



Ndwedwe Local Municipality
Annual Financial Statements
for the year ended June 30, 2012

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

General Information

Legal form of entity	Municipality
Members of the council	
Mayor	M Hadebe
Deputy Mayor	EN Blose
Speaker	MJ Zondi
Member of the Executive Committee	NP Ngcobo
Member of the Executive Committee	RM Cele
Member of the Executive Committee	BJ Shozi
Member of the Executive Committee	KW Madlala
Member of the Executive Committee	MP Busane
Grading of local authority	Grade 2 Low Capacity Municipality
Chief Finance Officer (CFO)	SK Khoza
Municipal Manager	Mrs. T. Cibane - Appointed 01 September 2011 Ms. J. Majola - Resigned 30 August 2011
Registered Office	Ndwedwe Local Municipality
Physical Address	P100 Road Ndwedwe 4342
Postal Address	P/Bag X 503 Ndwedwe 4342
Auditors	The Auditor General of South Africa
Telephone	032 532 5000
E-mail Address	mm@ndwedwe.gov.za
Fax Number	032 532 5031/5032
Bankers	First National Bank, Verulam Branch

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements, which are set out on pages 4 to 27, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality. I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 15 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.

Municipal Manager: Mrs. T Cibane
31 August 2012

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Index

Index	Page
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Accounting Policies	8 - 17
Notes to the Annual Financial Statements	18 - 30

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
ASSETS			
Current Assets			
Trade and receivables from exchange transactions	2	1,226,749	1,233,395
VAT receivable	3	1,031,665	2,412,394
Consumer debtors	4	1,490,855	898,806
Cash and cash equivalents	5	21,370,889	3,610,006
		25,120,158	8,154,601
Non-Current Assets			
Property, plant and equipment and Intangible assets	6	115,800,598	97,984,049
Intangible assets	7	102,228	203,543
		115,902,826	98,187,592
Total Assets		141,022,984	106,342,192
LIABILITIES			
Current Liabilities			
Finance lease liability	8	1,551,516	1,156,128
Trade and other payables from exchange transactions	9	3,338,648	1,203,599
Unspent conditional grants and receipts	10	8,664,213	3,610,006
Provisions	11	1,326,514	1,189,591
		14,880,891	7,159,324
Non-Current Liabilities			
Finance lease liability	8	1,269,675	2,529,527
Provisions	11	545,649	366,652
		1,815,324	2,896,179
Total Liabilities		16,696,215	10,055,503
Net assets		124,326,769	96,286,689
NET ASSETS			
Accumulated surplus		124,326,769	96,286,689

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	12	4,121,416	2,660,689
Rental of facilities and equipment		47,904	69,117
Public contributions and donations		-	120,000
Government grants & subsidies	13	83,408,869	80,414,583
Other income		773,077	207,775
Interest earned - outstanding receivables		202,197	50,383
Interest received - investment		1,349,973	1,064,009
Gains on disposal of property, plant and equipment		-	166,149
Total Revenue		89,903,436	84,752,705
Expenditure			
Employee related costs	14	(19,598,510)	(18,155,943)
Remuneration of councillors	15	(7,895,598)	(7,172,912)
Depreciation and amortisation expense	16	(4,438,061)	(4,077,246)
Impairment loss/ Reversal of impairments		(618,587)	-
Finance costs	17	(486,814)	(588,021)
Repairs and maintenance		(4,163,911)	(2,811,872)
Increase in provision for bad debts		(2,334,163)	-
Contracted services	18	(3,072,496)	(2,810,435)
General expenses	19	(19,076,219)	(19,887,242)
Provisions		-	(1,134,234)
Increase in Provision for long service award		(178,997)	-
Total Expenditure		(61,863,356)	(56,637,905)
Surplus for the year		28,040,080	28,114,800

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 01, 2010	66,232,917	66,232,917
Changes in net assets		
Prior period error	1,938,973	1,938,973
Net income (losses) recognised directly in net assets	1,938,973	1,938,973
Surplus for the year	28,114,800	28,114,800
Total recognised income and expenses for the year	30,053,773	30,053,773
Total changes	30,053,773	30,053,773
Balance at July 01, 2011	96,286,689	96,286,689
Changes in net assets		
Surplus for the year	28,040,080	28,040,080
Total changes	28,040,080	28,040,080
Balance at June 30, 2012	124,326,769	124,326,769

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Vat		1,380,729	-
Sale of goods and services		88,000,733	81,241,202
Grants		5,054,207	-
Interest received		1,349,973	1,064,009
		<u>95,785,642</u>	<u>82,305,211</u>
Payments			
Suppliers		(53,901,599)	(65,189,560)
Finance costs		(486,814)	(588,021)
		<u>(54,388,413)</u>	<u>(65,777,581)</u>
Net cash flows from operating activities	21	<u>41,397,229</u>	<u>16,527,630</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and intangible assets	6	(22,771,881)	(32,352,371)
Proceeds from sale of property, plant and equipment and intangible assets	6	-	201,154
Purchase of other intangible assets	7	-	(13,655)
Net cash flows from investing activities		<u>(22,771,881)</u>	<u>(32,164,871)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
(Repayment of) / Proceeds from other financial liabilities		(864,464)	38,124
Net increase/(decrease) in cash and cash equivalents		17,760,884	(15,599,117)
Cash and cash equivalents at the beginning of the year		3,610,006	19,209,121
Cash and cash equivalents at the end of the year	5	<u>21,370,890</u>	<u>3,610,006</u>

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1. BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

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

These annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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

The standards are summarised as follows:

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statement
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events after the Reporting Date
GRAP 16 Investment Properties
GRAP 17 Property, Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non Current Assets Held for Sale and Discontinued Operations
GRAP 101 Agriculture
GRAP 102 Intangible Assets
IPSAS 20 Related Party Disclosure
IAS 39 Financial Instruments

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated.

The Municipality opted to take advantage of the transitional provisions as contained in Directive 4, issued by the Accounting Standards Board in March 2009. The municipality did not recognise all the property, plant and equipment and intangible assets in accordance with GRAP for the financial years up to 30 June 2011. The municipality has identified and measured all property, plant and equipment and intangible assets in terms of GRAP for the financial year ended 30 June 2012.

A summary of the significant accounting policies which have been consistently applied, except where transitional provisions have been previously granted, are disclosed below.

1.2 PRESENTATION OF CURRENCY

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

1.3 GOING CONCERN ASSUMPTION

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.4 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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 - issued March 2005
- GRAP 21 Impairment of Non- Cash generating assets- issued March 2009
- GRAP 23 Revenue from Non- Exchange Transactions- issued February 2008
- GRAP 24 Presentation of Budget Information - issued November 2007
- GRAP 25 Employee benefits - issued February 2008
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 104 Financial Instruments - issued October 2009
- GRAP 105 Transfer of functions between entities under common control - issued November 2007
- GRAP 106 Transfer of functions between entities not under common control - issued July 2008
- GRAP 107 Mergers - Issued November 2010.

1.5 PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

1.5.1. INITIAL RECOGNITION

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

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

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

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

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

1.5.2. SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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

1.5.3. DEPRECIATION AND IMPAIRMENT

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

Item	Average useful life
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Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.5 Property, plant and equipment and Intangible assets (continued)

Infrastructure

• Roads and Paving	15 years
• Economic Development	20 years
• Sewerage	20 years
• Electricity	20 years

Community

• Buildings	30 years
• Recreational facilities	20-30 years
• Security	5 years

Other

• Informal Markets	
• Building Improvements	20 years
• Heavy and mobile plant	10 years
• Furniture and fittings	7 years
• Bins and containers	5 years
• Plant - general	5 years
• Office Equipment	3-5 years
• Other items of Plant and equipment	3-5 years

Buildings	30 years
Motor vehicles	5 years

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

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

1.5.4. DERECOGNITION

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 INTANGIBLE ASSETS

1.6.1. INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.6 Intangible assets (continued)

1.6.2. SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

The cost of an intangible asset is depreciated over the useful life where that life is finite. Where the useful is indefinite, the asset is not depreciated but is subject to impairment tests.

1.6.3. AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software 5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

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

1.6.4. DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.7 FINANCIAL INSTRUMENTS

INITIAL RECOGNITION AND MEASUREMENT

Financial instruments are recognised initially recognised at fair value.

SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

Debtors

Debtors are recognised at fair value and measured at amortised cost using the effective interest method, less provision for impairment (Bad Debt). A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors.

The amount of the provision is the difference between the asset's carrying value and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Statement. An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end.

Creditors

Trade creditors and other payables are measured at fair value.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.7 FINANCIAL INSTRUMENTS (continued)

CASH AND CASH EQUIVALENTS

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

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

TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

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

TRADE AND OTHER PAYABLES

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

1.8 LEASES

MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.8 LEASES (continued)

MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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

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

1.9 VALUE ADDED TAXATION

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

1.10 IMPAIRMENT OF ASSETS

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

Irrespective of whether there is any indication of impairment, the municipality also:

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

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

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

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

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.10 IMPAIRMENT OF ASSETS (continued)

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

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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

1.11 RETIREMENT BENEFITS

PROVIDENT FUND OBLIGATIONS

The municipality and its employees contribute to one provident fund that caters for the majority of the staff. The KZN Joint Municipal Provident Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable.

DEFINED CONTRIBUTION PLANS

The municipality provides retirement benefits for its employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year it becomes payable. The defined contribution funds, which are administered on a provincial basis, are actuarially valued triennially according to the Discounted Cash Flow and Discontinuance Method Approach.

1.12 PROVISIONS

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

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.12 PROVISIONS (continued)

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

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

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.13 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.

1.14 UNAUTHORISED EXPENDITURE

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

1.15 FRUITLESS AND WASTEFUL EXPENDITURE

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

1.16 IRREGULAR EXPENDITURE

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

1.17 CAPITAL COMMITMENTS

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources. Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases. Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.18 REVENUE

REVENUE FROM EXCHANGE TRANSACTIONS

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

Service charges relating to electricity and water are based on consumption. Meters are read on a quarterly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

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

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

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

Interest revenue is recognised on a time proportion basis.

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

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

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

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Accounting Policies

1.18 REVENUE (continued)

REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

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

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

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

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

GRANTS, TRANSFERS AND DONATIONS

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

1.19 EVENTS AFTER THE REPORTING PERIOD

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
2. Trade and receivables from exchange transactions		
Accrued revenue	37,565	17,683
Other debtors	111,057	137,585
Distribution account -KDM	1,078,127	1,078,127
	1,226,749	1,233,395
3. Value Added Taxation receivable		
Net VAT Receivable	1,031,665	2,412,394
4. Consumer debtors		
Gross balances		
Rates	4,629,072	1,702,859
Less: Provision for debt impairment		
Rates	(3,138,217)	(804,054)
Net balance		
Rates	1,490,855	898,806
Rates and Other		
Current (0 -30 days)	244,696	184,499
31 - 60 days	278,029	148,228
61 - 90 days	198,773	112,445
91 - 120 days	201,406	(433,269)
>121 days	3,706,168	1,690,956
	4,629,072	1,702,859

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
4. Consumer debtors (continued)		
Summary of debtors by customer classification		
Consumers and Other		
Current (0 -30 days)	38,268	26,107
31 - 60 days	41,734	23,188
61 - 90 days	37,763	25,875
91 - 120 days	43,350	24,909
>121 days	944,592	517,536
	1,105,707	617,615
Industrial/ commercial		
Current (0 -30 days)	125,361	144,893
31 - 60 days	121,023	112,862
61 - 90 days	86,821	118,544
91 - 120 days	85,656	114,363
>121 days	1,274,002	983,429
	1,692,863	1,474,091
National and provincial government		
Current (0 -30 days)	81,067	13,499
31 - 60 days	115,272	12,177
61 - 90 days	74,190	(31,973)
91 - 120 days	72,400	(572,543)
>121 days	1,487,575	189,993
	1,830,504	(388,847)
Total		
Current (0 -30 days)	244,696	184,499
31 - 60 days	278,029	148,228
61 - 90 days	198,773	122,445
91 - 120 days	201,406	(433,269)
>121 days	3,706,168	1,680,956
	4,629,072	1,702,859
Less: Provision for debt impairment	(3,138,217)	(804,054)
	1,490,855	898,805
Reconciliation of debt impairment provision		
Balance at beginning of the year	(804,054)	-
Contributions to provision	(2,334,163)	(804,054)
	(3,138,217)	(804,054)
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1,000	1,000
Bank balances	2,255,695	829,870
Short-term deposits	19,114,194	2,779,136
	21,370,889	3,610,006

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

5. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Main Bank Account - 62027922930 - First National Bank - Cheque Account	2,602,236	829,870	2,255,695	829,870

6. Property, plant and equipment and Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and Buildings	4,190,345	(1,463,586)	2,726,759	4,190,341	(758,984)	3,431,359
Motor vehicles	3,810,728	(1,790,908)	2,019,820	3,810,728	(1,790,908)	2,019,820
Infrastructure	32,471,493	(4,170,813)	28,300,680	32,471,493	(2,157,117)	30,314,376
Community	16,889,211	(1,573,260)	15,315,951	16,889,211	(1,573,260)	15,315,951
Other property, plant and equipment	8,073,168	(5,837,032)	2,236,136	7,409,850	(3,599,998)	3,809,852
Work in Progress	65,201,252	-	65,201,252	43,092,689	-	43,092,689
Total	130,636,197	(14,835,599)	115,800,598	107,864,312	(9,880,267)	97,984,049

Reconciliation of property, plant and equipment and intangible assets - 2012

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land and Buildings	3,431,361	-	(704,602)	-	2,726,759
Motor vehicles	2,019,820	-	-	-	2,019,820
Infrastructure	30,314,376	-	(2,013,696)	-	28,300,680
Community	15,315,951	-	-	-	15,315,951
Other property, plant and equipment	3,809,852	663,318	(1,618,448)	(618,586)	2,236,136
Work in progress	43,092,689	22,108,563	-	-	65,201,252
Total	97,984,049	22,771,881	(4,336,746)	(618,586)	115,800,598

Reconciliation of property, plant and equipment and intangible assets - 2011

	Opening balance	Additions	Work-in- Progress	Disposals	Other changes, movements	Depreciation	Total
Land and Buildings	13,415,058	120,635	-	-	(9,725,174)	(379,158)	3,431,361
Motor vehicles	404,474	-	-	-	1,798,447	(183,101)	2,019,820
Infrastructure	33,544,899	15,019,347	5,885,443	-	(20,757,311)	(3,378,002)	30,314,376
Community	18,580,603	8,470,661	1,484,877	-	(11,069,126)	(2,151,064)	15,315,951
Other property, plant and equipment	9,632,868	1,371,406	-	(949,374)	(59,746)	(6,185,302)	3,809,852
Work in Progress	-	-	-	-	43,092,689	-	43,092,689
Total	75,577,903	24,982,052	7,370,319	(949,374)	3,279,779	(12,276,627)	97,984,049

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.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand 2012 2011

7. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	660,934	(558,706)	102,228	722,746	(519,203)	203,543

Reconciliation of intangible assets - 2012

	Opening balance	Amortisation	Total
Computer software	203,543	(101,315)	102,228

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	1,592,504	13,655	(1,340,804)	(61,812)	203,543

8. Finance lease liability

Minimum lease payments due

- within one year	1,844,707	1,701,887
- in second to fifth year inclusive	2,260,490	3,903,432
	4,105,197	5,605,319
less: future finance charges	(1,284,006)	(1,919,664)
Present value of minimum lease payments	2,821,191	3,685,655

Present value of minimum lease payments due

- within one year	1,551,516	1,156,128
- in second to fifth year inclusive	1,269,675	2,529,527
	2,821,191	3,685,655
Non-current liabilities	1,269,675	2,529,527
Current liabilities	1,551,516	1,156,128
	2,821,191	3,685,655

The capitalised lease liability is secured over infrastructure leased over a period of five years at a fixed interest rate of 11%.

9. Trade and other payables from exchange transactions

Trade payables	1,906,641	825,384
Retentions	1,432,007	378,215
	3,338,648	1,203,599

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
10. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Department of Provincial and Local Government-FMG	823,590	311,092
Department of Traditional and Local Government Affairs- MAP	125,885	125,885
National Government- Equitable Share - Access Roads	-	409,079
NDPG - Building	2,274,378	61,724
Land Use Management System	60,661	60,661
MFMA	50,324	50,324
MPRA Grant	292,375	323,519
Municipal Development Planning	41,492	41,492
Audit Committee and Internal Control	-	30,803
CDW/LED Grant	22,503	22,503
Valuation Roll	-	177,509
Nhlangakazi Project	169,116	169,116
Technical Support MIIPS	10,000	10,000
Synergistic Partnership/Amakhosi	52,514	62,090
Bhamshela Nodal Development	2,346,177	661,175
Libary Cybercadet	266,167	74,845
Kwaloswe Tourism Project	207,529	207,529
Governance and Administration Expert	34,536	618,270
Housing Grant	6,540	192,390
Access Roads - MIG Grant	1,605,239	-
KZN Sports and Recreation	275,187	-
	8,664,213	3,610,006
Movement during the year		
Balance at the beginning of the year	3,610,005	10,253,037
Additions during the year	37,755,077	30,328,277
Income recognition during the year	(32,700,869)	(36,971,309)
	8,664,213	3,610,005

11. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Long-service awards	366,652	178,997	545,649
Leave pay provision	1,189,590	136,924	1,326,514
	1,556,243	315,921	1,872,163

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Correction of error	Total
Long-service awards	299,233	10,373	-	57,046	366,652
Leave Pay	1,064,932	319,807	(195,148)	-	1,189,591
	1,364,165	330,180	(195,148)	57,046	1,556,243
Non-current liabilities				545,649	366,652
Current liabilities				1,326,514	1,189,591
				1,872,163	1,556,243

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
12. Property rates		
Rates received		
Assessment rates	5,450,302	7,337,346
Less: Income forgone	(1,328,886)	(4,676,657)
	4,121,416	2,660,689
Valuations		
Residential	14,172,000	14,172,000
Commercial	230,000	230,000
State/PSI	59,924,000	59,924,000
Agriculture	419,058,000	419,058,000
Institutional	168,816,000	168,816,000
Special Purposes	1,470,000	1,470,000
Agriculture (Residential/Commercial)	17,070,000	17,070,000
	680,740,000	680,740,000

The municipal valuations and property rates was implemented with effect 1 July 2009 in terms of Municipal Rates Act.

Valuations on land and buildings are performed every four years. The first valuation roll came into effect on 1 July 2009. Interim valuations are processed on a quarterly basis to take into account changes on individual property values due to alterations, consolidations, subdivisions and new township development. Various rates in the Rand were applied in accordance with categories determined in terms of the Municipal Property Rates Act. Rebates applicable were applied in line with the municipal property rates policy. Rebates are levied on a monthly basis in terms of municipal rates policy and interest is charged on outstanding amounts as determined by the municipality in terms of rates policy and tariff of charges.

13. Government grants and subsidies

Equitable share	50,708,000	43,443,273
Municipal Infrastructure Grant and Capital Grants	32,700,869	36,971,311
	83,408,869	80,414,583

Equitable Share

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

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
14. Employee related costs		
Basic	15,077,537	13,599,119
Contributions to UIF, Medical and Pension Funds	2,830,317	2,710,854
Travel, motor car and other allowances	1,180,549	1,052,206
Housing benefits and allowances	152,592	184,811
Overtime and relief payments	357,515	435,638
Bonus	-	173,315
	19,598,510	18,155,943
Municipal Manager - Thembeke Cibane		
Annual remuneration	665,454	671,351
Car allowance	182,265	120,000
Performance bonuses	-	62,784
Contributions to UIF, Medical and Pension Funds	1,709	1,497
Housing allowance	10,000	60,000
	859,428	915,632
Chief Finance Officer - Sifiso Kevin Khoza		
Annual remuneration	512,024	480,224
Car allowance	60,000	60,000
Performance bonuses	-	45,004
Contributions to UIF, Medical and Pension Funds	77,098	71,521
	649,122	656,749
Infrastructure Services - Zakhele Goodman Bethuel Dlamini		
Annual remuneration	353,086	443,684
Car allowance	103,068	129,528
Performance bonuses	-	31,774
Contributions to UIF, Medical and Pension Funds	43,938	54,974
	500,092	659,960
Corporate Services - Nelisiwe Sibongile Xhakaza		
Annual remuneration	500,103	392,102
Car allowance	147,248	116,438
Contributions to UIF, Medical and Pension Funds	1,497	1,248
	648,848	509,788
Economic and Community Services - Phakama Noble Mhlongo		
Annual remuneration	447,033	421,947
Car allowance	131,327	123,101
Performance bonuses	-	33,753
Contributions to UIF, Medical and Pension Funds	70,761	66,696
	649,121	645,497

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
15. Remuneration of councillors		
Mayor	376,436	519,167
Deputy Executive Mayor	147,840	192,645
Speaker	273,084	254,470
Councillors	4,117,393	3,666,211
Councillors' pension contribution	747,514	483,088
Travelling allowance	748,174	716,352
Medical aid contributions	114,598	174,271
Executive councillors	921,699	760,337
Telephone allowance	448,860	406,373
	7,895,598	7,172,912

In-kind benefits

The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the council which is included with other expenditure in the Statement of Financial Performance.

The Mayor has the use of a Council owned vehicle for official duties.

The Mayor has a full-time bodyguard and driver.

16. Depreciation and amortisation

Property, plant and equipment and Intangible assets	4,438,061	4,077,246
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17. Finance costs

Non-current borrowings	486,814	588,021
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18. Contracted services

Security services	751,450	883,971
Mayoral VIP services	2,321,046	1,926,464
	3,072,496	2,810,435

19. General expenses

Auditors remuneration	1,591,247	1,345,046
Computer expenses	6,425	-
Insurance	246,905	226,116
Fuel and oil	650,027	747,957
Electricity and water	494,291	323,829
Free basic services	130,954	113,350
Provision for leave pay	429,565	-
Conditional grants	4,777,351	3,563,081
Other expenses	10,749,454	13,567,863
	19,076,219	19,887,242

20. Taxation

Municipalities are exempt from paying tax in terms of section 10(1)(a) of the Income Tax Act

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
21. Cash generated from operations		
Surplus for the year	28,040,080	28,114,800
Adjustments for:		
Depreciation and amortisation	4,438,061	4,077,246
Gain on sale of assets	-	(166,149)
Impairment deficit	618,587	-
Prior period adjustment	-	(709,584)
Contributions to provisions	315,921	1,191,277
Changes in working capital:		
Trade and receivables from exchange transactions	6,646	(1,127,018)
Consumer debtors	(592,051)	(620,828)
Trade and other payables from exchange transactions	2,135,049	(6,860,444)
VAT	1,380,729	(728,639)
Unspent conditional grants and receipts	5,054,207	(6,643,031)
	41,397,229	16,527,630
22. Commitments		
Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	15,970,365	4,456,164
• Community	-	916,920
• Land and Buildings	-	8,521,386
	15,970,365	13,894,470
Approved but not yet contracted for		
• Infrastructure	23,268,482	22,544,000
• Community	840,000	2,530,000
• Other property, plant and equipment	280,000	550,000
• Land and Buildings	9,572,752	21,900,000
	33,961,234	47,524,000
Operating leases		
Minimum lease payments due		
- within one year	275,311	127,129
- in second to fifth year inclusive	573,281	85,871
	848,592	213,000

23. Contingencies

Litigation is in the process against the municipality relating to a dispute with staff who were fired for the misuse of municipal vehicles. An amount cannot be reliably estimated at this stage.

24. Related parties

The municipality has not entered into related party transactions in the current or prior year.

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
25. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	131,746
Current year subscription / fee	173,613	-
Amount paid - current year	(173,613)	(131,746)
	-	-
Audit fees		
Current year fee	867,902	908,873
Amount paid - in respect of current year	(867,902)	(908,873)
	-	-
PAYE and UIF		
Current year fee	2,298,225	3,491,228
Amount paid - in respect of current year	(2,298,225)	(3,491,228)
	-	-
Pension and Medical Aid Deductions		
Current year fee	2,230,193	2,409,453
Amount paid - in respect of current year	(2,230,193)	(2,409,453)
	-	-
26. Utilisation of Long-term liabilities reconciliation		
Used to finance property, plant and equipment - at cost	1,349,751	1,156,128
Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.		
27. Unauthorised expenditure		
The municipality incurred an over expenditure on grants which contravened the definition of unauthorised expenditure in terms of the MFMA.	3,791,177	3,791,177
Condoned	(3,791,177)	-
	-	3,791,177
28. Irregular expenditure		
Opening balance	3,269,790	621,607
Add: Irregular Expenditure - current year	3,075,169	2,648,183
	6,344,959	3,269,790
Details of irregular expenditure – current year		
	Disciplinary steps taken/criminal proceedings	
Awards to persons in service of state	None	2,691,319
Award to an employee of the municipality		380,000
Award to a family member of an employee		3,850
		3,075,169

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

2011

29. Employee benefit obligations

Defined contribution plan

The Council provides retirement benefits to employees by contributing to a provident fund. Membership of the provident fund is compulsory for all permanent employees. The personnel are members of the following provident funds:

Kwazulu-Natal Joint Municipal Provident fund

Actuarial valuation as at 31 March 2011.

Results of valuation

The Fund self-insures its risk benefits in excess of the full benefit. It therefore maintains a Risk Reserve Account as a measure of protection against volatility in claims experience. The amount of R15,072,000 is required to be held in the Risk Reserve Account. The market value of the assets exceeded the Liabilities by R1,055,633,000 at the valuation date. At the previous valuation date there was a deficit. The Investment Reserve Account far exceeds the deficit, so that the Fund is financially sound as at the valuation date.

Benefits:

Pension age 65 years
Earliest retirement age 58 years (55 years if more than 10 years continuous service)

: Full benefit - Initial transfer plus member's contributions plus employer's contributions for full benefits plus investment earnings and bonuses.

: Member's portion of full benefits - Initial transfer plus members contributions plus local authorities contributions for full benefits plus interim, special and final bonuses.

: Benefit on retirement after earliest retirement age or pension age - Full benefit.

: Benefit on retirement because of ill health - Full benefit

: Benefit on death in service - Full benefit plus 0,7% of annual pensionable salary for each month of potential service to a maximum of 2.1 years salary.

Contributions:

: Members may choose to contribute at a rate of 5%, 7% or 9,25% of their pensionable emoluments in terms of regulation 14(a)

: Participating employers contribute at a rate of 1,95 times of the rate of members contribution in terms of regulation 17(1)(b)

: Of the contribution by the Employer, 3.75% of pensionable emoluments is applied to meeting cost of the risk benefits and expenses

Asset allocation

Domestic Investments:	889 167 000
International Investments	73 586 000
Risk Reserve Account	15 072 000
Unallocated Assets (deficit)	156 000
Membership	9542 members

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand

2012

2011

29. Employee benefit obligations (continued)

Table 6.1: Unfunded Accrued Liability

Ndwedwe Municipality's LSA	30/06/2012
Value of liabilities	488,603
Value of assets	0
Unfunded Accrued Liability	488,603

Table 6.2: Current-service and Interest Costs

Ndwedwe Municipality's LSA	Year ending 30/06/2012		Year ending 30/06/2013	
	Current-service Cost	Interest Cost	Current-service Cost	Interest Cost
Total Cost	79,255	29,092	123,155	33,362

Table 7.1: Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

Assumption	Change	Liability	% change
Central assumptions		0.489	
General salary inflation	+1%	0.533	9%
	-1%	0.449	-8%
Average retirement age	-2 yrs	0.461	-6%
	+2 yrs	0.515	5%
Withdrawal rates	-50%	0.681	39%

Table 7.2: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2012

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central assumptions		79,255	29,092	108,347	
General salary inflation	+1%	87,896	31,895	119,791	11%
	-1%	71,630	26,601	98,231	-9%
Average retirement age	-2 yrs	74,685	27,677	102,362	-6%
	+2 yrs	84,187	30,476	114,663	6%
Withdrawal rates	-50%	119,878	41,200	161,078	49%

Table 7.3: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2013

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
Central assumptions		123,155	33,362	156,517	
General salary inflation	+1%	133,353	36,559	169,912	9%
	-1%	114,143	30,515	144,658	-8%
Average retirement age	-2 yrs	114,760	31,359	146,119	-7%
	+2 yrs	129,020	35,274	164,294	5%
Withdrawal rates	-50%	169,841	47,207	217,048	39%

Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
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30. Correction of Prior Year Errors

The following adjustments were made to amounts previously reported in the annual financial statements:

Statement of financial position

Property, plant and equipment and Intangible assets	-	3,279,779
Intangible Assets	-	(1,340,804)
Provision for long service award	-	(57,046)
Opening Accumulated Surplus or Deficit	-	(1,938,975)

Statement of Financial Performance

Provision for long service award	-	57,046
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31. Risk management

Credit risk

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

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

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

Financial instrument	2012	2011
Consumer Debtors	3,561,634	898,806
Cash and cash equivalents	21,370,889	3,610,006
Trade and other receivables from exchange transactions	1,226,749	1,233,395

32. Reconciliation between budget and statement of financial performance

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

Net surplus per the statement of financial performance	28,040,080	28,114,796
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Ndwedwe Local Municipality

Annual Financial Statements for the year ended June 30, 2012