Municipality**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 41, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 22 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Municipal Manager:

*29 August 2013*

**Inkwanca Local Municipality**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

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**Inkwanca Local Municipality**  
**STATEMENT OF FINANCIAL POSITION**  
for the year ended 30 June 2013

	Note	2013 R	Restated 2012 R
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1.5	226 775	63 323
Trade and other receivables from exchange transactions	2	5 097 511	5 042 315
Other receivables from non-exchange transactions	3	107 999	112 597
Inventories	4	165 778	731 673
VAT receivable	5	4 714 226	3 208 302
<b>Non-current assets</b>			
Property, plant and equipment	6	163 512 380	160 682 606
Investment property carried at cost	7		-
<b>Total assets</b>		<b><u>173 824 669</u></b>	<b><u>169 840 816</u></b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	8	18 962 426	16 462 902
Consumer deposits	9	192 216	209 398
Current provisions	10	3 350 593	2 987 067
Current portion of unspent conditional grants and receipts	11	147 512	2 995 801
Current portion of borrowings	12		2 069 011
Current portion of finance lease liability	13	70 797	70 569
<b>Non-current liabilities</b>			
Non-current finance lease liability	13	232 660	318 616
<b>Total liabilities</b>		<b><u>22 956 204</u></b>	<b><u>25 113 364</u></b>
<b>Net assets</b>		<b><u>150 868 465</u></b>	<b><u>144 727 452</u></b>
<b>NET ASSETS</b>			
Accumulated surplus / (deficit)		150 868 464	144 727 452
<b>Total net assets</b>		<b><u>150 868 464</u></b>	<b><u>144 727 452</u></b>

**Inkwanca Local Municipality**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2013

	Note	2013 R	2012 R
<b>Revenue</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property rates	14	4 881 197	2 819 427
Government grants and subsidies	19	37 230 783	32 094 602
<b>Revenue from Exchange Transactions</b>			
Service charges	15	19 109 002	15 897 649
Rental of facilities and equipment	16	121 217	105 524
Interest earned - external investments	17	46 271	51
Interest earned - outstanding receivables	18	2 343 665	3 884 081
Fines		51 308	55 637
Other income	20	3 398 213	2 778 490
<b>Total revenue</b>		<b>67 181 657</b>	<b>57 635 462</b>
<b>Expenses</b>			
Employee related costs	21	18 188 210	18 556 206
Remuneration of councillors	22	1 872 447	1 858 550
Bad debts impairment		7 513 005	12 552 413
Depreciation and amortisation expense	23	9 977 809	10 298 868
Repairs and maintenance		3 311 157	-121 272
Finance costs	24	245 283	169 206
Bulk purchases	25	4 403 299	5 927 207
Contracted services	26	51 171	
General expenses	28	15 802 560	17 219 680
<b>Total expenses</b>		<b>61 364 941</b>	<b>66 460 857</b>
<b>Surplus / (deficit) for the period</b>		<b>5 816 715</b>	<b>(8 825 395)</b>

**Inkwanca Local Municipality**  
**STATEMENT OF CHANGES IN NET ASSETS**  
for the year ended 30 June 2013

	Accumulated	
	Surplus/(Deficit)	Total: Net Assets
Note	R	R
<b>Balance as previously reported</b>	<b>133 360 996</b>	<b>133 360 996</b>
Surplus / (deficit) on revaluation of property of property, plant and equipment	3 078 633	3 078 633
Offsetting of current depreciation		-
Surplus / (deficit) for the period	(17 662 858)	<b>(17 662 858)</b>
Correction of prior period error	254 508	<b>254 508</b>
	38	
<b>Restated Balance at 30 June 2011</b>	<b>119 031 279</b>	<b>119 031 279</b>
Surplus / (deficit) on revaluation of property of property, plant and equipment	(7 438 930)	(7 438 930)
Correction of capitalisation of assets	34 591 653	34 591 653
Surplus / (deficit) for the period	(8 825 395)	(8 825 395)
Reversal of agency transections-CHDM	7 346 858	7 346 858
Correction of Finance leases	21 984	21 984
<b>Balance at 30 June 2012</b>	<b>144 727 449</b>	<b>144 727 449</b>
Surplus / (deficit) on revaluation of property of property, plant and equipment		-
Offsetting of current depreciation		-
Surplus / (deficit) for the period	5 816 715	5 816 715
Correction of prior period error	324 297	324 297
<b>Balance at 30 June 2013</b>	<b>150 868 461</b>	<b>150 868 461</b>



**Inkwanca Local Municipality**

**CASH FLOW STATEMENT**

for the year ended 30 June 2013

	Note	2013 R	2012 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		<b>57 076 879</b>	<b>43 567 203</b>
Sales of goods and services		16 729 113	4 760 413
Grants		34 382 494	31 530 384
Interest received		2 389 936	3 884 133
Other receipts		3 575 335	3 392 273
Payments		<b>(41 951 105)</b>	<b>(35 935 096)</b>
Employee costs		-19 697 130	(19 779 856)
Suppliers		-22 008 691	(15 986 033)
Interest paid		-245 283	(169 206)
<b>CASH GENERATED BY OPERATIONS</b>	29	<b>15 125 774</b>	<b>7 632 107</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		-12 807 583	(8 882 021)
<b>Net cash flows from investing activities</b>		<b>(12 807 583)</b>	<b>(8 882 021)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Increase / (Decrease) borrowings and finance lease liability		-2 154 739	235 854
<b>Net cash flows from financing activities</b>		<b>(2 154 739)</b>	<b>235 854</b>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		163 452	(1 014 059)
<b>Net cash and cash equivalents at beginning of year</b>		63 323	1 077 382
<b>Net cash and cash equivalents at end of year</b>	30	<b>226 775</b>	<b>63 323</b>
		0	

**Inkwanca Local Municipality**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ended 30 June 2013

**1 BASIS OF ACCOUNTING**

**1.1 BASIS OF PRESENTATION**

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003)

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

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy and notwithstanding the fact that the transitional provisions of Directive 4 expired in 2012, requiring full compliance with the relevant GRAP standards in the 2012 financial year being reported

**1.2 PRESENTATION CURRENCY**

These annual financial statements are presented in South African Rand, which is the functional currency of the Municipality.

**1.3 GOING CONCERN ASSUMPTION**

These annual financial statements have been prepared on the assumption that the Municipality will continue to operate as a going concern for at least the next 12 months.

**1.4 COMPARATIVE INFORMATION**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

**1.5 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

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

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

The Municipality assesses its 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 management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset

**Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Municipality is the current bid price.

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.

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

## **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 10 - Provisions.

## **Useful lives of infrastructure and other assets**

The Municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on Treasury regulations. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

## **Effective interest rate**

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

## **Allowance for doubtful debts**

Impairment loss is recognised in surplus and deficit when there is objective evidence that debtors are impaired.

## **2 PROPERTY, PLANT AND EQUIPMENT**

### **2.1 INITIAL RECOGNITION**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment include costs incurred initially to acquire or construct and costs incurred subsequently to add to or replace part of 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 and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- (b) the cost or fair value of the item can be measured reliably.

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

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

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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

## 2.2 SUBSEQUENT MEASUREMENT

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less depreciation and accumulated impairment losses. Land is carried at cost less accumulated impairment losses

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

## 2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. Land is not depreciated and it is deemed to have an indefinite useful life. The annual depreciation rates are based on the following estimated average asset lives:

<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	15-30	Buildings	30
Electricity - Meters	20	vehicles	5-7
Electricity	20-30	Office equipment	3-5
Water	15-20	Furniture and fittings	7-10
Sewerage	15-20	Other items of plant and equipment	3-7
		Landfill sites	50
<b>Community</b>		Computer equipment	3-7
Buildings	30		
Recreational Facilities	20-30		
Halls	30		
Libraries	30		
<b>Finance lease assets</b>			
Office equipment	5		
Other assets	5		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The Municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

## 2.4 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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 3 INVESTMENT PROPERTY

#### 3.1 INITIAL RECOGNITION

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

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

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

#### 3.2 SUBSEQUENT MEASUREMENT

Investment property is initially recognised when future benefits are probable and the cost can be determined reliably.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Investment property

4

The residual value, the useful life of an asset and the depreciation method is reviewed periodically and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

#### 3.4 DERECOGNISED

Investment property is derecognised when there is a disposal or no future economic benefits are to be derived and all gains or losses are recognised in the Statements of Financial Performance.

#### 3.5 IMPAIRMENT

The Municipality tests investment property for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an investment property is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### 3.6 SUBSEQUENT MEASUREMENT - FAIR VALUE MODEL

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. Any gain or loss arising from a change in the fair value of the property is included in surplus or deficit for the period in which it arises.

## 4 INVENTORIES

### 4.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non refundable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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

### 4.2 SUBSEQUENT MEASUREMENT

Inventories, consisting of consumable stores, raw materials and finished goods, are valued at the lower of cost or net realisable value unless they are to be distributed at no or nominal charge consumed by the Municipality as part of its operations, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down 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.

In general, the basis of allocating cost to inventory items is the first-in, first-out method (**consumable stores**) or the weighted average method (**water**).

## 5 FINANCIAL INSTRUMENTS

### 5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

Financial instruments are recognised when the entity becomes a party to the contractual provisions of the instrument, and are initially measured at fair value plus, in the case of a financial asset or liability not at fair value through the Statement of Financial Performance, transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability.

### 5.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and is in accordance with GRAP 104.

Financial Assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred, and the Municipality has transferred substantially all risks and rewards of ownership, or when the Municipality loses control of contractual rights that comprise the assets.

Financial liabilities are derecognised when the obligation specified in the contract is discharged or cancelled, or when it expires.

### 5.3 INVESTMENTS

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

### 5.4 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

### 5.5 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

## **5.6 CASH AND CASH EQUIVALENTS**

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

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.

## **6 UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, Municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **7 IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's 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.

## **8 FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

## **9 PROVISIONS AND CONTINGENCIES**

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

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

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.

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

## 10 LEASES

### 10.1 Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality.

Property, plant and equipment or intangible assets (excluding patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate or Borrowing rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

## 11 REVENUE

### 11.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

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 are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when 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. The estimates of consumption between meter readings are based on history.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

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 recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

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

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

Revenue at fair value from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.



## 11.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

**These are all examples of revenue from non exchange transactions:**

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.

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.

Revenue from public contributions and donations 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 qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

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.

Revenue arising out of situations where the Municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the Municipality as compensation for executing the agreed services.

## 11.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

## 12 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

## 13 RETIREMENT BENEFITS

The Municipality provides retirement benefits for its employees and councilors. 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 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 contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

## 14 CONSTRUCTION CONTRACTS AND RECEIVABLES

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 completion of a physical proportion of the contract work.

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 loss is recognised as an expense immediately.

## 15 IMPAIRMENT OF ASSETS

The Municipality assesses at each reporting date whether there is any indication that an 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 Municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

## 16 EVENTS AFTER THE REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

a) those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and

b) those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate its financial effect, or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

## 17 EMPLOYEE BENEFITS

The costs of all short-term employee benefits, such as leave pay, are recognised as they accrue to employees. The liability is based on the total amount of leave days due to the employees at year end and on the salary of the employee.

## 18 BUDGET INFORMATION

Municipalities 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 the Municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on cash basis and presented by functional classification linked to performance outcome objective

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

Comparative information is not required

## 19 Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Transactions between related parties other than transactions that would occur within a normal supplier or client/recipient relationship on terms and conditions no more or less favourable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at arm's length in the same circumstances are disclosed within the annual financial statements.

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

## **20 Commitments**

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of each financial period the municipality determines commitments in respect of capital expenditure that has been approved and contracted for which is then disclosed as a note in the annual financial statements differentiating between community, infrastructure and other capital expenditure commitments.

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

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- GRAP 103 Heritage assets
- GRAP 104 Financial instruments

**1.3 New standards and interpretations**

**Standards and interpretations effective and adopted in the current year**

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

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GRAP 26: Impairment of cash-generating assets	1-Jul-12	
GRAP 103: Heritage Assets	1-Jul-12	No major impact as the municipality has no heritage assets
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GRAP 20: Related parties	1-Jul-13	No major impact expected
IGRAP 11: Consolidation – Special purpose entities	1-Jul-14	No impact
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact

**1.5 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

Cash on hand	-	-
Cash at bank	226 775	63 323
	<u>226 775</u>	<u>63 323</u>

No cash and cash equivalents (or portions thereof) was pledged as security for any financial liabilities.  
No restrictions exist with regard to the use of cash.  
No portion is past due or impaired.

The Municipality has the following bank accounts: -

**Current Account (Other Account)**

**Bank statements balances**

	2013	2012
Standard Bank - Molteno Branch - Acc No 280 66 1061-Operating	164 895	53 025
Standard Bank - Molteno Branch - Acc No 280 67 0893- Primary	19 624	161
Standard Bank - Molteno Branch - Acc No 280 66 0332- Natis		7 068
Standard Bank - Molteno Branch - Acc No 08 263 1808- Water servises	1 370	807
Standard Bank - Molteno Branch - Acc No 38 857 4550- Fmg	3 861	1 005
Standard Bank - Molteno Branch - Acc No 38 857 4720- Msig	8 634	1 005
Standard Bank - Molteno Branch - Acc No 38 850 0360- Mig	2 161	1 005
	<u>200 545</u>	<u>64 077</u>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

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IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact

	2013	2012
	R	R
<b>Current Account (Other Account)</b>		
<b>Cash book balances</b>		
	2013	2012
Standard Bank - Molteno Branch - Acc No 280 66 1061-Operating	191 113	52 275
Standard Bank - Molteno Branch - Acc No 280 67 0893- Primary	19 624	161
Standard Bank - Molteno Branch - Acc No 280 66 0332- Natis	-	7 068
Standard Bank - Molteno Branch - Acc No 08 263 1808- Water servises	1 370	807
Standard Bank - Molteno Branch - Acc No 38 857 4550- Fmg	3 864	1 004
Standard Bank - Molteno Branch - Acc No 38 857 4720- Msig	8 642	1 003
Standard Bank - Molteno Branch - Acc No 38 850 0360- Mig	2 163	1 004
	<u>226 775</u>	<u>63 323</u>
<b>Cash on hand</b>	-	-
Total cash and cash equivalents	<u>226 775</u>	<u>63 323</u>
Total bank overdraft	-	-

**2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

Trade receivables as at 30 June 2013	Gross Balances	Provision for Doubtful Debts	Net Balance
	R	R	R
Service debtors			
Electricity	1 771 277	(747 844)	1 023 434
Water	13 100 815	(12 621 986)	478 829
Sewerage	15 214 691	(14 448 134)	766 557
Refuse	8 764 868	(8 457 833)	307 035
Other	248 192	(91 261)	156 932
	<u>39 099 844</u>	<u>(36 367 058)</u>	<u>2 732 786</u>
<b>as at 30 June 2012</b>			
Service debtors			
Electricity	2 568 682	(1 993 011)	575 671
Water	9 381 537	(8 876 082)	505 455
Sewerage	8 742 352	(7 302 830)	1 439 522
Refuse	4 928 399	(4 660 651)	267 748
Other	13 230 025	(12 412 007)	818 018
	<u>38 850 995</u>	<u>(35 244 581)</u>	<u>3 606 414</u>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

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IGRAP 11: Consolidation – Special purpose entities	1-Jul-14	No impact
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact
		<b>2013</b> <b>R</b>
		<b>2012</b> <b>R</b>

**Inkwanca Local Municipality**  
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IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact

	2013 R	2012 R
<b>Electricity: Ageing</b>		
Current (0 – 30 days)	252 410	284 801
31 - 60 Days	139 631	173 020
61 - 90 Days	160 502	117 850
91 - 120 Days	1 218 735	1 993 011
	1 771 278	2 568 682
Less: Allowance for debt impairment	(747 844)	(1 993 011)
<b>Total</b>	<b>1 023 434</b>	<b>575 671</b>

	2013	2012
<b>Refuse Ageing</b>		
Current (0 – 30 days)	175 423	121 977
31 - 60 Days	164 632	74 354
61 - 90 Days	160 939	71 417
91 - 120 Days	8 263 873	4 660 651
	8 764 867	4 928 399
Less: Allowance for debt impairment	(8 457 833)	(4 660 651)
<b>Total</b>	<b>307 034</b>	<b>267 748</b>

	2013	2012
<b>Water: Ageing</b>		
Current (0 – 30 days)	282 313	202 743
31 - 60 Days	239 767	183 317
61 - 90 Days	212 759	119 395
91 - 120 Days	12 365 975	8 876 082
	13 100 814	9 381 537
Less: Allowance for debt impairment	(12 621 986)	(8 876 082)
<b>Total</b>	<b>478 828</b>	<b>505 455</b>

	2013	2012
<b>Sewerage: Ageing</b>		
Current (0 – 30 days)	361 937	254 097
31 - 60 Days	339 470	164 087
61 - 90 Days	330 714	1 021 338
91 - 120 Days	14 182 569	7 302 830
	15 214 690	8 742 352
Less: Allowance for debt impairment	(14 448 134)	(7 302 830)
<b>Total</b>	<b>766 556</b>	<b>1 439 522</b>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

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**Other Debtors: Ageing**

	2013 R	2012 R
Current (0 – 30 days)	5 466	273 422
31 - 60 Days	3 603	280 157
61 - 90 Days	5 701	264 439
91 - 120 Days	233 423	12 412 007
	248 193	13 230 025
Less: Allowance for debt impairment	(91 261)	(12 412 007)
<b>Total</b>	<b>156 932</b>	<b>818 018</b>

**Reconciliation of the doubtful debt provision**

	2013	2012
Balance at beginning of the year	35 244 581	35 244 581
Contributions to provision	1 122 477	
<b>Balance at end of year</b>	<b>36 367 058</b>	<b>35 244 581</b>

**Consumer debtors pledged as security**

No portion of accounts receivable was pledged as security for any financial liabilities.

**Consumer debtors impaired**

As of 30 June 2013, consumer debtors of R 45,436,539 (2012: R 41,422,505) were impaired and provided for.



**Inkwanca Local Municipality**  
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IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact

**3.1 TRADE RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	Gross Balances R	Provision for Doubtful Debts R	Net Balance R
<b>Trade receivables as at 30 June 2013</b>			
Service debtors			
Rates	11 434 205	(9 069 481)	2 364 724
<b>as at 30 June 2012</b>			
Service debtors			
Rates	7 631 824	(6 177 924)	1 453 900
<b>Rates: Ageing</b>			
Current (0 – 30 days)		379 856	292 481
31 - 60 Days		335 648	200 520
61 - 90 Days		318 451	960 899
91 - 120 Days		10 400 251	6 177 924
	11 434 206		7 631 824
Less: Allowance for debt impairment		(9 069 481)	(6 177 924)
<b>Total</b>	<b>2 364 725</b>		<b>1 453 900</b>

**3.2 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2013	2012
Other debtors	107 999	112 597
<b>Total Other Debtors</b>	<b>107 999</b>	<b>112 597</b>

**Trade and other receivables pledged as security**

No portion of accounts receivable was pledged as security for any financial liabilities.

No security is held for any accounts receivable.

**4 INVENTORIES**

	2013	2012
<b>Inventories:</b>	<b>165 777</b>	<b>731 673</b>
Consumable stores - at cost	147 126	697 658
Water	18 652	34 015

**Inventory pledged as security**

No inventory was pledged as security.

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

**1.1 Changes in accounting policy**

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the following new stands as issued by the Accounting Standard Board:

- GRAP 23 Revenue from non-exchange transactions.
- GRAP 24 Presentation of budget information in the financial statement
- GRAP 21 Impairment of non-exchange transactions
- GRAP 26 Impairment of exchange transactions
- GRAP 103 Heritage assets
- GRAP 104 Financial instruments

**1.3 New standards and interpretations**

**Standards and interpretations effective and adopted in the current year**

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 23: Revenue from Non-exchange Transactions	1-Jul-12	The major will be the accounting treatment of condition grants and fines
GRAP 24: Presentation of Budget Information in the Financial	1-Jul-12	Major change is presenting the budget information compared to actuals in the AFS
GRAP 21: Impairment of non-cash-generating assets	1-Jul-12	
GRAP 26: Impairment of cash-generating assets	1-Jul-12	
GRAP 103: Heritage Assets	1-Jul-12	No major impact as the municipality has no heritage assets
GRAP 104: Financial Instruments	1-Jul-12	

**1.4 Standards and interpretations issued, but not yet effective or relevant**

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods but are not relevant to its operations:

Standard:	Effective date: Years beginning on or after	Expected impact:
GRAP 25: Employee benefits	1-Jul-13	No major impact expected
GRAP 20: Related parties	1-Jul-13	No major impact expected
IGRAP 11: Consolidation – Special purpose entities	1-Jul-14	No impact
IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	1-Jul-14	No impact

**5 VAT RECEIVABLE**

VAT receivable

2013	2012
R	R
2013	2012
4 714 226	3 208 302

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

**6 PROPERTY, PLANT AND EQUIPMENT**

6.1 Reconciliation of Carrying Value	Land	Buildings	Infrastructure	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R
<b>as at 1 July 2012</b>	<b>30 170 500</b>	<b>13 854 125</b>	<b>113 672 845</b>	<b>2 874 863</b>	<b>110 272</b>	<b>160 682 605</b>
Cost/Revaluation	30 170 500	14 552 895	141 774 071	4 471 793	366 555	191 335 814
Accumulated depreciation and impairment losses	-	698 770	28 101 226	1 596 930	256 283	30 653 209
Acquisitions			6 594 441	860 524		7 454 965
Capital under Construction			5 351 241			5 351 241
Depreciation		351 971	9 241 814	353 622	30 402	9 977 809
Carrying value of disposals	-	-	-	-	-	-
Cost/Revaluation	-	-	-	296 052	229 636	525 688
Accumulated depreciation and impairment losses	-	-	-	296 052	229 636	525 688
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Other movements	-	-	1 377	-	-	1 377
<b>as at 30 June 2013</b>	<b>30 170 500</b>	<b>13 502 154</b>	<b>116 378 090</b>	<b>3 381 765</b>	<b>79 870</b>	<b>163 512 379</b>
Cost/Revaluation	30 170 500	14 552 895	153 721 130	5 036 265	136 919	203 617 709
Accumulated depreciation and impairment losses	-	1 050 741	37 343 040	1 654 500	57 049	40 105 330

Refer to Appendix B for more detail on property, plant and equipment

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2012

**6.2 Reconciliation of Carrying Value**

	Land	Buildings	Infrastructure	Other Assets	Finance lease assets	Total
	R	R	R	R	R	R
<b>as at 1 July 2011</b>	<b>30 170 500</b>	<b>14 206 096</b>	<b>118 457 768</b>	<b>3 163 916</b>	<b>192 359</b>	<b>186 784 202</b>
Cost/Revaluation	30 170 500	14 552 895	137 023 585	4 471 793	565 429	186 784 202
Accumulated depreciation and impairment losses	-	346 799	18 565 818	1 307 877	373 070	
Acquisitions						-
Capital under Construction			4 750 486			4 750 486
Depreciation		351 971	9 535 408	289 053	82 087	10 258 519
Carrying value of disposals	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	198 874	198 874
Accumulated depreciation and impairment losses					198 874	198 874
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
Other movements	-	-	-	-	-	-
<b>as at 30 June 2012</b>	<b>30 170 500</b>	<b>13 854 125</b>	<b>113 672 845</b>	<b>2 874 863</b>	<b>110 272</b>	<b>160 682 605</b>
Cost/Revaluation	30 170 500	14 552 895	141 774 071	4 471 793	366 555	191 335 814
Accumulated depreciation and impairment losses	-	698 770	28 101 226	1 596 930	256 283	30 653 209

**Refer to Appendix B for more detail on property, plant and equipment**

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

	2013 R	2012 R
<b>8 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade creditors	12 567 972	7 201 935
Transfer of credit balances from Trade and other receivables from exchange transactions	1 407 945	3 962 721
Other creditors	4 986 508	5 298 246
<b>Total creditors</b>	<b>18 962 426</b>	<b>16 462 902</b>

*The fair value of trade and other payables approximates their carrying amounts.  
None of the trade payables are secured.*

	2013	2012
<b>9 CONSUMER DEPOSITS</b>		
Other	192 216	209 398
<b>Total consumer deposits</b>	<b>192 216</b>	<b>209 398</b>

	2013	2012
<b>10 PROVISIONS</b>		
Bonus	1 115 739	1 074 641
Landfill Sites	463 803	461 049
Provision for leave	1 146 052	825 001
CCMA award	626 376	626 376
<b>Total Provisions</b>	<b>3 351 970</b>	<b>2 987 067</b>

Bonus

This provision is in respect of short term liability relating to long service bonuses payable to employees.

Provision for leave

This provision is in respect of short term liability relating to leave payable to employees.

Provision for landfill sites

With regards to the Provision for Landfill sites: It is stated in the Department of Water Affairs and Forestry "Minimum Requirements for Waste Disposal by Landfill", Second Edition 1998, Chapter 2.3.4, that "All landfills except those closed prior to August 1990 when the permitting system came into effect, must be permitted before they can be considered closed. Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management." Rehabilitation costs in respect of geohydrological monitoring is anticipated to be a recurring cost for the next 30 years. The future value of the Rehabilitation of landfill sites obligation was calculated by inflating the non current rehabilitation cost to an estimated future cost which was then discounted to present value.

Assumptions used:

Interest rate used is borrowing rate at 10%.

The valuation for the landfill site provision was done by Mr A Mxenge, an environmental specialist seconded by the department of Local Government and Traditional Affairs Bisho.

The movement in current provisions are reconciled as follows: -

	Provision for Landfill Sites	Provision for Bonuses	Provision for leave
<b>as at 1 July 2012</b>	<b>461 049</b>	<b>1 074 641</b>	<b>825 001</b>
Contributions to provision / (expenditure)	2 754	41 098	321 052
<b>as at 30 June 2013</b>	<b>463 803</b>	<b>1 115 739</b>	<b>1 146 052</b>
<b>as at 1 July 2011</b>	-	<b>475 997</b>	<b>1 415 121</b>
Contributions to provision / (expenditure)	461 049	598 644	(590 120)
<b>as at 30 June 2012</b>	<b>461 049</b>	<b>1 074 641</b>	<b>825 001</b>

**11 UNSPENT CONDITIONAL GRANTS AND RECEIPTS**

**11.1 Unspent Conditional Grants from other spheres of Government**

	2012	2011
Financial Management Grant		-
Land Development Fund	83 366	197 430
MIG		2 454 225
MSIG		-
Update Fixed Assets Register		280 000
Update Valuation Role	64 146	64 146
<b>Total Unspent Conditional Grants and Receipts</b>	<b>147 512</b>	<b>2 995 801</b>
<b>Current portion of unspent conditional grants and receipts</b>	<b>147 512</b>	<b>2 995 801</b>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

	2013 R	2012 R
<b>12 BORROWINGS</b>		
Chris Hani District Municipality	-	2 069 011
	-	<b>2 069 011</b>
<u>Less : Current portion transferred to current liabilities</u>	-	<b>(2 069 011)</b>
Chris Hani District Municipality	-	(2 069 011)
<b>Total borrowings</b>	-	-

*Refer to Appendix A for more detail on borrowings.*

The borrowing is unsecured, interest free and repayable at the discretion of the parties.

**13 FINANCE LEASE LIABILITY**

2013	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
<b>Amounts payable under finance leases</b>			
Within one year	330 749	(27 292)	303 457
Within two to five years			-
	<u>330 749</u>	<u>(27 292)</u>	<b>303 457</b>
Less: Amount due for settlement within 12 months (current portion)			70 797
			<b><u>232 660</u></b>

2012	Minimum lease payment R	Future finance charges R	Present value of minimum lease payments R
<b>Amounts payable under finance leases</b>			
Within one year	416 477	27 292	389 185
Within two to five years			
	<u>416 477</u>	<u>27 292</u>	<b>389 185</b>
Less: Amount due for settlement within 12 months (current portion)			70 569
			<b><u>318 616</u></b>

**Motor Vehicles:**

The average lease term is for a 60 month period and the average effective rate is 10%.

**Office Equipment:**

The average lease term is for a 60 month period except for one lease, which is for a 36 month period and the average effective rate is 10.1%.

**General**

There are no contingent rentals during the period.  
are no sublease in existence during the period.  
been any breaches or defaults of the terms and conditions during the period.  
and conditions were renegotiated during the period.

There  
There have not  
None of the terms

**14 PROPERTY RATES**

	2013	2012
<b>Actual</b>		
Residential and other property's	4 881 197	2 819 427
<b>Total property rates</b>	<b>4 881 197</b>	<b>2 819 427</b>
Property rates - penalties imposed and collection charges	-	-
<b>Total</b>	<b><u>4 881 197</u></b>	<b><u>2 819 427</u></b>

**15 SERVICE CHARGES**

	2013	2012
Sale of electricity	5 689 231	5 102 276
Sale of water	5 052 967	2 762 696
Refuse removal	2 658 913	3 548 775
Sewerage and sanitation charges	5 707 891	5 361 186
Interest earn- outstanding receivables		(877 284)
<b>Total Service Charges</b>	<b><u>19 109 002</u></b>	<b><u>15 897 649</u></b>

**16 RENTAL OF FACILITIES AND EQUIPMENT**

	2013	2012
Rental of facilities	121 217	105 524
<b>Total rentals</b>	<b><u>121 217</u></b>	<b><u>105 524</u></b>

**17 INTEREST EARNED - EXTERNAL INVESTMENTS**

	2013	2012
Bank	46 271	51
<b>Total interest</b>	<b><u>46 271</u></b>	<b><u>51</u></b>

**18 INTEREST EARNED - OUTSTANDING RECEIVABLES**

	2013	2012
Consumers	2 343 665	3 884 081
<b>Total interest</b>	<b><u>2 343 665</u></b>	<b><u>3 884 081</u></b>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2013 R	2012 R
<b>19 GOVERNMENT GRANTS AND SUBSIDIES</b>		
Equitable share	15 325 000	14 201 000
MIG Grant	12 445 231	7 758 223
MSIG	800 000	1 313 196
Finance Management Grant	1 500 000	2 309 498
Subsidy - Chris Hanani District Municipality	6 047 152	6 281 686
Other Government Grants and Subsidies	1 113 400	231 000
<b>Total Government Grant and Subsidies</b>	<b>37 230 783</b>	<b>32 094 602</b>

**19.1 Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy.

	2013	2012
<b>20 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS</b>		
<b>20.1 Other income</b>	3 398 213	2 778 490
<b>Total Other Income</b>	<b>3 398 213</b>	<b>2 778 490</b>

	2013	2012
<b>21 EMPLOYEE RELATED COSTS</b>		
Employee related costs - Salaries and Wages	13 044 044	13 752 501
Employee related costs - Contributions for UIF, pensions and medical aids	2 981 803	2 379 212
Travel, motor car, accommodation, subsistence and other allowances	703 694	746 052
Overtime payments	50 610	59 401
Performance and other bonuses	1 028 673	1 614 377
CCMA award		626 376
Other employee related costs	379 387	(621 713)
<b>Total Employee Related Costs</b>	<b>18 188 210</b>	<b>18 556 206</b>

There were no advances to employees / Loans to employees are set out in note 2.

**Remuneration of the Municipal Manager**

	2013	2012
Annual Remuneration	485 717	394 749
Performance- and other bonuses		20 224
Travel, motor car, accommodation, subsistence and other allowances	198 204	130 436
Contributions to UIF, Medical and Pension Funds	1 713	1 121
Ex Gratuity		761 348
<b>Total</b>	<b>685 633</b>	<b>1 307 878</b>

**Remuneration of the Chief Finance Officer**

	2013	2012
Annual Remuneration	342 505	301 599
Acting Allowance	67 570	54 090
Performance- and other bonuses		27 558
Travel, motor car, accommodation, subsistence and other allowances	45 402	3 000
Contributions to UIF, Medical and Pension Funds	90 607	749
<b>Total</b>	<b>546 084</b>	<b>386 996</b>

The post was vacant as from 01 January 2012 to December 12 an acting allowance has been paid for the period of vacancy.

**Remuneration of Individual Executive Directors**

	Technical Services R	Corporate Services R	Community Services R
<b>2013</b>			
Annual Remuneration	273 837	415 405	422 227
Acting Allowance	180 871		
Performance- and other bonuses			
Travel, motor car, accommodation, subsistence and other allowances	50 046	145 100	141 817
Contributions to UIF, Medical and Pension Funds	54 599	5 176	1 713
<b>Total</b>	<b>559 353</b>	<b>565 681</b>	<b>565 757</b>

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
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	2013		2012
	R		R
	Technical Services	Corporate Services	Community Services
2012	R	R	R
Annual Remuneration	401 825	338 644	338 645
Acting Allowance	25 440		
Performance- and other bonuses	28 345	28 220	28 220
Travel, motor car, accommodation, subsistence and other allowances	4 500	149 602	120 882
Contributions to UIF, Medical and Pension Funds	1 123	1 497	1 494
<b>Total</b>	<b>461 233</b>	<b>517 964</b>	<b>489 241</b>

The post was vacant as from 01 May 2012, an acting allowance has been paid for the period of vacancy.

	2013	2012
<b>22 REMUNERATION OF COUNCILLORS</b>		
Councillors' pension and medical aid contributions	245 540	167 506
Councillors' allowances	1 626 907	1 691 044
<b>Total Councillors' Remuneration</b>	<b>1 872 447</b>	<b>1 858 550</b>

	2013	2012
<b>23 DEPRECIATION AND AMORTISATION EXPENSE</b>		
Property, plant and equipment	9 977 809	10 298 868
<b>Total Depreciation and Amortisation</b>	<b>9 977 809</b>	<b>10 298 868</b>

	2013	2012
<b>24 FINANCE COSTS</b>		
Borrowings	245 283	125 501
Bank overdrafts	-	5
<b>Total Finance Costs</b>	<b>245 283</b>	<b>125 506</b>

	2013	2012
<b>25 BULK PURCHASES</b>		
Electricity	4 403 299	5 669 461
Water		257 748
<b>Total Bulk Purchases</b>	<b>4 403 299</b>	<b>5 927 209</b>

	2013	2012
<b>26 CONTRACTED SERVICES</b>		
Contracted services for: <i>Security Services</i>	51 171	-

	2013	2012
<b>27 GRANTS AND SUBSIDIES EXPENSED</b>		
Grant expenses - Municipal Systems Implementation Grant	800 000	1 313 196
Grant expenses - Financial Management Grant	1 500 000	2 294 628
Grant expenses - Municipal Infrastructure Grant	499 550	411 804
Grant expenses - Subsidy Indigents	5 410 791	5 726 336
Grant expenses - Expanded Public Programme	998 146	
Expenditure charged against conditional grants		
<b>28</b>	<b>9 208 487</b>	<b>9 745 964</b>



**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

28 GENERAL EXPENSES	Note	2013 R 2013	2012 R 2012
Included in general expenses are the following:-			
Admin fees		55 546	38 368
Advertising		52 868	56 441
Audit fees		256 586	2 392 769
Bank charges		115 840	102 622
Cleaning		640 593	98 540
Entertainment			-
Fuel and oil		463 754	458 821
Grant expenditure	27	9 208 487	9 745 964
Insurance		99 713	154 190
Legal expenses		4 739	41 005
Licence fees - all		13 380	11 072
Membership fees		453 535	661 455
Other rentals		153 198	59 482
Postage		8 810	13 988
Printing and stationery		388 908	258 580
Rental of office equipment		160 397	170 843
Security costs			27 585
Subscription & publication		196 581	219 969
Telephone cost		316 964	244 885
Training		261 017	171 900
Travel and subsistence		209 428	122 675
Uniforms & overalls		193 755	148 441
Other		2 548 462	2 020 087
		<b>15 802 560</b>	<b>17 219 680</b>
<b>29 CASH GENERATED BY OPERATIONS</b>			
		<b>2013</b>	<b>2012</b>
Surplus/(deficit) for the year		5 816 715	(8 825 395)
<i>Adjustment for:-</i>			
Adjustment prior years		324 297	
Depreciation and amortisation		9 977 809	10 298 868
Reversal of agency accounting- CHDM			7 346 858
Contribution to provisions - non-current			
Contribution to provisions - current		363 527	1 095 949
<b>Operating surplus before working capital changes:</b>		<b>16 482 348</b>	<b>9 916 280</b>
(Increase)/decrease in inventories		565 895	(687 971)
(Increase)/decrease in trade receivables		(55 196)	(1 981 851)
(Increase)/decrease in other receivables		4 598	452 622
(Increase)/decrease in VAT receivable		(1 505 923)	(1 776 070)
Increase/(decrease) in conditional grants and receipts		(2 848 289)	(564 219)
Increase/(decrease) in trade payables		2 499 524	2 233 430
Increase/(decrease) in consumer deposits		(17 183)	39 887
<b>Cash generated by/(utilised in) operations</b>		<b>15 125 774</b>	<b>7 632 107</b>
<b>30 CASH AND CASH EQUIVALENTS</b>			
		<b>2013</b>	<b>2012</b>
Cash and cash equivalents included in the cash flow statement comprise the following:			
Bank balances and cash		226 775	63 323
<b>Net cash and cash equivalents (net of bank overdrafts)</b>		<b>226 775</b>	<b>63 323</b>



**Inkwanca Local Municipality**  
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	2013	2012
	R	R

**32.3 VAT**

VAT input receivables and VAT output payables are shown in note 5. All VAT returns up to June 2013 have been submitted. The remaining VAT returns are still outstanding.

**32.4 PAYE and UIF**

	2013	2012
Opening balance	3 966 869	1 607 579
Current year payroll deductions	1 883 004	2 359 290
Amount paid - current year	(2 255 673)	-
	-	-
<b>Balance unpaid (included in payables)</b>	<b>3 594 200</b>	<b>3 966 869</b>

**32.5 Pension and Medical Aid Deductions**

	2013	2012
Opening balance	318 734	321 073
Current year payroll deductions and Council Contributions	4 607 599	2 259 327
Amount paid - current year	(4 027 816)	(2 261 666)
	-	-
<b>Balance unpaid (included in payables)</b>	<b>898 516</b>	<b>318 734</b>

The balance represents pension and medical aid contributions deducted from employees in the June 2013 payroll as well as Council's contributions to pension and medical aid funds. These amounts were paid during July 2013.

**32.6 Councillor's arrear consumer accounts**

The following Councillors had arrear consumer accounts outstanding for more than 90 days as at: -

	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R
<b>as at 30 June 2012</b>			
<i>XG Mkhubekeli</i>	9 935	9 935	-
<b>Total Councillor Arrear Consumer Accounts</b>	<b>9 935</b>	<b>9 935</b>	<b>-</b>

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

	Highest Amount Outstanding	Ageing Days
	R	

**32.7 Non-Compliance with Chapter 11 of the Municipal Finance Management Act**

The municipality has not paid their suppliers in terms of the MFMA. This due to the lack of funds. The municipality did not comply with Section 11(4) of the MFMA.

**32.8 CAPITAL COMMITMENTS**

**Commitments in respect of capital expenditure**

**PROJECT**

Approved and contracted for:

	2013	2012
Spatial Development Framework		
Resurfacing of Nomonde Access Road		
Skoyi Bridge Construction		1 022 192
Renovation of Sterkstroom Community Hall		2 326 119
Street light project		204 963

Approved but not yet contracted for:

None

<b>Total</b>	<b>-</b>	<b>3 553 274</b>
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**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

This expenditure will be financed from:

- External Loans
- Government Grants
- Own resources
- District Council Grants

2013	2012
R	R
-	-
-	3 553 274
-	-
-	-
-	<u>3 553 274</u>

**32.9 Operating leases**

**Operating leases – as lessor**

**Minimum lease payments due**

- Within one year
- In second to fifth year inclusive
- After five years

**Total**

2013	2012
85 533	76 992
-	-
-	-
<u>85 533</u>	<u>76 992</u>

**Operating Leases consists of the following:**

The Municipality's investment property is primarily held to generate rental income. Lease agreements are renewed and are renewable on an annual basis.

**33 Defined contribution plan**

The following is a defined contribution plan These contributions have been expensed.

On retirement of an employee Council has post retirement obligation to contribute 70% to the medical cost of the employee.

Number of members	4	4
Annual Cost	104 216	74 837

**34 CONTINGENT ASSET**

None

**35 IN-KIND DONATIONS AND ASSISTANCE**

The Municipality received the following in-kind donations and assistance

**Description**

Intervention team from the Department of Local Government and Traditional Affairs. (Operation clean audit)

**36 RELATED PARTIES**

**Related party Transactions**

Details

**Management**

<u>Details</u>	<u>Business interest</u>	<u>Transactions amount</u>
Municipal Mnager- SG Sigojo	N/A	-
Chief Finance Officer- L Labuschagne	N/A	N/A
Corporate Services- S Dyantyi	N/A	N/A
Community Services-M Dingane	N/A	N/A
Technical Sevices-P Packer	N/A	N/A

The councillors have disclosures of business interests in the Declaration of Interest Register:

**Councillors**

Details

<u>Details</u>	<u>Designation</u>	<u>Business interest</u>	<u>Transactions amount</u>
M N Qamngwana	Mayor / Speaker	N/A	N/A
K J Jonga	Councillors	Public Transport	N/A
N Yaliwe	Councillors	N/A	N/A
N N Cwebi	Councillors	N/A	N/A
G X Mkhubukeli-Lufele	Councillors	N/A	N/A
C H Guba	Councillors	N/A	N/A
C M Botha	Councillors	Handy House	N/A

**36.1 Services rendered to Related Parties**

The municipality did not render any services during the year to anyone that can be considered as a related party.

**36.2 Loans granted to Related Parties**

In terms of the MFMA, the municipality may not grant loans to its Councillors, Management, Staff and Public with effect from 1 July 2004.

**36.3 Compensation of Related Parties**

Compensation of Key Management Personnel and Councillors is set out in Notes 21 and 22 respectively, to the Annual Financial Statements.

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

2013	2012
R	R

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2013**

	2013 R	2012 R
<b>37 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS</b>		
The following areas involve a significant degree of estimation uncertainty:		
	<u>Nature</u>	<u>Carrying amount</u>
Useful lives and residual values of property, plant, and equipment		
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)	Fair rate of return is used when calculating the provision.	463 803
Provision for doubtful debts	The provision is subject to estimates used	36 367 058
Impairment of assets		

**Inkwanca Local Municipality**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2013

2013	2012
R	R

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets		
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)	Provisions bases on assessments done by professional consultants	see above

**38 PRIOR YEAR ERRORS**

During the year the following adjustments were made to transactions whereby amounts were erroneously stated in the previous financial period

2013	2012
------	------

The correction of the error results in adjustments as follows:

**Statement of Financial Position**

Bank balances Interest	-4	
Vat on debtors	1 442 612	
Indigent balances	-47 546	
Creditors	788 260	
Orders	-420 610	
CHDM-Loan	-2 069 011	
Debtors	-18 000	
<b>Accumulated Surplus</b>	-324 298	-

**Change in accounting policy measurement of Assets**

Property Plant and Equipment prior year		34 591 653
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<b>Accumulated Surplus</b>		<b>34 591 653</b>
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**Statement of Financial performance**

Depreciation		-
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**39 RISK MANAGEMENT**

**39.1 Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on going basis.

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

	2013	2012
Standard Bank	-	-
Trade and other receivables	5 097 511	5 042 315

These balances represent the maximum exposure to credit risk.  
The municipality is exposed to a guarantee for the overdraft facilities.

**39.2 Liquidity risk**

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

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

**40 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E(1) and E(2)

**41 GOING CONCERN ASSUMPTION**

The Municipality is heavily dependent on Government Grants and Subsidies this is because the small revenue base of the Municipality which is unlikely to expand overtime

The liquidity ratio shows that the Municipality is faced with challenges meeting its obligations.

**Conclusion**

Although the Municipality is faced with this challenges, the Inkwanca Municipality will continue with its operations as a going concern in the foreseeable future as long as the grants are still received from the upper sphere of government.

**Inkwanca Local Municipality**  
**APPENDIX A**  
**SCHEDULE OF EXTERNAL LOANS**  
for the year ending 30 June 2013

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2012	Received during the period	Redeemed / written off during the period	Balance at 30 June 2013	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
			R	R	R	R	R	R
LONG-TERM LOANS								
Chris Hani District Municipality			2 069 011	-	(2 069 011)	(0)	-	-
Telephone Equipment			132 722	-	-	132 722	-	-
Vehicles			60 853	-	-	60 853		
Wesbank	DDL52169B		-	-	-	-		
Wesbank	DDL55360J		18 156	-	(18 156)	(0)		
Wesbank	DDL55644V		21 775	-	(21 775)	(0)	-	-
Other Leases	Various		182 972	-	(45 797)	137 175		
Deferred Finance Charges	All		(27 292)			(27 292)		
<b>TOTAL EXTERNAL LOANS</b>			<b>2 458 196</b>	<b>-</b>	<b>(2 154 739)</b>	<b>303 457</b>	<b>-</b>	<b>-</b>



**INKWANCA MUNICIPALITY  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**

**COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET**

	2013 R (Actual)	2013 R (Final Budget)	2013 R (Variance)	Explanations for material variances
<b>REVENUE BY SOURCE</b>				
Property rates	4 881 197	2 547 982	2 333 215	Budgeted on actual revenue collected in prior year
Property rates - penalties & collection charges			-	
Service charges	19 109 002	7 035 256	12 073 746	Budgeted on actual revenue collected in prior year
Rental of facilities and equipment	121 217	101 225	19 992	
Interest earned - external investments	46 271		46 271	Did not budget for interest on investments
Interest earned - outstanding debtors	2 343 665		2 343 665	Did not budget for interest on outstanding accounts
Dividends received			-	
Fines	51 308	75 000	(23 692)	
Licences and permits		180 000	(180 000)	This is included in other revenue
Agency services		6 803 508	(6 803 508)	This is included in Govt Grants should be R6047m
Government Grants and Subsidies - Operating	37 230 783	21 133 000	16 097 783	MIG Grant was not budgeted for in the I & E but under Capital Expenditure
Other revenue	3 398 213	1 182 986	2 215 227	Library Subsidy included,
Gains on disposal of PPE			-	
<b>Total Operating Revenue</b>	<b>67 181 657</b>	<b>39 058 957</b>	<b>28 122 700</b>	
<b>EXPENDITURE BY TYPE</b>				
Employee related costs	18 188 210	19 806 248	(1 618 038)	Staff resigned. IPASS manager budgeted for, but not appointed.
Remuneration of councillors	1 872 447	1 817 809	54 638	
Debt impairment	7 513 005	7 080 838	432 167	Under budget
Depreciation & asset impairment	9 977 809	713 025	9 264 784	
Finance charges	245 283	-	245 283	Did not budget for finance charges.
Bulk purchases	4 403 299	5 200 636	(797 337)	Nola Factory is being supplied by Eskom and not municipality
Other materials	3 311 157	6 339 056	(3 027 899)	Cash flow challenges made it difficult to execute budget.
Contracted services	51 171		51 171	Budgeted under other expenditure.
Grants and subsidies paid				
Other expenditure	15 802 560	6 506 079	9 296 481	
Loss on disposal of PPE			-	
<b>Total Operating Expenditure</b>	<b>61 364 941</b>	<b>47 463 691</b>	<b>13 901 250</b>	
<b>Operating Surplus/(Deficit) for the year</b>	<b>5 816 715</b>	<b>(8 404 734)</b>	<b>14 221 449</b>	
Government Grants and Subsidies - Capital				
<b>Net Surplus/(Deficit) for the year</b>	<b>5 816 715</b>	<b>(8 404 734)</b>	<b>14 221 449</b>	

**INKWANCA MUNICIPALITY  
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2013**

**ADJUSTMENTS TO APPROVED BUDGET**

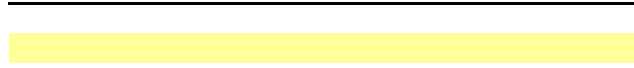
	2013 R (Original Approved Budget)	2013 R (Adjustments)	2013 R (Final Approved Budget)	Final Virements	Final Year-end Budget	Reasons for material adjustments
<b>REVENUE BY SOURCE</b>						
Property rates	5 746 256	(3 198 274)	2 547 982		2 547 982	Collection Rate 66%
Property rates - penalties & collection charges					-	
Service charges	4 691 000	2 344 256	7 035 256		7 035 256	Under collection. Water & Sanitation 65%,
Rental of facilities and equipment	80 110	21 115	101 225		101 225	Collected more than budget
Interest earned - external investments					-	
Interest earned - outstanding debtors					-	
Dividends received					-	
Fines	218 000	(143 000)	75 000		75 000	Under collection. Collection rate only 14%
Licences and permits	180 000		180 000		180 000	
Agency services	8 901 185	(2 097 677)	6 803 508		6 803 508	CHDM decreased subsidy. DSAC decreased sub
Government Grants and Subsidies - Operating	21 133 000		21 133 000		21 133 000	
Other revenue	1 184 000	(1 014)	1 182 986		1 182 986	Under collection of sundry income
Gains on disposal of PPE					-	
<b>Total Operating Revenue</b>	<b>42 133 551</b>	<b>(3 074 594)</b>	<b>39 058 957</b>		<b>39 058 957</b>	
<b>EXPENDITURE BY TYPE</b>						
Employee related costs	19 105 893	700 355	19 806 248		19 806 248	Notch increased for 3 years paid
Remuneration of councillors	1 902 937	(65 128)	1 817 809		1 817 809	
Debt impairment	7 080 838		7 080 838		7 080 838	
Depreciation & asset impairment	713 025	1 001	714 026		714 026	
Finance charges					-	
Bulk purchases	5 200 636		5 200 636		5 200 636	
Other materials	6 357 886	(18 830)	6 339 056		6 339 056	
Contracted services					-	
Grants and subsidies paid					-	
Other expenditure	7 630 768	(1 124 689)	6 506 079		6 506 079	Decreased to accommodate the salary increase
Loss on disposal of PPE					-	
<b>Total Operating Expenditure</b>	<b>47 991 983</b>	<b>-527 291</b>	<b>47 464 692</b>		<b>47 464 692</b>	
<b>Operating Deficit for the year</b>	<b>(5 858 432)</b>	<b>(2 547 303)</b>	<b>(8 405 735)</b>		<b>(8 405 735)</b>	
Government Grants and Subsidies - Capital						
<b>Net Deficit for the year</b>	<b>(5 858 432)</b>	<b>(2 547 303)</b>	<b>(8 405 735)</b>		<b>(8 405 735)</b>	

side

**Inkwanca Local Municipality**  
**APPENDIX E (2)**  
**ACTUAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPME**  
for the year ending 30 June 2013

	2013	2013	2013	2013
	Actual / Under Construction	Budget	Variance	Variance
	R	R	R	%
<b>Infrastructure</b>				
Roads	6 817 078	8 147 662	1 330 585	16%
			-	0%
<b>Community Assets</b>				
Halls	5 128 604	3 798 019	(1 330 585)	-35%
			-	
<b>Other Assets</b>				
Other Assets	860 524	860 524	-	0%
<b>Total</b>	<b>12 806 205</b>	<b>12 806 205</b>	<b>-</b>	<b>0%</b>

IT)



**Explanation for Significant Variances greater than  
10% vs Budget**

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Being funds transferred to to Masakhe hall

Being funds transferred from Sokoyi Bridge