MAKHUDUTHAMAGA LOCAL MUNICIPALITY

(Municipal demarcation code LIM473)

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

General Information

Legal form of entity	Local municipality
Nature of business and principal activities	Provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area
Municipal Mayor	Cllr Matlala M.A
Municipal Council Speaker	Cllr Makaleng M
Mayoral Committee	Cllr Malaka MS
	Cllr Lerobane M.P
	Cllr Maisela R.K
	Cllr Madiba M.E
	Cllr Mampane A
	Cllr Masemola R.H
	Cllr Matjomane N.M
	Cllr Mndebele M.E
	Cllr Nchabeleng
	Cllr Tala M.A
Grading of local authority	Low capacity municipality
Accounting Officer	Moropa M.E
Chief Finance Officer (CFO)	Diale D.S
Postal address	Private Bag x 434
	Jane Furse
	1085
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa

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

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Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 7 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013:

Moropa ME
Municipal Manager

30 August 2013

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2013.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 4 meetings were held.

Name of member	Number of meetings attended
Ntwampe R.G (Chairperson)	4
Mashala K.E CA (SA)	4
Nekhavhambe S.B	4
Gafane L.A.T	1
Chuene V.K	2

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the accounting officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

The audit committee concur with and accept the Auditor-General of South Africa's report, the annual financial statements, and is of the opinion that the unaudited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

Audit Committee Report

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

_____

Chairperson of the Audit Committee

Date: _____

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 provision of municipal quality services and maintaining the best interests of the local community in the Makhuduthamaga area.

Net surplus of the municipality was R 78 608 505 (2012: surplus R 80 324 333).

2. Going concern

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

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

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

Name	Nationality
ME Moropa	South African

6. Bankers

The municipality banks primarily with ABSA Bank Limited.

7. Auditors

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

Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012
Assets			
Current Assets			
Cash and cash equivalents	3	127 395 145	80 670 039
Inventories	4	378 374	507 095
Receivables fron non exchange transactions	5	93 313 409	71 160 075
VAT receivable	7	9 663 434	17 883 570
Receivables from exchange transactions	6	11 517	-
		230 761 879	**170 220 779**
Non-Current Assets			
Intangible assets	8	523 951	964 288
Investment property	9	1 171 500	1 171 500
Property, plant and equipment	10	196 916 571	161 962 697
		198 612 022	**164 098 485**
Total Assets		**429 373 901**	**334 319 264**
Liabilities			
Current Liabilities			
Finance lease obligation	11	78 283	203 315
Payables from exchange transactions	12	18 445 602	24 334 352
Unspent conditional grants and receipts	13	25 823 301	4 638 388
		44 347 186	**29 176 055**
Non-Current Liabilities			
Retirement benefit obligation	14	1 820 000	1 061 000
Long Service awards liability	47	1 432 000	916 000
		3 252 000	**1 977 000**
Total Liabilities		**47 599 186**	**31 153 055**
Net Assets		**381 774 715**	**303 166 209**
Net Assets			
Accumulated surplus	46	381 774 715	303 166 209

Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012
Revenue			
Administration and management fees received		3 790 680	2 466 116
Government grants & subsidies	16	170 730 087	168 701 612
Interest received	17	12 646 868	10 416 727
Other income	18	897 036	703 661
Property rates	19	27 670 306	41 358 051
Rental of facilities and equipment		25 757	92 511
Traffic fines		8 100	-
Total revenue		**215 768 834**	**223 738 678**
Expenditure			
Personnel	20	(35 501 693)	(26 437 515)
Remuneration of councillors	21	(15 633 072)	(13 951 429)
Administration		(5 883 675)	(6 494 661)
Depreciation and amortisation	22	(11 514 471)	(9 730 227)
Impairment loss/ Reversal of impairments	23	(2 026 550)	-
Finance costs	24	(192 224)	(119 730)
Debt impairment	25	(8 660 220)	(7 221 896)
Repairs and maintenance		(16 003 495)	(15 940 001)
VAT Impairment	26	-	(7 337 286)
Contracted services	27	(1 063 166)	(3 935 302)
Grants and subsidies paid	28	(3 900 452)	(4 279 906)
Loss on sale of assets		-	(1 344 596)
General Expenses	29	(34 925 883)	(44 735 393)
Auditor's remuniration	29	(1 855 428)	(1 886 403)
Total expenditure		**(137 160 329)**	**(143 414 345)**
Operating surplus		**78 608 505**	**80 324 333**
Surplus for the year		**78 608 505**	**80 324 333**
Attributable to:			
Owners of the controlling entity		78 608 505	80 324 333

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	223 941 876	223 941 876
Adjustments		
Prior year adjustments	(1 100 000)	(1 100 000)
Balance at 01 July 2011 as restated	**222 841 876**	**223 941 876**
Changes in net assets		
Surplus for the year	80 324 333	80 324 333
Total changes	80 324 333	80 324 333
Opening balance as previously reported	305 055 924	305 055 924
Adjustments		
Prior year adjustments	(1 889 714)	(1 889 714)
Balance at 01 July 2012 as restated	**303 166 210**	**303 166 210**
Changes in net assets		
Surplus for the year	78 608 505	78 608 505
Total changes	78 608 505	78 608 505
Balance at 30 June 2013	**381 774 715**	**381 774 715**

Cash Flow Statement

Figures in Rand	Note(s)	2013	2012
Cash flows from operating activities			
Receipts			
Cash received from consumers, goverment and other sources of revenue		210 639 573	161 265 936
Interest income		3 709 239	10 416 727
		214 348 812	171 682 663
Payments			
Cash paid to suppliers, employees and other related services		(119 417 671)	(108 088 475)
Finance costs		(13 224)	-
		(119 430 895)	(108 088 475)
Net cash flows from operating activities	30	**94 917 917**	**63 594 188**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(48 047 655)	(58 545 517)
Proceeds from sale of property, plant and equipment	10	-	659 786
Purchase of intangible assets	8	(6 900)	(2 895)
Net cash flows from investing activities		**(48 054 555)**	**(57 888 626)**
Cash flows from financing activities			
Finance lease (payments)/Receipts		(138 256)	203 315
Net increase/(decrease) in cash and cash equivalents		**46 725 106**	**5 908 877**
Cash and cash equivalents at the beginning of the year		80 670 039	74 761 162
Cash and cash equivalents at the end of the year	3	**127 395 145**	**80 670 039**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables, loans and other receivables

The municipality assesses its trade receivables, loans and other 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, loans and other 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

In determining the 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.

Impairment testing

The recoverable (services) amount 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 - Provisions.

Effective interest rate

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

The municipality used the prime interest rate plus 1% 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.

Accounting Policies

1.2 Investment property

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

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

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

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

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

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

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

Fair value

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment are 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.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Subsequent to initial measurement Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property , plant and equipment are depreciated on the straight line basis over their expected usefull lives to their estimated residual value. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	25 years
Plant and machinery	2 - 10 years
Furniture and fixtures	7 years
Motor vehicles	8 years
Office equipment	3 - 5 years
IT equipment	5 years
Loose tools	5 years
Bridges	15 Years
Prefabricates culvets	15 years
Concrete kerbing, channeling, chutes and Downpipes	40 years
Mass Earthworks	80 years
Pavement layers	15 years
Prime coat	15 years
Double seals	15 years
Pitching, stonework and protection	15 years

Accounting Policies

1.3 Property, plant and equipment (continued)

Gabions	25 years
Guardrails	25 years
Road signs	15 years
Road markings	15 years
Concrete block paving for roads	15 years
Concrete for structures	15 years
Street lighting	15 years
High mast lights	15 years
Capital work in progress	Not depreciated

The residual value, the useful life and depreciation method of each asset are reviewed at the end of each reporting date. if the expectations differ from previous estimates, the change is accounted for as change in accounting estimates. Each part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carring amount of another asset. Items of property plant and equipment are derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal

The gain or loss 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. Such difference is recognised in surplus or deficit when the item of property, plant and equipment is derecognised.

Accounting Policies

1.4 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, its cost is 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.

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

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

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

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

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

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

Computer software	3 - 5 years

Intangible assets are derecognised:

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

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

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at amortised cost

Accounting Policies

1.5 Financial instruments (continued)

- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value.

For financial instruments which are not subsequently measured at fair value , transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Accounting Policies

1.5 Financial instruments (continued)

Receivables from non exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Payables are classified as financial liabilities at amortised cost

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are measured at initial recognition at fair value, and are subsequently measured at armotised cost using the effective interest rate method.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

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

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Accounting Policies

1.5 Financial instruments (continued)

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Leases

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

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

Finance leases - lessee

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

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

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

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

Accounting Policies

1.7 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.

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

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

1.8 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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

Recoverable 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.

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.

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.

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.

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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.

Reversal of impairment loss

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.

Accounting Policies

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.

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

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

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

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

Value in use

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

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

Accounting Policies

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Accounting Policies

1.11 Employee benefits (continued)

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when the municipality:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

1.13 Revenue from exchange transactions

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

Accounting Policies

1.13 Revenue from exchange transactions (continued)

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.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

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

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

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

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

Accounting Policies

1.14 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised 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
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

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

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. The revenue from spot fines and sommonses are recognised when the offender pays over to the municipality the cash actually collected.

Accounting Policies

Levies

Levies are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants 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 conditions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

stipulations on government grants may result in such revenue being recognised on a time proportion basis. Where there is no conditions attached, revenue is recognised to the extent that a liability is not also recognised.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations 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.

If other grants and donations, including goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Accounting Policies

1.15 Investment income

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

1.16 Borrowing costs

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

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

1.17 Comparative Information

When the presentation or classification of items in the annual financial statement are 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.

1.18 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.

1.19 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.

1.20 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is.

(a) expenditure incurred by a municipality or municipal entity in contravention of , or that is not in accordance with, a requirement of this Act and which has not been condoned in terms of section 170
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with a requirement of the Municipal Systems Act and which has not been condoned in terms of that Act
(c) expenditure incured by a municipality or municipal entity in contravention of, or that is not in accordance with a requirement of the Public Office Bearers Act , 1998 (Act no. 20 of 1998 or.

(d) expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law. but excludes expenditure by a municipality which falls within the definition of "ünauthorised expenditure".

Accounting Policies

1.20 Irregular expenditure (continued)

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

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

1.21 Presentation of currency

These annual financial statements are presented in South African Rand.

1.22 Offsetting

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

Accounting Policies

1.23 Budget information

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

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

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

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

1.24 Related parties

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2013 or later periods:

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

2.2 Standards and interpretations 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/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 18: Segment Reporting	01 April 2013
• GRAP 103: Heritage Assets	01 April 2012

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1 772	435
Bank balances	127 393 373	80 669 604
	127 395 145	**80 670 039**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2013	30 June 2012	30 June 2013	30 June 2012
ABSA Bank - 4050384145 - Primary cheque account	53 142 896	3 212 454	63 899 625	2 454 961
ABSA Bank - 4069702429 - Call account	63 489 211	61 881 811	63 489 211	61 881 811
ABSA Bank - 4076690079 - Salaries bank account	4 537	1 671 389	4 537	1 188 495
ABSA Bank - 4063761912 - Traffic cheque account	-	15 144 338	-	15 144 338
Total	**116 636 644**	**81 909 992**	**127 393 373**	**80 669 605**

4. Inventories

Consumable stores	378 374	507 095

4.1 Reconciliation of Inventory

Opening balance as per GL	507 095	477 345
Add: Receipts	1 713 551	1 040 724
Less: Issues	(1 842 272)	(1 010 974)
	378 374	**507 095**

5. Receivables from non - exchange transactions

Gross balances		
Rates	113 625 021	82 810 854
Less: Allowance for impairment		
Rates	(20 311 612)	(11 650 779)
Net balance		
Rates	93 313 409	71 160 075
Rates		
Current (0 -31 days)	7 560 292	5 398 908
32 - 61 days	2 462 549	3 600 163
62 - 91 days	3 113 717	3 752 449
92 - 121 days	2 113 948	3 974 869
>122 days	78 062 903	54 433 686
	93 313 409	**71 160 075**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Receivables from non - exchange transactions (continued)

Summary of receivables from non-exchange transactions by customer classification

Industrial/ commercial		
Current (0 -30 days)	1 707 143	2 019 780
31 - 60 days	154 424	641 201
61 - 90 days	687 739	92 025
91 - 120 days	406 485	1 986 164
121 - 365 days	17 379 486	10 497 239
	20 335 277	15 236 409
Less: Allowance for impairment	(20 311 612)	(11 650 779)
	23 665	**3 585 630**
National and provincial government		
Current (0 -30 days)	5 863 150	6 979 291
31 - 60 days	2 322 663	3 111 249
61 - 90 days	2 425 977	436 340
91 - 120 days	2 190 376	6 079 630
121 - 365 days	80 487 578	50 967 936
	93 289 744	**67 574 446**
Total		
Current (0 -30 days)	7 570 293	8 999 071
31 - 60 days	2 477 087	3 752 450
61 - 90 days	3 113 716	528 365
91 - 120 days	2 596 861	8 065 794
121 - 365 days	97 867 064	61 465 174
	113 625 021	82 810 854
Less: Allowance for impairment	(20 311 612)	(11 650 779)
	93 313 409	**71 160 075**
Less: Allowance for impairment		
31 - 60 days	(1 837 902)	-
61 - 90 days	(687 739)	-
91 - 120 days	(406 485)	(1 153 540)
121 - 365 days	(17 379 486)	(10 497 239)
	(20 311 612)	**(11 650 779)**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(11 650 779)	(4 432 697)
Contribution to Provision	(8 660 833)	(7 218 082)
	(20 311 612)	**(11 650 779)**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

5. Receivables from non - exchange transactions (continued)

Receivables from non - exchange transactions past due but not impaired

Consumer debtors from government debts are not considered to be impaired. At 30 June 2013, R 87 426 594 (2012: R 65 770 168) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	2 322 663	3 600 163
2 months past due	2 425 977	3 752 450
3 to 4 months past due	82 677 954	58 417 555
	87 426 594	**65 770 168**

Receivables from non - exchange transactions impaired

As of 30 June 2013, Receivables from non - exchange transactions of R 20 311 612 (2012: R 11 650 779) were impaired and provided for.

6. Receivables from exchange transactions

Sundry Debtors	11 517	-

Other receivables from non-exchange transactions pledged as security

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Other receivables from non-exchange transactions

7. VAT receivable

VAT	9 663 434	17 883 570
Balance unspent at beginning of year	17 883 570	14 002 206
Plus: Net refunds as per VAT receivable	11 603 209	16 462 912
Plus: VAT suspense - retention current	3 316 327	3 066 131
Less: Prior year suspense	(3 066 131)	(2 643 577)
Less interests paid by SARS	(29 809)	-
Less: VAT impairment	-	(7 337 286)
Less: VAT payments by SARS - current year	(7 693 932)	(794 388)
Less: VAT payments by SARS - Prior year	(12 426 696)	(4 872 428)
Add VAT adjustment: current year	76 896	-
	9 663 434	**17 883 570**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

8. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 345 301	(821 350)	523 951	1 338 401	(374 113)	964 288

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	964 288	6 900	(447 237)	523 951

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 274 799	2 895	(313 406)	964 288

9. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 171 500	-	1 171 500	1 171 500	-	1 171 500

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 Annual Financial Statements

Figures in Rand	2013	2012

10. 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	200 000	-	200 000	200 000	-	200 000
Buildings	17 026 605	(3 906 812)	13 119 793	17 026 605	(3 225 747)	13 800 858
Furniture and fixtures	2 105 746	(1 081 076)	1 024 670	1 928 953	(811 892)	1 117 061
Motor vehicles	8 012 141	(4 004 797)	4 007 344	7 403 848	(3 208 623)	4 195 225
Office equipment	1 030 654	(634 244)	396 410	997 454	(465 912)	531 542
IT equipment	3 519 633	(1 347 037)	2 172 596	2 171 657	(837 038)	1 334 619
Infrastructure	150 806 641	(29 421 363)	121 385 278	107 241 291	(18 904 139)	88 337 152
Loose tools	799 274	(322 637)	476 637	758 474	(170 830)	587 644
Capital Work in Progress	54 133 843	-	54 133 843	51 858 596	-	51 858 596
Total	**237 634 537**	**(40 717 966)**	**196 916 571**	**189 586 878**	**(27 624 181)**	**161 962 697**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Total
Land	200 000	-	-	-	-	200 000
Buildings	13 800 858	-	-	(681 065)	-	13 119 793
Furniture and fixtures	1 117 061	176 793	-	(269 184)	-	1 024 670
Motor vehicles	4 195 225	608 293	-	(796 174)	-	4 007 344
Office equipment	531 542	33 200	-	(168 332)	-	396 410
IT equipment	1 334 619	1 347 976	-	(509 999)	-	2 172 596
Infrastructure	88 337 152	43 565 350	-	(8 490 674)	(2 026 550)	121 385 278
Loose tools	587 644	40 800	-	(151 807)	-	476 637
Capital Work in Progress	51 858 596	45 840 597	(43 565 350)	-	-	54 133 843
	161 962 697	**91 613 009**	**(43 565 350)**	**(11 067 235)**	**(2 026 550)**	**196 916 571**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Total
Land	-	200 000	-	-	-	200 000
Buildings	11 128 732	3 268 501	-	-	(596 375)	13 800 858
Furniture and fixtures	1 673 621	372 360	(514 782)	-	(414 138)	1 117 061
Motor vehicles	3 140 607	2 860 547	(896 345)	-	(909 584)	4 195 225
Office equipment	650 059	130 712	(63 809)	-	(185 420)	531 542
IT equipment	1 168 492	956 936	(449 336)	-	(341 473)	1 334 619
Infrastructure	82 988 817	12 173 369	-	-	(6 825 034)	88 337 152
Loose tools	470 198	342 353	(80 109)	-	(144 798)	587 644
Capital work in Progress	13 418 812	52 994 355	-	(14 554 571)	-	51 858 596
	114 639 338	**73 299 133**	**(2 004 381)**	**(14 554 571)**	**(9 416 822)**	**161 962 697**

The municipality procured a smooth roller compactor on the 24th November 2011, the smooth roller compactor was reported to council for noting that it is missing. The case was opened and the investigations are underway

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 Annual Financial Statements

Figures in Rand			2013	2012

11. Finance lease obligation

Present value of minimum lease payments due				
- within one year	-	-	80 649	138 256
- in second to fifth year inclusive	-	-	-	80 649
	-	-	80 649	218 905
less: future finance charges	-	-	(2 366)	(15 590)
Present value of minimum lease payments	**-**	**-**	**78 283**	**203 315**

The average lease term was 2 years and the average effective borrowing rate was linked to the prime lending rate.

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

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 10, under IT equipment.

12. Payables from exchange transactions

Trade payables	13 228 132	18 950 100
Payments received in advanced - contract in process	953 469	193 193
Creditor: Ward committee	13 201	13 814
Accruals	4 172 377	5 135 601
Deposits received	78 423	41 644
	18 445 602	**24 334 352**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	21 083 805	4 030 388
DOE Grant (INEG)	3 208 431	-
Expanded Public Works Programme (Dep't of Public Works) Incentive Grant	1 531 065	608 000
	25 823 301	**4 638 388**

Movement during the year

Balance at the beginning of the year	4 638 388	104 000
Additions during the year	25 215 301	4 534 388
Income recognition during the year	(4 030 388)	-
	25 823 301	**4 638 388**

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

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

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

13. Unspent conditional grants and receipts (continued)

See note 16 for reconciliation of conditional grants

14. Employee benefit obligations

Defined benefit obligation

Analysis of defined benefit plan		
Present value of unfunded obligation	1 820 000	1 061 000

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

Opening balance	1 591 000	531 000
Current service costs	319 000	225 000
Interest cost	97 000	55 000
Acturial loss	343 000	250 000
Benefits paid	-	-
Net expense recognised in the statement of financial performance	759 000	530 000
	3 109 000	**1 591 000**

Net expense recognised in the statement of financial performance

Current service cost	319 000	225 000
Interest cost: Included under finance costs	97 000	55 000
Actuarial (gains) losses: Included under employee related costs	343 000	250 000
	759 000	**530 000**

Key assumptions used

The following main assumptions were used in performing the valuation at 30 June 2013:

Discount rates used	7,89 %	7,92 %
Consumer price inflation	6,14 %	5,74 %
Medical aid contribution inflation	7,14 %	6,74 %
Expected retirement age	63,00 %	63,00 %
	-	**-**

Other assumptions

Amounts for the current and previous four years are as follows:

	2013	2012	2011		
	R	R	R		
Defined benefit obligation	1 820 000	1 061 000	531 000	-	-

Defined contribution plan

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

15. Revenue

Rental of facilities and equipment	25 757	92 511
Traffic Fines	8 100	-
Administration and management fees received	3 790 680	2 466 116
Other income	897 036	703 661
Interest received	12 646 868	10 416 727
Property rates	27 670 306	41 358 051
Government grants & subsidies	170 730 087	168 701 612
	215 768 834	**223 738 678**

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

Rental of facilities and equipment	25 757	92 511
Licences and permits	8 100	-
Administration and management fees received	3 790 680	2 466 116
Other income	897 036	703 661
Interest received	12 646 868	10 416 727
	17 368 441	**13 679 015**

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

Taxation revenue		
Property rates	27 670 306	41 358 051
Transfer revenue		
Government grants & subsidies	170 730 087	168 701 612
	198 400 393	**210 059 663**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Government grants and subsidies

Equitable share	143 213 000	126 283 000
Municipal Infrastructure Grant (MIG)	24 382 583	30 128 612
Finance Management Grant (FMG)	1 500 000	1 500 000
Municipal Systems Grants (MSIG)	800 000	790 000
Department of Energy (INEG)	791 569	10 000 000
EPWP Grants	42 935	-
	170 730 087	**168 701 612**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	4 030 388	-
Current-year receipts	41 436 000	34 159 000
Conditions met - transferred to revenue	(24 382 583)	(30 128 612)
	21 083 805	**4 030 388**

Conditions still to be met - remain liabilities (see note 13)

Financial Management Grant

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

Municipal Systems Improvement Program Grant

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

Integrated National Electrification Programme Grant

Current-year receipts	4 000 000	10 000 000
Conditions met - transferred to revenue	(791 569)	(10 000 000)
	3 208 431	**-**

Conditions still to be met - remain liabilities (see note 13)

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

16. Government grants and subsidies (continued)

Expanded Public Works Programme Incentive Grant

Balance unspent at beginning of year	608 000	104 000
Current-year receipts	966 000	504 000
Conditions met - transferred to revenue	(42 935)	-
	1 531 065	**608 000**

Conditions still to be met - remain liabilities (see note 13)

Changes in level of government grants

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

17. Interest received

Interest revenue		
Bank and investments	3 709 239	3 671 638
Interest charged on trade and other receivables	8 937 629	6 745 089
	12 646 868	**10 416 727**

18. Other income

Other income	187 557	294 044
Tender Document	709 479	409 617
	897 036	**703 661**

19. Property rates

Rates received

Commercial and State	27 670 306	41 358 051

Valuations

Residential	232 390 000	232 390 000
Commercial	396 496 000	396 496 000
State	1 054 269 000	1 054 269 000
Municipal	19 100 000	19 100 000
Social	26 280 000	26 280 000
	1 728 535 000	**1 728 535 000**

Valuations on land and buildings are performed every 4 years. The first general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation was implemented on 01 July 2011.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

20. Employee related costs

Basic	19 131 156	14 895 818
Bonus	1 169 021	1 094 922
Medical aid - company contributions	1 729 738	1 184 131
UIF	160 147	118 733
SDL	272 111	196 977
Leave pay provision charge	931 894	274 388
Post-employment benefits - Pension - Defined contribution plan	3 785 695	2 899 570
Overtime payments	190 443	167 842
Long-service awards	1 096 000	766 000
Car allowance	4 880 539	3 367 048
Housing benefits and allowances	1 311 970	843 319
Clothing Allowance	15 126	12 084
Cellphone allowance & costs	827 853	616 683
	35 501 693	**26 437 515**

Remuneration of municipal manager (Mr Moropa M.E)

Appointment date: 01 June 2012	-	-
Basic salary	766 691	730 431
Cellphone allowance	23 772	22 648
Contribution to medical aid	94 066	89 617
Contributions to Pension Fund	106 459	101 424
Contributions to UIF	1 689	1 609
SDL	9 909	9 440
	1 002 586	**955 169**

Remuneration of chief financial officer (Mrs Diale D.S)

Appointment date: 01 October 2009	-	-
BAsic salary	492 077	452 375
Cellphone allowance	24 756	23 262
Car allowance	144 716	135 981
Travel claims	35 569	33 422
Contribution to UIF	1 689	1 587
SDL	8 485	7 973
Housing allowance	215 996	202 958
	923 288	**857 558**

Director corporate services (Mr Matlala M.K)

Appointment date: 01 February 2013	-	-
Basic salary	199 233	434 162
Car Allowance	79 196	172 580
Cellphone allowance	12 069	26 300
Housing allowance	31 678	69 032
Contributions to UIF	744	1 621

Notes to the Annual Financial Statements

Figures in Rand	2013	2012
20. Employee related costs (continued)		
SDL	3 063	6 675
	325 983	**710 370**

Director Community Services (Mr Phiri M)

Appointment date: 01 March 2013	-	-
Basic salary	127 137	365 635
Car Allowance	84 189	232 357
Cellphone allowance	5 936	1 638
Contributions to medical fund	5 438	15 009
Housing allowance	11 144	30 757
Contributions to pension	23 927	66 037
Contributions to UIF	594	1 639
SDL	2 409	6 649
	260 774	**719 721**

Director Infrastructure Development (Mr Rankwe D)

Appointment date: 01 May 2013	-	-
Basic salary	74 550	402 255
Car Allowance	30 532	164 744
Cellphone allowance	3 362	18 141
Contributions to medical aid	2 719	14 671
Housing allowance	5 706	30 788
Contributions to pension	11 964	64 555
Contribution to UIF	297	1 603
SDL	1 227	6 621
	130 357	**703 378**

Director Planning and Economic Development (Mrs Dilotsohle T)

Appointment date: 01 July 2012	-	-
Basic salary	419 961	-
Car Allowance	252 904	-
Cellphone allowance	16 789	-
Contribution to medical aid	16 780	-
Housing allowance	33 560	-
Travel claim	36 178	-
Contribution to pension	73 834	-
Contributions to UIF	1 689	-
SDL	7 631	-
	859 326	**-**

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

21. Remuneration of councillors

Mayor	693 997	633 858
Council speaker	558 045	437 779
Mayoral Committee Members	3 682 198	3 299 821
Other Councilors basic salary	6 381 948	5 694 592
Councilors Pension contribution	1 123 507	1 004 900
Car allowance and Cellphone allowance	3 090 586	2 752 712
Travel claims	47 773	77 146
Skills Development levy	55 018	50 621
	15 633 072	**13 951 429**

Remuneration of selected members of the council

Remuneration of the Mayor (Clr Matlala M.A)		
Basic salary	427 605	390 551
Car allowance	167 688	153 157
Cellphone allowance	19 886	18 163
Contributions to pension fund	75 460	68 920
Skills Development Levy	3 358	3 067
	693 997	**633 858**

Remuneration of the Council Speaker (Clr Makaleng M)		
Basic salary	341 369	267 799
Car allowance	133 870	105 019
cellphone allowance	19 844	15 568
Contributions to pension fund	60 242	47 259
Skills Development Levy	2 720	2 134
	558 045	**437 779**

Remuneration of the members of executive committee		
Basic salary	2 252 486	2 018 577
Car allowance	883 326	791 597
Cellphone allowance	130 938	117 341
Contributions to pension fund	397 500	356 222
Skills Development Levy	17 948	16 084
	3 682 198	**3 299 821**

The remuneration of the political office bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

22. Depreciation and amortisation

Property, plant and equipment	11 067 234	9 416 821
Intangible assets	447 237	313 406
	11 514 471	**9 730 227**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

23. Impairment of assets

Impairments		
Property, plant and equipment	2 026 550	-

24. Finance costs

Finance leases	13 224	8 730
Interest paid: Employee benefits	179 000	111 000
	192 224	**119 730**

25. Debt impairment

Current year doubtful debts allowance	20 311 612	11 654 593
Less: Previous doubtful debts	(11 651 392)	(4 432 696)
	8 660 220	**7 221 897**

26. VAT impairment

VAT	-	7 337 286

27. Contracted services

Specialist Services	107 042	152 203
Other Contractors	956 124	3 783 099
	1 063 166	**3 935 302**

28. Grants and subsidies paid

Other subsidies		
Indigents grants	3 900 452	4 279 906

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

29. General expenses

Advertising	917 353	768 465
Auditors remuneration	1 855 428	1 886 403
Cleaning	2 906 050	590 382
Consulting and professional fees	1 302 873	2 715 506
Delivery expenses	-	6 600
Donations	5 120	92 312
Entertainment	103 768	125 636
Insurance	255 956	451 026
Conferences and seminars	-	78 030
IT expenses	210 069	165 925
Lease rentals on operating lease	34 124	292 603
Marketing	182 940	274 660
Promotions and sponsorships	1 266 019	1 356 749
Motor vehicle expenses	2 372	18 143
Fuel and oil	1 427 137	566 016
Postage and courier	20 577	9 935
Printing and stationery	592 599	679 686
Protective clothing	25 936	27 574
Security (Guarding of municipal property)	7 775 001	10 082 744
Subscriptions and membership fees	-	505 019
Telephone and fax	818 161	379 093
Training	4 270 018	3 372 291
Travel - local	2 461 478	1 906 154
Assets expensed	1 215 723	3 749 617
Electricity	1 125 674	466 501
General expenses	7 671 077	15 490 373
Publications	170 500	371 610
Traditional leader support	-	95 250
	36 781 311	**46 621 796**

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

30. Cash generated from operations

Surplus	78 608 503	80 324 333
Adjustments for:		
Depreciation	11 514 471	9 730 227
Finance costs - Finance leases	13 224	-
Impairment deficit	2 026 550	-
Debt impairment	8 660 220	7 221 896
VAT impairment	-	7 337 286
Loss on sale of assets	-	1 344 596
Unfunded defined benefit plan	1 275 000	877 000
Changes in working capital:		
(increase)/decrease in inventories	128 721	(29 750)
Receivables from exchange transactions	(11 517)	-
Increase in receivables from non exchange transactions	(30 813 554)	(40 807 615)
(Decrease)/increase in trade and other payables	(5 888 750)	4 280 477
Decrease/(increase) in VAT	8 220 136	(11 218 650)
Increase in unspent conditional grants and receipts	21 184 913	4 534 388
	94 917 917	**63 594 188**

31. Commitments

Authorised operating and capital expenditure

Operational expenditure		
• Approved and contracted	8 748 648	3 883 604
• Approved but not yet contracted	-	-
	8 748 648	**3 883 604**

Capital expenditure		
• Property, plant and equipment	52 188 875	28 515 490

The municipality still has future commitments to service providers for services still to be rendered. The minimum payments still due to the service providers at 30 June 2013 amount to R52 188 875 for capital commitments and 8 748 648 for Operational commitments..

32. Contingencies

There are no litigations in process against the municipality for the year under review

33. Related parties

Relationships

Councillors and members of key management	Refer to General Information page for detail on councillors and key management.

Remuneration of senior management, and councillors is disclosed in note 20 and note 21 respectively.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

34. Prior period errors

1. In the prior year capital commitments were incorrectly disclosed and have been retrospectively adjusted.

2. The long service awards liability and the defined benefit liability for post employment medical iad was not accounted for in the prior year and have been retrospectively adjusted .

3.Irregular expenditure to the amount of R 14 246 482.09 was not disclosed in the prior year and have been retrospectively adjusted.

The correction of the errors results in adjustments as follows:

Statement of financial position				
Property rates	-	-	-	-
Property, plant and equipment	-	-	-	(24 631 809)
Investment property	-	-	-	1 117 500
Intangible Assets	-	-	-	1 274 799
Trade and other payables	-	-	-	8 221 140
VAT receivable	-	-	-	957 286
Consumer Debtors	-	-	-	26 245 893
Accumulated surplus or deficits	-	-	(1 977 000)	13 310 663
Statement of financial performance				
Depreciation and amortisation	-	-	-	2 558 393
Personnel Cost	-	-	1 096 000	(20 670)
Debt Impairment	-	-	179 000	(26 245 893)
General expenses	-	-	-	(872 405)
Repairs and maintenance	-	-	-	(54 325)

35. Risk management

Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	5 820 131	12 694 430	-	-

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	13 540 033	10 794 319	-	-

Interest rate risk

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

35. Risk management (continued)

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

Credit risk

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

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

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

Financial instrument	2013	2012
Receivables from non exchange transactions	93 324 926	71 160 075
Cash and cash equivalents	127 395 145	80 670 039
	-	-
Maximum credit risk exposure	220 720 071	151 830 114

36. Going concern

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

The ability of the Municipality to continue as going concern is dependent on funding from the national treasury

37. Unauthorised expenditure

Opening balance	-	-
Electricty	-	495 633
Repairs and Maintenance Other	-	361 266
Upgrading & Maintenance Sports	-	46 713
Less: Amounts condoned	-	(903 612)
	-	**-**

There was no unauthorised expenditure in the current year. The municipality has introduced stringent measures to ensure that no spending will be allowed on votes that does not have or have fully utilized their budget

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

38. Fruitless and wasteful expenditure

Additions during the year	11 517	2 338
Less: Amounts condoned	-	(2 338)
Less: Amount recovered	(11 517)	-
	-	**-**

The municipality had fruitless and wasteful expenditure for interest charged on overdue electricity and telephone account the year under review and were recovered from the responsible officials.

39. Irregular expenditure

Opening balance	-	-
Add: Irregular Expenditure - current year	7 359 879	15 920 056
Less: Amounts condoned	-	(15 920 056)
	7 359 879	**-**

Details of irregular expenditure

	Incident	
Integrated National Electrification Programme (Municipal) Grant	Irregular expenditure in the current year relates to expenditure that was incurred against the provisions of section 84(1)(c) of the Municipal Structures Act which vests the function of bulk supply of electricity (including the transmission, distribution and generation of electricity) in district municipalities. Contrary to the Act, the municipality used the equitable share to complete electricity projects from previous year.	2 103 742
Cession Payments	The municipality has paid cessions for capital projects from previous year in the year under review. The municipality is no longer using cessin agreements in implementing its capital projects as recommended by Audito General South Africa	5 256 137
		7 359 879

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

40. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	78 608 505	80 237 048
Adjusted for:		
Property rates	(400 666)	85 696
Investment revenue	(274 727)	(1 215 937)
Transfers recognised	25 215 301	5 578 388
Other own revenue	3 650 317	2 885 269
Employee costs	(829 590)	1 549 043
Remuneration of councillors	-	(5 782 354)
Depreciation & asset impairment	(377 325)	4 190 484
Finance charges	-	(12 502)
Other expenditure	(7 930 809)	38 198 868
Net surplus per approved budget	**97 661 006**	**125 714 003**

41. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - previous years	1 855 428	1 882 303

Pension and Medical Aid Deductions

Current year subscription / fee	6 639 001	3 984 320
Amount paid - current year	(6 639 001)	(3 984 320)
	-	**-**

VAT

VAT receivable	9 663 434	17 883 570

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

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

Deviations occurred in the current year in respect of procurements of over R 2 000 for which it is required, in terms of the Treasury Regulations, that the municipalty obtain quotations from at least three prospective suppliers that are registered on the list prospective suppliers prior to selecting sources of procurement. Approval for the transactions concerned was obtained as described above.

42. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix G3 for the comparison of actual operating expenditure versus budgeted expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

43. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix C1, C2 and G 4 for the comparison of actual capital expenditure versus budgeted expenditure.

Notes to the Annual Financial Statements

Figures in Rand

44. Statement of comparative and actual information

2013

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance											
Property rates	27 269 640	-	27 269 640	-		27 269 640	27 670 306		400 666	101 %	101 %
Investment revenue	5 235 000	(1 800 488)	3 434 512	-		3 434 512	12 646 868		9 212 356	368 %	242 %
Transfers recognised - operational	146 479 000	-	146 479 000	-		146 479 000	145 555 935		(923 065)	99 %	99 %
Other own revenue	35 295 669	(17 986 150)	17 309 519	-		17 309 519	4 721 573		(12 587 946)	27 %	13 %
Total revenue (excluding capital transfers and contributions)	**214 279 309**	**(19 786 638)**	**194 492 671**	**-**		**194 492 671**	**190 594 682**		**(3 897 989)**	**98 %**	**89 %**
Employee costs	(45 038 334)	7 800 011	(37 238 323)	-	1 914 427	(35 323 896)	(35 501 693)	-	(177 797)	101 %	79 %
Remuneration of councillors	(15 045 463)	(545 764)	(15 591 227)	-	(41 845)	(15 633 072)	(15 633 072)	-	-	100 %	104 %
Debt impairment	(9 037 545)	-	(9 037 545)			(9 037 545)	(8 660 220)	-	377 325	96 %	96 %
Depreciation and asset impairment	(5 500 000)	(4 090 895)	(9 590 895)		(1 914 427)	(11 505 322)	(13 541 021)	-	(2 035 699)	118 %	246 %
Finance charges	(115 940)	115 940	-	-	-	-	-	-	-	DIV/0 %	- %
Other expenditure	(79 277 855)	4 437 792	(74 840 063)	-	41 845	(74 798 218)	(63 824 323)	-	10 973 895	85 %	81 %

Notes to the Annual Financial Statements

Figures in Rand

44. Statement of comparative and actual information (continued)

Total expenditure	**(154 015 137)**	**7 717 084**	**(146 298 053)**	**-**	**-**	**(146 298 053)**	**(137 160 329)**	**-**	**9 137 724**	**94 %**	**89 %**
Surplus/(Deficit)	**60 264 172**	**(12 069 554)**	**48 194 618**	**-**		**48 194 618**	**53 434 353**		**5 239 735**	**111 %**	**89 %**

Notes to the Annual Financial Statements

Figures in Rand

44. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	45 436 000	4 030 388	49 466 388	-		49 466 388	25 174 152		(24 292 236)	51 %	55 %
Surplus (Deficit) after capital transfers and contributions	**105 700 172**	**(8 039 166)**	**97 661 006**	**-**		**97 661 006**	**78 608 505**		**(19 052 501)**	**80 %**	**74 %**
Surplus/(Deficit) for the year	**105 700 172**	**(8 039 166)**	**97 661 006**	**-**		**97 661 006**	**78 608 505**		**(19 052 501)**	**80 %**	**74 %**

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Figures in Rand

44. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources											
Total capital expenditure	(105 313 546)	7 700 778	(97 612 768)	-		(97 612 768)	48 054 555		145 667 323	(49)%	(46)%
Sources of capital funds											
Transfers recognised - capital	105 313 546	(7 700 778)	97 612 768	-		97 612 768	48 054 555		(49 558 213)	49 %	46 %

Notes to the Annual Financial Statements

Figures in Rand

44. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	97 609 035	(7 357 479)	90 251 556	-		90 251 556	94 917 917		4 666 361	105 %	97 %
Net cash from (used) investing	(104 963 546)	7 700 778	(97 262 768)	-		(97 262 768)	(48 054 555)		49 208 213	49 %	46 %
Net cash from (used) financing	(138 253)	-	(138 253)	-		(138 253)	(138 256)		(3)	100 %	100 %
Net increase/(decrease) in cash and cash equivalents	**(7 492 764)**	**343 299**	**(7 149 465)**	**-**		**(7 149 465)**	**46 725 106**		**53 874 571**	**(654)%**	**(624)%**
Cash and cash equivalents at the beginning of the year	67 268 976	-	67 268 976	-		67 268 976	80 670 039		13 401 063	120 %	120 %
Cash and cash equivalents at year end	**59 776 212**	**343 299**	**60 119 511**	**-**		**60 119 511**	**127 395 145**		**(67 275 634)**	**212 %**	**213 %**

45. Auditors' remuneration

Notes to the Annual Financial Statements

Figures in Rand	2013	2012

45. Auditors' remuneration (continued)

Fees	1 855 428	1 886 403

46. Accumulated surplus

47. Long Service awards liability