Can't Show logo.bmp

Mpofana Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Members of Council	
Mayor	Cllr N J Mchunu
Councillors	Cllr J Shabalala
	Cllr Z Dladla
	Cllr X Duma
	Cllr B Mhlanzi
	Cllr S Mhlongo
	Cllr K Denysschen
Grading of local authority	2
Accounting Officer	Mr M A Madlala 082 888 1858
Chief Finance Officer (CFO)	Miss A P N Ndlovu 072 626 5092
Registered office	10 Claughton Terrace Mooi River 3300
Municipal Contact details	033 263 1221/7700
Postal address	P O Box 47 Mooi River 3300
Bankers	First National Bank
Auditors	The Auditor General

Index

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

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 municipality is wholly dependent on the income from services, rates and grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the council has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Auditor General (SA) is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

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 annual financial statements set out on page 7 to 47, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer

Report of the Auditor General

To the Provincial Legislature of Mpofana Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Mpofana Municipality which comprise the statement of financial position as at 30 June 2012, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 6 to 49.

Responsibility of the Accounting Officer for the annual financial statements

The accounting officer is responsible for the preparation and fair presentation of these annual financial statements in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the [Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA)] [Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)] [Auditor-General audit circular 1 of 2005] , and in the manner required by the Companies Act of South Africa [any applicable enabling legislation]. This responsibility includes:

- designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error;
- selecting and applying appropriate accounting policies; and
- making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

As required by [section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA)], my responsibility is to express an opinion on these annual financial statements based on my audit.

I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the:

- appropriateness of accounting policies used;
- reasonableness of accounting estimates made by management; and
- overall presentation of the financial statements.

Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 Presentation of Financial Statements requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by [name of entity] in this respect will be limited to reporting on non-compliance with this disclosure requirement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note] [note to the financial statements].

Report of the Auditor General

Opinion

In my opinion the annual financial statements present fairly, in all material respects, the financial position of Mpofana Municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with [the applicable reporting framework/basis of accounting] [and in the manner required by the PFMA/MFMA (if the entity falls within the scope of the PFMA/MFMA) and Companies Act, 1973 (if the entity falls within the scope of the Companies Act) or section xx of the entity's enabling legislation (if the entity does not fall within the scope of the PFMA/MFMA)].

Auditor's/Accountant's name

31 August 2012

Aproval of Annual Financial Statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 7 to 47, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The Accounting Officer is responsible for the presentation and fair presentation of these annual financial statements in accordance with Generally Recognised Accounting Practise (GRAP) in a manner required by local governemnt: Municipal Finance MAnagement Act, 2003 (Act NO. 56 of 2003) including any interpretations,guidelines and directives issued by the Accounting Standards Board.

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 fo rthe period then ended.

Municipal Manager:
August 31, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	9	44,362	105,511
VAT receivable	17	-	608,791
Other receivables	10	543,845	302,941
Prepayments	6	-	834,301
Consumer debtors	11	28,493,297	30,295,777
Financial assets - Investments	7	18,274,070	17,595,510
Loans and receivables	8	330,418	321,535
Cash and cash equivalents	12	3,950,119	12,663
		51,636,111	**50,077,029**
Non-Current Assets			
Investment property	2	5,335,395	5,335,395
Property, plant and equipment	3	41,656,305	41,975,523
Intangible assets	4	72,237	108,466
Loans and receivables	8	-	8,884
		47,063,937	**47,428,268**
Total Assets		**98,700,048**	**97,505,297**
Liabilities			
Current Liabilities			
Finance lease obligation	13	1,227,222	1,081,993
Payables from exchange transactions	18	7,052,971	8,968,055
VAT payable	19	887,234	-
Consumer deposits	20	396,501	357,528
Unspent conditional grants and receipts	14	15,573,732	17,462,464
Provisions	15	10,236,358	9,264,565
Short term portion of long term liabilities	16	110,215	125,158
Bank overdraft	12	-	1,292,934
		35,484,233	**38,552,697**
Non-Current Liabilities			
Finance lease obligation	13	2,894,754	4,127,886
Annuity loan	16	151,697	206,004
		3,046,451	**4,333,890**
Total Liabilities		**38,530,684**	**42,886,587**
Net Assets		**60,169,364**	**54,618,710**
Net Assets			
Accumulated surplus		60,169,364	54,618,710

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	22	7,060,453	5,967,012
Service charges	23	46,270,031	43,123,011
Rental of facilities and equipment		2,484,133	1,024,503
Fines		364,225	1,888,540
Licences and permits		3,872,209	2,966,240
Government grants & subsidies	24	31,348,686	26,452,126
Donations income	25	434,296	-
Property rates- penalties imposed		2,635,457	-
Other income	26	444,385	294,821
Interest received - investment	31	749,494	942,336
Gains on disposal of assets - property, plant and equipment	31	-	3,380
Interest received: outstanding debtors	31	1,275,118	4,475,582
Total Revenue		**96,938,487**	**87,137,551**
Expenditure			
Employee related costs	28	(19,351,375)	(19,980,100)
Remuneration of councillors	29	(1,844,294)	(1,822,349)
Depreciation and amortisation	32	(6,111,171)	(4,212,840)
(Impairment loss) / Reversal of impairments	33	1,113,203	(550,812)
Finance costs	34	(1,423,881)	(1,149,602)
Debt impairment	30	(16,352,018)	(22,944,616)
Repairs and maintenance		(1,148,018)	(1,172,692)
Bulk purchases	38	(31,380,265)	(27,279,093)
Contracted services		(3,621,685)	(1,750,902)
Grants and subsidies paid		-	(166,466)
Loss on disposal of assets - property, plant and equipment		-	(42,802)
General Expenses	27	(11,338,839)	(9,492,170)
Total Expenditure		**(91,458,343)**	**(90,564,444)**
Surplus/ (deficit) for the year		**5,480,144**	**(3,426,893)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**59,454,900**	**59,454,900**
Reversal of adjustment	(1,409,302)	(1,409,302)
Net income (losses) recognised directly in net assets	(1,409,302)	(1,409,302)
Deficit for the year	(3,426,888)	(3,426,888)
Total recognised income and expenses for the year	(4,836,190)	(4,836,190)
Total changes	(4,836,190)	(4,836,190)
Opening balance as previously reported	54,618,704	54,618,704
Adjustments		
Correction of error (refer note 43)	70,516	70,516
Balance at 01 July 2011 as restated	**54,689,220**	**54,689,220**
Deficit for the year	5,480,144	5,480,144
Total changes	5,480,144	5,480,144
Balance at 30 June 2012	**60,169,364**	**60,169,364**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		55,132,964	48,098,403
Grants		31,348,686	26,452,126
Rental equipment		2,484,133	1,024,503
Interest income		2,024,612	5,417,918
Property rates - Penalties imposed		2,635,457	-
Licences and permits		3,872,209	2,966,240
Other receipts		1,242,906	2,183,360
		98,740,967	86,142,550
Payments			
Employee costs		(21,195,669)	(21,802,449)
Suppliers		(29,367,894)	(24,576,225)
Finance costs		(1,423,881)	(1,149,602)
Other payments		(33,226,009)	(39,072,482)
		(85,213,453)	(86,600,758)
Net cash flows from operating activities	39	**13,527,514**	**(458,207)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(4,572,002)	(8,383,792)
Proceeds from sale of property, plant and equipment	3	-	68,432
Purchase of other intangible assets	4	-	(52,399)
(Purchase)/ Sale of investments		(678,560)	4,473,598
Receipts / (Payments) of consumer deposits		38,973	(16,255)
Net cash flows from investing activities		**(5,251,239)**	**(3,910,416)**
Cash flows from financing activities			
Repayment of annuity loan		(69,251)	(156,173)
Movement in government grants		(1,888,731)	(328,825)
Movement in Finance lease obligation		(1,087,903)	3,714,607
Net cash flows from financing activities		**(3,045,885)**	**3,229,609**
Net increase/(decrease) in cash and cash equivalents		**5,230,390**	**(1,139,014)**
Cash and cash equivalents at the beginning of the year		(1,280,271)	(141,257)
Cash and cash equivalents at the end of the year	12	**3,950,119**	**(1,280,271)**

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, and are rounded to the nearest Rand.

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

These accounting policies are consistent with the previous period.

IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue
IGRAP 2	Changes in Existing Decommissioning, Restoration and Similar Liabilities
IGRAP 3	Determining whether an Arrangement Contains a Lease
IGRAP 4	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IGRAP 5	Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
IGRAP 6	Loyalty Programmes
IGRAP 7	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 8	Agreements for the Construction of Assets from Exchange Transactions
IGRAP 9	Distributions of Non-cash Assets to Owners
IGRAP 10	Assets Received from Customers
IGRAP 13	Operating Leases – Incentives
IGRAP 14	Evaluating the Substance of Transactions Involving the Legal Form of a Lease
IGRAP 15	Revenue – Barter Transactions Involving Advertising Services
IPSAS 20	Related Party Disclosures

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 and loans and receivables

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting date. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 and loans and receivables is calculated on a portfolio basis, at weighted average percentage of 15% 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.

Consumer debtors are expected to be realised within 12 months after the reporting date.

Fair value estimation

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

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 15 - Provisions.

Standards, amendments to standards and interpretations issued but not yet effective

1.1 Transfer of functions between entities under common control (continued)

The municipality will apply all new standards issued by the date stipulated by the Minister of Finance. At year end, the municipality was still determining the extent to which the new standards will impact the accounting of the municipality. The municipality has elected to use these standards to inform the accounting policies that follow.
The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

GRAP 18 Segment reporting
GRAP 20 Related Party disclosures
GRAP 21 Impairment of Non-Cash generating assets
GRAP 23 Revenue from Non-Exchange Transactions
GRAP 24 Presentation of Budget Information in the financial statements
GRAP 25 Employee benefits
GRAP 26 Impairment of Cash generating assets
GRAP 103 Heritage Aseets
GRAP 104 Financial instruments
GRAP 105 Transfer of functions between entities under common control
GRAP 106 Transfer of functions between entities not under common control
GRAP 107 Mergers

The municipality has not applied the above accounting statements and interpretations that have been issued but are not yet effective but have applied their principles in forming the related 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 for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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 at no cost or for a nominal cost, 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 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.

Cost model

Investment property is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - land	indefinite

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.

1.3 Property, plant and equipment (continued)

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

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

Property, plant and equipment are initially measured at cost.

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

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

Subsequent to initial recognition, land and buildings are carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated and impairment losses.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The cost of items of property, plant and equipment under construction as of the reporting date is recognised as an asset if:
(a) it is probable that future economic benefits or service potential associated with the item(s) will flow to the municipality, and
(b) the cost or fair value of the item(s) can be measured reliably.

Assets under construction consist of expenditure for the construction of buildings, certain land improvements, infrastructure assets and networks and any other capital projects that are under construction as of the reporting date. The expenditure comprises direct labour, materials and overheads, if appropriate.

When assets under construction are completed and certificates of completion issued, they are transferred to the appropriate asset class.

Assets under construction are not depreciated as they are not in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets.

Item	Average useful life
Buildings	5 - 25 years

1.3 Property, plant and equipment (continued)

Infrastructure	
• Electricity	3 - 30 years
• Roads	3 - 40 years
• Solid Waste disposal	10 years
• Cemetries	10 - 25 years
Other property, plant and equipment	
• Machinery and equipment	3- 10 years
• Furniture and equipment	3 - 5 years
• Computer equipment	3 - 5 years
• Transport	4 - 5 years
Finance lease assets	
• Office equipment	5 years
• Transport	3 - 5 years
Landfill site	5 years

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

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

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

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

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

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

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

The municipality has a landfill site which its obligated to rehabilitate at the end of its useful life.

1.5 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.

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

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

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

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

Intangible assets are subsequently measured 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 every period-end.

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.

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

Item	**Useful life**
Computer software	2 years

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.

1.6 Financial instruments

Classification

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

1.6 Financial instruments (continued)

- Loans and receivables
- 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. Financial instruments are initially recognised 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.

Loans to employees

These financial assets are classified as loans and receivables.

Receivables from exchange transactions

Trade and other receivables are classified as loans and receivables.

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. An estimate is made for doubtful receivables based on a review of all outstanding amounts at reporting date. 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 uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited to surplus or deficit.

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.

Cash and cash equivalents

The municipality classifies cash and cash equivalents as loans and receivables.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 cash and cash equivalents are initially recorded at fair value and subsequently recorded at amortised cost as a loan receivable.

Investments

The municipality has investments that comprise of call accounts, money market investment accounts. These are treated as loans and receivables and are initially recorded at fair value and subsequently recorded at amortised cost.

Bank overdraft and borrowings

Accounting Policies

1.6 Financial instruments (continued)

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised 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.

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.

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.

Impairment of financial assets

The municipality assesses at each repoting date whether a financial asset or group of financial assets is impaired.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 Leases

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

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

Accounting Policies

1.7 Leases (continued)

Finance leases - lessee

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

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

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

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

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, 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.

1.8 Inventories (continued)

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

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

1.9 Impairment of cash-generating assets and non-cash generating assets

The municipality assesses at each reporting date whether there is an indication that an asset may be impaired. Where the carrying amount of an asset exceeds its recoverable amount (or recoverable service amount in the case of non-cash-generating assets), the asset is considered impaired and is written down to its recoverable amount (or recoverable service amount). An assets recoverable amount (or recoverable service amount is the higher of the fair value less costs to sell, and the value-in-use of the asset).

An asset’s recoverable amount (or recoverable service amount) is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash generating unit.

An asset is part of a cash generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets.

In determining the recoverable amount (or recoverable service amount) of an asset the municipality evaluates the assets to determine whether the assets are cash generating assets or non-cash generating assets.

For cash generating assets the value in use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash generating asset the value in use is determined through one of the following approaches:

- Depreciated replacement cost approach – The current replacement cost of the asset is used as the basis for this value. This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the municipality makes an estimate of the assets or cash-generating unit's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

Accounting Policies

1.10 Employee benefits

Short-term employee benefits

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

Retirement benefits

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 municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

The municipality contributes to the Municipal Pension Fund, which is classified as a defined contribution plan. Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions becomes payables. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

1.11 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the financial period end.

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.

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the relevant notes to the financial statements.

1.12 Revenue from exchange transactions

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

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts, volume rebates and value-added taxes (VAT).

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 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 statement of financial position date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Contract revenue comprises:
- the initial amount of revenue agreed in the contract; and
- variations in contract work, claims and incentive payments:
  - to the extent that it is probale that they will result in revenue; and
  - they are capable of being reliably measured.

Interest

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

1.13 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 from non-exchange transactions is generally recognised to the extent that the the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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.

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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.

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 restrictions associated with the grant.

When government remits 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.

Donations are measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

If 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.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

1.15 Commitments

Commitments are not recognised. Commitments are disclosed in the notes to the annual financial statement. A commitment is disclosed unless the possibility of an outflow of resources embodying economic benefit is remote.

1.16 Comparative figures

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

1.17 Unauthorised expenditure

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

Accounting Policies

1.17 Unauthorised expenditure (continued)

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

1.18 Fruitless and wasteful expenditure

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

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

1.19 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Offsetting

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

1.22 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the statement of financial performance.

1.23 Gratuities

The municipality provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognised in the statement of financial performance when the gratuity is paid.

1.24 Related parties

The municipality has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity any one or more related parties, and those transactions were not within:
- normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
- terms and conditions within the normal operating parameters established by the reporting entity's legal mandate;

further details about those transactions are disclosed in the notes to the financial statements.

1.25 Going concern assumption

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

Accounting Policies

1.26 Budget information

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

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

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

2. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property - Land	5,335,395	-	5,335,395	5,335,395	-	5,335,395

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property - Land	5,335,395	5,335,395

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property - Land	5,335,395	5,335,395

	2012	2011
Fair value of investment properties	17,286,400	17,286,400

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

Details of valuation

The effective date of the revaluations was 01 January 2012. Valuations were performed by an municipal valuer, Mr Alan Robert Stephenson [South African Council for the Property Valuers Profession], of Mills Fitchet are connected to the municipality and have recent experience in location and category of the investment property being valued.

The municipality does valuation on investment property on four year basis cycle.

3. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	3,322,286	-	3,322,286	3,322,286	-	3,322,286
Buildings	6,406,377	(4,397,577)	2,008,800	6,159,425	(4,112,683)	2,046,742
Infrastructure	66,979,324	(41,227,907)	25,751,417	62,316,446	(39,763,320)	22,553,126
Other property, plant and equipment	6,253,348	(4,250,402)	2,002,946	5,913,372	(3,560,487)	2,352,885
Capital work in progress	1,907,091	-	1,907,091	2,514,377	-	2,514,377
Finance lease assets	5,991,744	(2,137,525)	3,854,219	5,991,744	(1,024,287)	4,967,457
Landfill site	7,031,082	(4,221,536)	2,809,546	7,031,082	(2,812,432)	4,218,650
Total	**97,891,252**	**(56,234,947)**	**41,656,305**	**93,248,732**	**(51,273,209)**	**41,975,523**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Transfers**	**Assets not previously identified**	**Depreciation**	**Impairment reversal / (loss)**	**Total**
Land	3,322,286	-	-	-	-	-	3,322,286
Buildings	2,046,742	108,380	68,550	70,022	(325,532)	40,638	2,008,800
Infrastructure	22,553,126	-	4,662,383	495	(2,541,708)	1,077,121	25,751,417
Other property, plant and equipment	2,352,885	339,975	-	-	(685,359)	(4,556)	2,002,945
Capital work in progress	2,514,377	4,123,647	(4,730,933)	-	-	-	1,907,091
Finance lease assets	4,967,457	-	-	-	(1,113,238)	-	3,854,219
Landfill site	4,218,650	-	-	-	(1,409,104)	-	2,809,546
	41,975,523	**4,572,002**	**-**	**70,517**	**(6,074,941)**	**1,113,203**	**41,656,304**

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land	3,322,286	-	-	-	-	-	3,322,286
Buildings	2,391,149	-	-	-	(343,330)	(1,077)	2,046,742
Infrastructure	23,526,482	819,002	-	-	(1,242,797)	(549,561)	22,553,126
Other property, plant and equipment	2,053,440	787,802	-	91,596	(579,779)	(174)	2,352,885
Capital work in progress	54,000	2,514,377	-	(54,000)	-	-	2,514,377
Finance lease assets	1,415,570	4,262,611	(107,854)	-	(602,870)	-	4,967,457
Landfill site	5,624,866	-	-	-	(1,406,216)	-	4,218,650
	38,387,793	**8,383,792**	**(107,854)**	**37,596**	**(4,174,992)**	**(550,812)**	**41,975,523**

Figures in Rand	2012	2011

4. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	194,932	(122,695)	72,237	194,932	(86,466)	108,466

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	108,466	(36,229)	72,237

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	93,911	52,399	(37,844)	108,466

5. Employee benefit obligations

Certain municipal councillors and employees belong to The Natal Joint Municipal Pension Fund (Superannuation) and The Natal Joint Municipal Pension Fund (Retirement) which are administered by the Province.

These schemes cannot be broken down per municipality, as they are considered to be multi-employer schemes and hence are treated as defined contribution schemes by the municipality.

Municipal employees are also members of the KwaZulu Natal Joint Municipal Provident Fund, South African Local Authorities (SALA) Provident and Retirement Funds. All contributions have been included in the employee related cost note.

SUPERANNUATION FUND

The actuarial value of total assets was R 121,7 million more than the actuarial value of liabilities for service of members to that date and for pensioners ,made up as follows:

-surplus of R 210 million in respect of pensioners (funding level 119,4%)
-deficit of R 88,3 million in respect of memebers (funding level 95%)
-the fund was thus 104% funded
-the fund did not hold an investment reserve
-the total contribution rate payable,including the surcharge by and on behalf of members,exceeded that required for future service by 1,41 % of memebers pensionable emoluments
-An additional contribution by way of a surcharge amounting to 6% of salaries is currently in place to fund the deficit. The surcharge will reduce to 4,5% with effect from 1 July 2007

RETIREMENT FUND

The actuarial value of total assets was R 140,9 million more that the acturial value of liabilities for services of members to that date and for pensioners made up as follows:
-surplus of R 63,4 million in respect of pensioners (funding level 116,2%)
-deficit of R204,3 million in respect of members (funding level 73%)
-the fund was thus 87,7% funded
-the fund did not hold an investment reserve
-the total contribution rate payable (including the surcharge of 14 % payable jointly by pre-1 July 2002 members and thier employers on thier behalf) exceeded that required for future service by 12,59% of members' pensionable emoluments. This should be sufficient to eliminate the deficit by 2010,provided that salary increases do not exceed CPIX plus 0,5 %.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Prepayments

Prepayments (straight-lining of leases)	-	834,301

7. Financial assets - Investments

FNB Investment call account - 62172498183	211,538	251,524
Business call account - 62172488671	-	160,008
ABSA and Transitional grant	1,578,184	646,369
Housing project grant - 62187203957	6,851,863	7,475,210
Housing project grant: Craigburg -62141712001	6,262,161	6,455,717
Municipal housing account - 62237621760	3,206,568	518,029
Varoius Municipal investment	-	2,088,653
Midlands development agency	163,757	-
	18,274,070	**17,595,510**

Midlands Development Agency

The municipality is part of the Development agency established between uMngeni Municipality , Mpofana and uMtshezi Municipalities. For the period under review, the development agency was still in the process of appointing a Board to run the affairs of the Agency. The Agency is fund by the IDC and a bank account is held in the name of uMgeni Municipality, until the Board is appointed to take control of the affairs of the agency.

The bank balance was R 491 269.90 as at 30 June 2012 held at ABSA Bank LTD. The Municipality has recognised 1 third of the bank balance as an investment.

8. Loans and receivables

Loans and receivables		
Long term debtors	330,418	330,419

Long term debtors relate to loan agreements which were entered into between the municipality and the Development Bank of Southern Africa (DBSA) for the water and sanitation scheme. This function was transferred to uMgungundlovu District municipality but the DBSA loan agreements could not be ceded to uMgungundlovu District municipality. The outstanding loan amount is recoverable from uMgungundlovu District municipality. Refer to the annuity loan note for the corresponding liability that Mpofana municipality has with the Development Bank of Southern Africa (DBSA).

The terms of the loans vary between forty to sixty years. The entire balance is receivable and is reflected in the current assets section in the statement of financial position.

Non-current assets		
Loans and receivables	-	8,884
Current assets		
Loans and receivables	330,418	321,535

9. Inventories

Consumable stores	44,362	105,511

10. Other receivables

Sundry debtors	543,845	302,941

Sundry debtors consists of the salary difference receivable by the municipality; which arose when the position of Deputy Mayor was still active within council and other receivables.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer debtors

Gross balances		
Rates	24,233,042	28,704,395
Electricity	58,745,125	45,863,443
Refuse	4,388,467	2,955,253
Sundry debtors	5,681,344	5,443,078
	93,047,978	**82,966,169**
Less: Provision for doubtful debts		
Rates	15,832,008	17,181,750
Electricity	41,863,932	30,257,019
Refuse	3,116,466	1,943,068
Sundry debtors	3,742,275	3,288,556
	64,554,681	**52,670,393**
Net balance		
Rates	8,401,034	11,522,645
Electricity	16,881,193	15,606,425
Refuse	1,272,001	1,012,185
Sundry debtors	1,939,069	2,154,522
	28,493,297	**30,295,777**
Rates		
Current (0 -30 days)	1,203,804	978,515
31 - 60 days	524,299	390,926
61 days and older	22,504,939	27,334,954
	24,233,042	**28,704,395**
Electricity		
Current (0 -30 days)	7,361,677	8,585,351
31 - 60 days	2,621,189	3,161,203
61 days and older	48,762,259	34,116,889
	58,745,125	**45,863,443**
Refuse		
Current (0 -30 days)	430,757	64,188
31 - 60 days	179,966	23,047
61 days and older	3,777,744	2,868,018
	4,388,467	**2,955,253**
Sundry debtors		
Current (0 -30 days)	147,875	46,404
31 - 60 days	76,738	23,674
61 days and older	5,456,731	5,372,999
	5,681,344	**5,443,077**
Reconciliation of doubtful debt provision		
Balance at beginning of the year	52,670,393	53,806,337
Contributions to provision	64,554,681	52,670,393
Reversal of prior year provision	(52,670,393)	(53,806,337)
	64,554,681	**52,670,393**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer debtors (continued)

Indegent consumers

The municipality provided free basic refuse removal to its indegent customers of 548 which costed R328 800.

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 4,058,460 (2011: R 3,354,400) were past due but not impaired and are considered to fully recoverable.

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

1 month past due	4,058,460	3,354,400

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 64,554,681 (2011: R 52,670,393) were impaired and provided for.

The ageing of these debtors is as follows:

1 to 3 months	64,554,681	52,670,393

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	800	800
Bank balances	3,949,319	11,863
Bank overdraft	-	(1,292,934)
	3,950,119	**(1,280,271)**
Current assets	3,950,119	12,663
Current liabilities	-	(1,292,934)
	3,950,119	**(1,280,271)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
First National Bank Limited - Mooi River branch - Public sector current account - Account number 53050399907	2,054,343	402,623	367,192	3,925,317	(1,292,934)	(399,395)
First National Bank Limited - Mooi River branch - Public sector current account - Account number 62101108034	24,002	11,863	257,338	24,002	11,863	257,338
Total	**2,078,345**	**414,486**	**624,530**	**3,949,319**	**(1,281,071)**	**(142,057)**

Figures in Rand	2012	2011

13. Finance lease obligation

Minimum lease payments due		
- within one year	1,658,501	1,673,086
- in second to fifth year inclusive	3,345,243	5,007,058
	5,003,744	6,680,144
less: future finance charges	(881,768)	(1,470,265)
Present value of minimum lease payments	**4,121,976**	**5,209,879**
Present value of minimum lease payments due		
- within one year	1,227,222	1,081,993
- in second to fifth year inclusive	2,894,754	4,127,886
	4,121,976	**5,209,879**

The average lease term is 5 years. Interest rates are linked to prime for printers and prime less 2% for motor vehicles, at the contract date.

Contingent rents have been recognised as an expense in the statement of financial performance.

The leased assets are indicated in Note 3.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Municipal assistance grant	966,738	638,791
Townview housing project grant	8,168,481	8,168,481
Cragieburn housing project grant	6,260,824	6,597,356
Municipal systems improvement grant	-	-
Electricity grant	-	2,057,836
Municipal infrastature grant	177,689	-
	15,573,732	**17,462,464**

Figures in Rand	2012	2011

14. Unspent conditional grants and receipts (continued)

	2012	2011
Municipal assistance grant		
Balance unspent at the beginning of the year	638,791	-
Current year receipts	1,025,000	725,000
Conditions met - transferred to revenue	(697,053)	(86,209)
	966,738	**638,791**
Townview housing project grant		
Balance unspent at the beginning of the year	8,168,481	8,168,481
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	8,168,481	**8,168,481**
Cragieburn housing project grant		
Balance unspent at the beginning of the year	6,597,356	6,763,823
Current year receipts	-	-
Conditions met - transferred to revenue	(336,532)	(166,466)
	6,260,824	**6,597,357**
Finance management grant		
Balance unspent at the beginning of the year	-	283,718
Current year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,500,000)	(1,783,718)
	-	**-**
Electricity grant		
Balance unspent at the beginning of the year	2,057,836	2,575,267
Current year receipts	-	-
Conditions met - transferred to revenue	(2,057,836)	(517,431)
	-	**2,057,836**
Municipal systems improvement grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(750,000)
	-	**-**
MIG grant		
Balance unspent at the beginning of the year	-	-
Current year receipts	9,668,000	-
Conditions met transferred to revenue	(9,490,311)	-
	177,689	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

14. Unspent conditional grants and receipts (continued)

Municipal assistance grant
This grant was provided to Mpofana municipality from Cooperative Governance and Traditional Affairs (CoGTA) to assist the municipality with governance issues.

Townview housing project grant
This was a tranche allocation by the Department of Human Settlement for the construction of low cost housing in the Townview area, in prior years. The project was abondoned due to the low standards as per the Department of Human Settlement. A rehabilitation project was embarked on by the Provincial Department, leaving the unspent portion with the municipality. The municipality has applied to use the funds for the construction of roads and the Phumlaas housing project. The municipality is awaiting the Department of Human Settlement's response regarding the application.

Cragieburn housing project grant
This grant will be used for the construction of low cost housing in the Cragieburn area. It is currently in tranche 2 of approval.

Finance management grant (FMG)
The main objective of this grant is to assist in the rollout of financial management reforms embodied in the MFMA through building capacity in financial management. Its primary purpose is to assist building strong financial management skills.

Electricity grant
This grant is used for the rehabiliatation and the refurbishment of the electricity infrastructure to support sustained supply and to increase distribution capacity. The unspent portion will be used to complete the same projects.

Municipal systems improvement grant (MSIG)
This grant is used for infrastructure, capacity building and restructuring. The capacity building and restructuring grants were set up to assist the municipality in developing their planning, budgeting, financial management and technical skills.

Municipal Infrastructure Grant (MIG)
This grant is used for capital infrastructure additions. The municipality has utilised the grant to build roads.

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	7,734,190	773,419	-	8,507,609
Provision for leave pay	1,522,805	506,253	(300,309)	1,728,749
Provision for damaged vehicles	7,570	-	(7,570)	-
	9,264,565	**1,279,672**	**(307,879)**	**10,236,358**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	7,031,082	703,108	-	7,734,190
Provision for leave pay	1,852,906	1,775,387	(2,105,488)	1,522,805
Provision for damaged vehicles	87,750	-	(80,180)	7,570
	8,971,738	**2,478,495**	**(2,185,668)**	**9,264,565**

Landfill site
The landfill site provision is raised for the rehabilitation of the waste disposal site to its original state once the site has reached the end of its useful life. This is expected to be paid by 30 June 2015

A 10% discounting factor has been applied..

Leave pay
The leave pay provision is accrued at the Basic Conditions of Employment Act rate and is accumulated to a maximum of 48 days per employee.

16. Annuity loan

The municipality has received five loans from the Development Bank of Southern Africa (DBSA) to fund water, electricity and sewerage expenditure.The terms of the loans vary between forty to sixty years. Each loan has a fixed interest rate however, all loans have different fixed interest rates. Interest rates are between 14,50% to 16,32% per annum, payable every six months.

Three of the five loans will be recovered from uMgungundlovu District municipality as the water and sanitation function has been ceded to the district municipality. Refer to the loans and receivables note 8.

	2012	2011
Annuity Loans		
DBSA Loans	261,912	331,162
Less: Current portion transferred to current liabilities	(110,215)	(125,158)
	151,697	**206,004**

17. VAT receivable

	2012	2011
VAT receivable	-	608,791

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Payables from exchange transactions

Trade payables	-	279,642
Sundry creditors	3	-
Sundry creditors	1,426,773	2,024,678
Bulk purchase - Eskom	3,615,312	3,166,205
Other sundry creditors district municipality	605,385	605,385
Payments received in advance	1,405,498	2,892,145
	7,052,971	**8,968,055**

19. VAT payable

VAT payable	887,234	-

20. Consumer deposits

Electricity	219,469	192,696
Water	145,987	146,237
Other	31,045	18,595
	396,501	**357,528**

Interest is not paid to consumers when deposits are refunded and hence it is not accrued on consumer deposits value.

21. Revenue

Property rates (refer note 22)	7,060,453	5,967,012
Service charges (refer note 23)	46,270,031	43,123,011
Rental of facilities & equipment	2,484,133	1,024,503
Fines	364,225	1,888,540
Licences and permits	3,872,209	2,966,240
Government grants (refer note 24)	31,348,686	26,452,126
	91,399,737	**81,421,432**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	46,270,031	43,123,011
Rental of facilities & equipment	2,484,133	1,024,503
Licences and permits	3,872,209	2,966,240
	52,626,373	**47,113,754**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	7,060,453	5,967,012
Fines	364,225	1,888,540
Transfer revenue		
Government grants and subsidies	31,348,686	26,452,126
	38,773,364	**34,307,678**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Property rates

Residential	1,954,844	1,898,012
Commercial	2,188,034	1,938,976
State	22,485	17,488
Agriculture	2,895,090	2,112,536
	7,060,453	**5,967,012**

Valuations on land and buildings are performed every four years. The last valuation occurred on July 01, 2008.

The following general rates are applied:

-Residential	R1.2826	R1.2100
-Agricultural	R0.0300	R0.0300
-Commercial	R1.5900	R1.5000
-Public Service Infrastructure	R0.3000	R0.3000

Rebates of 30% were granted to rates on residential properties, 55% on agricultural properties. In the 2010/2011 year rebates of 30% were granted to rates on residential, 55% agricultural properties and 30% public service infrastructure.

Rates are levied on a monthly basis.

Rates are levied on the following properties as per the valuation roll:

Property valuations

Agricultural	1,187,766,000	1,187,766,000
Agricultural smallholding	335,268,000	335,268,000
Commercial	257,191,100	257,191,100
Industrial	1,525,000	1,525,000
Municipal	6,771,000	6,771,000
Public service infrastructure	6,424,530	6,424,530
Residential & Residential hospitality	400,105,700	400,105,700
Sectional title - Commercial	1,300,000	1,300,000
Sectional title - Residential	6,250,000	6,250,000
State owned	511,000	511,000
Place of worship	7,000,000	7,000,000
	2,210,112,330	**2,210,112,330**

23. Service charges

Sale of electricity	43,872,159	42,669,907
Refuse removal	2,397,872	453,104
	46,270,031	**43,123,011**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Government grants and subsidies included in revenue

Equitable share	17,761,836	16,694,646
Cragieburn housing project grant	336,533	166,466
Museum subsidy	194,299	42,000
Municipal infrastructure grant (MIG)	9,490,311	3,039,000
Municipal systems improvement grant (MSIG)	790,000	750,000
Finance management grant (FMG)	1,500,000	1,783,718
Municipal assistance grant	697,053	86,209
Department of trade and industry (DTI) subsidy	89,654	2,555,481
Public health subsidy	489,000	817,175
Electricity grant	-	517,431
	31,348,686	**26,452,126**

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

Museum subsidy
This subsidy has been granted to the municipality for operational upkeep of the museum in the area.

Department of trade and industry (DTI) subsidy
This subsisdy was granted to the municipality by the Department of Trade and Industry. This was granted to reimburse the municipality for 30% of all capital expenditure incurred during the 2008/2009 reporting period until the 2010/2011 reporting period.

Public health subsidy
This subsidy was granted to the municipality by the Department of Public health for the operational costs of running the clinic.

Municipal infrastructure grant (MIG)
This grant is used to address backlogs in municipal infrastructure required for the provision of basic services.

25. Donations income

Donations income	434,296	-

uMgungundlovu District Municipality provided financial assistance for the upgrade of the ICT infrastructure for the municipality.

26. Other income

Other income	421,385	252,671
Cemetry fee income	23,000	42,150
	444,385	**294,821**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. General expenses

Advertising	194,335	141,866
Auditors remuneration	763,906	1,070,711
Bank charges	111,054	114,380
Cleaning	13,182	37,661
Computer expenses	490,332	100,511
Conferences and seminars	106,817	58,938
Consulting and professional fees	-	873,081
Consumables	12,617	10,918
Contigent rentals	108,851	-
Discount allowed	10,414	4,334
Electricity	-	38,780
Entertainment	36,668	124,244
Fuel and oil	28,718	38,967
General expenses	-	189,224
Gifts	9,980	9,004
Hostel charges	566,896	388,544
Insurance	537,985	212,814
Inventory write off	2,445	-
Legal expenses	-	52,881
Magazines, books and periodicals	42,203	51,755
Medical expenses	113,727	-
Motor vehicle expenses	740,764	802,217
Other expenses	-	6,715
Other general expenses	913,367	651,448
Postage and courier	60,649	75,015
Printing and stationery	977,256	388,412
Promotions	28,888	94,140
Rental general	1,029,098	917,535
Secretarial fees	581,764	115,384
Security	1,141,712	727,533
Service connections	525,818	199,789
Software expenses	-	54,000
Subscriptions and membership fees	921	111,038
Summons costs	24,762	3,500
Team building workshops	7,915	23,263
Telephone and fax	737,830	817,989
Tourism development	2,504	925
Training	31,818	125,961
Transport and freight	-	6,800
Travel - local	34,073	391,831
Uniforms	67,039	101,225
Valuation expenses	1,282,531	217,800
Venue expenses	-	141,037
	11,338,839	**9,492,170**

Figures in Rand	2012	2011

28. Employee related costs

Basic	10,983,198	10,736,652
Bonus	738,343	1,103,547
Medical aid - company contributions	1,010,430	789,943
UIF	190,073	120,268
SDL	74,574	165,588
Leave pay provision charge	-	252,631
Post-employment benefits	2,574,339	2,425,027
Overtime payments	1,149,665	1,253,266
Transport allowance	1,260,909	1,444,157
Housing benefits and allowances	51,377	35,744
Other allowances	1,315,291	1,647,487
Other payroll levies	3,176	5,790
	19,351,375	**19,980,100**

Remuneration of municipal manager

Annual Remuneration	409,636	324,936
Car, travel, accomodation allowance and other	329,224	351,841
Performance Bonuses	-	63,656
	738,860	**740,433**

Remuneration of chief finance officer

Annual Remuneration	358,444	323,659
Car, travel, accomodation allowance and other	294,186	332,234
Performance Bonuses	-	57,523
	652,630	**713,416**

Remuneration of Director Corporate Services

Annual Remuneration	293,055	173,333
Car, travel, accomodation allowance and other	210,066	205,754
Performance Bonuses	12,243	-
	515,364	**379,087**

Remuneration of Director Technical Services

Annual Remuneration	272,694	200,790
Car, travel, accomodation allowance and other	236,735	161,366
Performance Bonuses	-	2,643
	509,429	**364,799**

Renumeration of Director Social Services

Annual Remuneration	105,801	303,561
Car, travel, accomodation allowance and other	96,591	365,737
Performance Bonuses	-	29,703
	202,392	**699,001**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Remuneration of councillors

Executive Mayor	664,727	651,844
Councillors	603,033	613,368
Councillors' pension and medical aid contributions	75,929	128,096
Councillor's allowances	500,605	429,041
	1,844,294	**1,822,349**

In-kind benefits

The Mayor is employed on a full-time. The Mayor is provided with an office and secretarial support at the cost of the Council. The Mayor has use of a Council owned vehicle for official duties. The Mayor has a full-time bodyguard.

30. Debt impairment

Contributions to bad-debt provision	1,073,138	(1,135,945)
Bad debts written off	15,278,880	24,080,561
	16,352,018	**22,944,616**

31. Investment revenue

Interest revenue		
Interest on investments	730,945	894,868
Bank	-	47,468
Interest received - other	18,548	4,475,582
	749,493	**5,417,918**

32. Depreciation

Property, plant and equipment	6,111,171	4,212,840

33. Impairment of assets

Impairments/ (reversal of impairements)		
Property, plant and equipment	(1,113,203)	550,812

The impairment losses recognised in the 2009/2010 and 2010/2011 financial years on property, plant and equipment were calculated by an expert, PricewaterhouseCoopers Combined System (Pty) Ltd.

Impairment losses were calculated based on the result of a physical verification conducted during which a condition assessment was performed

34. Finance costs

Provision for landfill site (unwinding)	773,419	703,108
Interest on finance leases	570,260	324,342
Interest on bank overdraft	55,157	53,666
Interest on non-current borrowings	25,045	68,486
	1,423,881	**1,149,602**

35. Auditors' remuneration

Fees	763,906	1,070,711

Figures in Rand	2012	2011

36. Operating lease

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - lessee		
Within one year	175,739	217,479
In the second to fifth year	330,502	508,337
	506,241	**725,816**

Operating leases consist of the following:
Operating lease payments represent rentals payable by the municipality for certain of its fleet vehicles, and clinic. Leases are negotiated for four years for the rental of the clinic, and the lease periods for the motor vehicles vary. Lease rentals for the clinic escalate by 10% over the lease period. Lease rentals for the fleet vehicles are linked to the prime interest rate.

Operating leases - lessor
The municipality has low cost houses that are leased to certain staff/members. Lease rentals are based on a percentage of the lessee's income levels. These leases are cancellable at any time by either party provided that one month's notice is given. There is no fixed lease period.

37. Rental income

Premises		
Premises	324,344	233,939
Venue hire	25,200	30,270
	349,544	**264,209**
Facilities and equipment		
Rental of equipment	2,134,589	641,085
	2,484,133	**905,294**

38. Bulk purchases

Electricity	31,380,265	27,279,093

39. Cash generated from (used in) operations

Surplus (deficit)	5,480,144	(3,426,893)
Adjustments for:		
Depreciation	6,111,171	4,212,840
Loss on sale/disposal of assets	-	39,422
Impairment/ (reversal of impairement)	(1,113,203)	550,812
Movements in provisions	971,793	292,827
Other non-cash items	-	(1,446,898)
Changes in working capital:		
Inventories	61,149	(68,185)
Other receivables from non-exchange transactions	(240,904)	(20,701)
Consumer debtors	1,802,480	(991,620)
Prepayments	834,301	(72,116)
Movement in tax receivable and payable	1,535,675	(463,040)
Payables from exchange transactions	(1,915,092)	935,344
	13,527,514	**(458,208)**

Figures in Rand	2012	2011

40. Commitments

Authorised capital expenditure

Approved and contracted for		
• Craigieburn Mpofana & Onverwag Access gravel roads	-	1,590,969
• Phumlaas Bus / Taxi Route	9,737,246	9,668,000
• Bruntville Clinic Bus / Taxi Route	7,859,299	-
	17,596,545	**11,258,969**

41. Contingencies

The following were disputes as at 30 June 2012:

Sala Pension Fund	R59 700

The Sala Pension Fund sued the municipality for subscription fees. This matter is still ongoing.

42. Related parties

Related party transactions

Councillor T Pratsch

Caltex Service Station	-	150,589

A related party relationship existed between the municipality and Councillor T Pratsch in 2010/2011 and the relationship no longer exists in 2011/2012.

The Municipality has a credit facility for the purchase of fuel and oil for Municipal vehicles. The owner of the Caltex Service Station used is a Councillor of the Municipality.

The business transaction was entered into in the year 2000 prior to the owner becoming a Councillor.

Remuneration to key personnel of the municipality is disclosed in notes 27 and 28.

Figures in Rand	2012	2011

43. Prior period errors

In years prior to 1 July 2011, certain assets were not previously identified and have now been recognised as property, plant and equipment.

The correction of the error results in adjustments as follows:

2011

Statement of financial position		
Property, plant and equipment	70 516	-
Effect on accumulated surplus	(70 516)	-

44. Events after the reporting date

The function of health services has been transferred to the department of health from 1 July 2012.

45. Unauthorised expenditure

At the time of completion of the annual financial statements, there was no unauthorised expenditure.

46. Fruitless and wasteful expenditure

Penalty interest	36,174	-
To be condoned	(36,174)	-
	-	-

Interest and penalty charges were levied for the late payment of VAT to SARS.

47. Irregular expenditure

At the time of completion of the annual financial statements no irregular expenditure had been incurred.

48. In-kind donations and assistance

During the current financial year (2011/2012), there were no in-kind donations and assistance.

49. Deviation from supply chain management regulations

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

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

Various items were procured during the financial year under review and process follwed in procuring those goods deviated from the provisons of paragraph 12 (1)(d)(1) as stated above. The reasons for the deviations were documented and reported to the Accounting Officer whi considered them and subsequently approved the deviation from the normal supply chain management regulation. The main reasons for deviations were mainly sole supplier deviation, emergency cases and target market related; from a total expenditure of R 91 458 343, deviations were R 359 349 being 0,39% of expenditure.

Figures in Rand	2012	2011

50. Risk management

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. 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 municipality. The utilisation of credit limits is regularly monitored.

Financial assets exposed to credit risk at year end are noted under the respective Financial assets - Investments, Trade and other receivables and the Cash and cash equivalents notes.

These balances represent the maximum exposure to credit risk.

Cash and cash equivalent	3 950 119	12 663
Financial assets- Investments	18 274 070	17 595 510
Consumer debtors	28 493 297	30 295 777
Maximum credit exposure	**50 717 486**	**47 903 950**

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

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

The table below analyses the municipality financial liabilities into amount due within the 12 months after

Payables from exchange transactions	7 052 968	8 968 055
Finance lease obligation	1 227 222	1 081 993
Short term portion of long term liabilities	110 215	125 158
	8 390 405	**10 175 206**

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

At year end, financial instruments exposed to interest rate risk were as follows:
- Call deposits
- Notice deposits
- Long-term debtors

Interest rate sensitivity
The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of financial assets - investments. With all other variables held constant, the municipality's deficit for the year is affected through the impact on variable rate investments as follows.

	Effect on profit before tax	
	2% increase	**2% decrease**
2012		
Financial assets - Investment	365,481	(365,481)
Cash and cash equivalent	79,002	(79,002)
Consumer debtors	569,866	(569,866)
Annuity loan	(5,238)	5,238

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

50. Risk management (continued)

2011		
Financial assets - Investment	351,910	(351,910)
Cash and cash equivalent	(25,065)	25,065
Consumer debtors	605,916	(605,916)
Annuity loan	(6,623)	6,623

Fair value hierachy
The municipality does not carry any of its financial assets at fair value on subsequent measurement. The fair value hierarchy disclosure has therefore not been disclosed.

51. Electricity losses

Electricity units (kWh) lost in distribution		
Electricity units (kWh) purchased from Eskom	59,930,776	61,857,434
Electricity units (kWh) sold from Eskom	(44,887,877)	(46,950,363)
	15,042,899	**14,907,071**

Electricity losses for the financial year is 24% (2011: 17.1%). The rand value of the electricity losses for the financial year is R8,353,601 (2011: R4,442,361).

These losses are attributable to electricity line losses within the electricity network infrastructure.

52. Councillor arrears on consumer accounts

No current councillor has arrears on his services account.

53. Statement of comparative and actual information

Reconciliation of budget surplus with the surplus in the statementof financial performance

Net surplus per the statement of financial performance	5,471,464	-
Varience between revenue budgeted for and revenue received	1,918,362	-
Varience between expenditure budgeted for and expenditure incurred	(7,431,983)	-
Net surplus per approved budget	**(42,157)**	**-**

53. Statement of comparative and actual information (continued)

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	8,074,000	7,487,096	7,487,096	7,060,453	426,643	94 %	87 %
Service charges	52,353,000	42,272,495	42,272,495	46,270,031	(3,997,536)	109 %	88 %
Investment revenue	8,913,000	5,503,310	5,503,310	2,024,612	3,478,698	37 %	23 %
Transfers recognised - operational	51,865,000	24,397,299	24,397,299	31,348,686	(6,951,387)	128 %	60 %
Other own revenue	7,329,000	19,196,649	19,196,649	10,234,705	8,961,944	53 %	140 %
Total revenue (excluding capital transfers and contributions)	**128,534,000**	**98,856,849**	**98,856,849**	**96,938,487**	**1,918,362**	**98 %**	**75 %**
Employee costs	(31,588,000)	(28,920,973)	(25,414,566)	(21,195,670)	(4,218,896)	83 %	67 %
Debt impairment	(5,266,000)	(5,500,000)	(16,352,018)	(16,352,018)	-	100 %	311 %
Depreciation and asset impairment	(5,709,000)	(5,600,000)	(5,600,000)	(4,997,968)	(602,032)	89 %	88 %
Finance charges	(563,000)	(562,847)	(1,423,881)	(1,423,881)	-	100 %	253 %
Materials and bulk purchases	(29,924,000)	(38,900,219)	(31,597,813)	(31,380,265)	(217,548)	99 %	105 %
Other expenditure	(53,212,000)	(19,414,967)	(18,510,728)	(16,108,541)	(2,402,187)	87 %	30 %
Total expenditure	**(126,262,000)**	**(98,899,006)**	**(98,899,006)**	**(91,458,343)**	**(7,440,663)**	**92 %**	**72 %**
Surplus/(Deficit) for the year	**2,272,000**	**(42,157)**	**(42,157)**	**5,480,144**	**(5,522,301)**	**(12,999)%**	**241 %**

53. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget

Mpofana Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun	Jun	Sep	Dec	Mar	Jun		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.