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Uthukela District Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	District Municipality
Mayoral committee	
Executive Mayor	Mrs DCP Mazibuko (Mayor)
	Mr ML Shelembe (Deputy Mayor)
	Mr TJMB Jeebodh (Speaker)
Councillors	MG Hlubi
	NW Sibiya
	AS Mazibuko
	MA Mkhize
	AM Maseti
	D Banda
	NM Hadebe
	SB Sibisi
	MJ Ntshaba
	VR Mlotshwa
	N Hlomuka
	M Mlotshwa
	M Zwane
	B Mazibuko
	T Cele
	B Madonsela
	T Xaba
	M Mbatha
	N Zikalala
	M Ngubane
	D Magubane
	S Chonco
	B Mabizela
	S Sikhakhane
	M Hadebe
	SJ Sithole
	A Jiyane
	T Shelembe
Grading of local authority	4
Accounting Officer	To confirm
Chief Finance Officer (CFO)	Mr JN Madondo
Registered office	33 Forbes Street
	Ladysmith
	Tel: 036-6385100
	Fax: 036-6385126
	municipalmanager@uthukeladm.co.za
Postal address	PO Box 116
	Ladysmith
	Kwazulu Natal
	3370
Bankers	FNB - Ladysmith

General Information

Auditors	Auditor General

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

The following supplementary information does not form part of the annual financial statements and is unaudited:

Abbreviations

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

Accounting Officer's Report

It gives me great pleasure to present the Annual Financial Statement for the financial year ended 30 June 2012.

The presented set of Annual Financial Statements reflects financial performance of the institution in the last twelve (12) months which incidentally is a year after the 2011 local government elections. Generally, the transitions from the old Councils to the new Councils see major “shake-ups” in a form of transitional decisions e.g. moratorium on appointment of new staff, authorisation of forensic investigations, institution of disciplinary actions etc which sometimes inevitable affect the employment of resources. It is in these decisions that the Institution’s financial position, its organisational strength and culture, systems, processes and procedures are tested. Uthukela District Municipality was not prune from the above and that will be reflected in these financial statements hereby presented.

The municipality has developed a Turnaround Strategy which is aimed at addressing the going concern challenges faced and experienced by the municipality. These challenges amongst others include periodic use of conditional grants for operational purposes. In order to address this challenge and on advice by Provincial Treasury, a more realistic cash backed budget was adopted by Council, which meant postponing some of those planned programmes that are likely to come at the expense of the Municipal financial viability.

Non payment for services still remains a challenge in this District hence a huge provision is made for bad debts. The Municipality’s debtors’ book is highly irrecoverable and comprising of huge number of indigent consumers who cannot be subjected to the full implementation policy. The Turnaround Strategy addresses this situation.
It is our belief and continued commitment that Infrastructure provision still remains our key priority, thus every effort possible in the achievement of this objective. Communities are also encouraged to take ownership of infrastructure delivered and protect it against vandalism and similar acts.

I certify that the salaries, allowances, and benefits of Councillors, as disclosed in note 25 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this act.

The annual financial statements set out on pages 4 to 61, which have been prepared in terms of Section 126(1) of the Municipal Finance Mangement Act, were approved by the accounting officer on the 30 June 2012.

Lastly, I would like to thank our Council and staff for their support during this challenging financial year and hope that together we shall turn the fortunes of this Municipality around.

Accounting Officer
Acting Municipal Manager

Statement of Financial Position

	Note(s)	2012 R	2011 R
Assets			
Current Assets			
Inventories	8	3,703,942	3,520,753
Trade and other receivables from exchange transactions	9	3,242,409	2,197,778
Other receivables from non-exchange transactions	10	9,556,724	6,266,814
Prepayments	7	113,399	730,027
Consumer debtors	11	180,646,836	139,994,409
Cash and cash equivalents	12	88,404,191	213,040
		285,667,501	**152,922,821**
Non-Current Assets			
Property, plant and equipment	3	712,292,615	701,248,373
Intangible assets	4	49,042	50,875
		712,341,657	**701,299,248**
Total Assets		**998,009,158**	**854,222,069**
Liabilities			
Current Liabilities			
Development Bank of SA - Current portion	13	2,317,251	2,102,917
Finance lease obligation	14	1,548,035	466,009
Operating lease liability	5	-	49,897
Trade and other payables from exchange transactions	18	54,773,012	103,298,314
Consumer deposits	19	8,408,026	7,672,358
Retirement benefit obligation	6	148,225	3,721,065
Unspent conditional grants and receipts	15	126,350,884	25,679,534
Provisions	16	34,234,577	32,569,261
VAT payable	17	28,089,247	15,299,420
Bank overdraft	12	-	8,174,913
		255,869,257	**199,033,688**
Non-Current Liabilities			
Development Bank of SA - Non-current portion	13	10,535,808	12,905,704
Finance lease obligation	14	1,921,781	554,208
Retirement benefit obligation	6	3,310,395	-
		15,767,984	**13,459,912**
Total Liabilities		**271,637,241**	**212,493,600**
Net Assets		**726,371,917**	**641,728,469**
Net Assets			
Accumulated surplus		726,371,917	641,728,469

Statement of Financial Performance

	Note(s)	2012 R	2011 R
Revenue			
Fines		-	700
Government grants & subsidies	23	341,485,743	314,296,727
Interest income	29	19,048,071	21,260,353
Other income		3,019,579	31,065,297
Property rates	21	-	446,938
Service charges	22	93,550,967	108,313,676
Total Revenue		**457,104,360**	**475,383,691**
Expenditure			
Bulk purchases	34	(4,043,301)	(2,918,787)
Collection costs		(616,050)	(1,167,651)
Debt impairment	28	(16,390,524)	(281)
Depreciation and amortisation	30	(26,999,350)	(26,362,838)
Finance costs	32	(2,855,870)	(6,573,073)
General Expenses	25	(197,892,661)	(165,691,065)
Impairment loss	31	-	(5,239,710)
Loss on disposal of assets		(65,296)	(184,242)
Employee related costs	26	(98,785,270)	(97,327,115)
Remuneration of councillors	27	(5,502,364)	(3,719,455)
Repairs and maintenance		(14,268,441)	(23,025,446)
Total Expenditure		**(367,419,127)**	**(332,209,663)**
Surplus for the year		**89,685,233**	**143,174,028**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Balance at 01 July 2010	**498,554,441**	**498,554,441**
Changes in net assets		
Surplus for the year	143,174,028	143,174,028
Total changes	143,174,028	143,174,028
Balance at 30 June 2011	**641,728,469**	**641,728,469**
Changes in net assets		
Transfer in reserves (refer to note 41)	(5,041,785)	(5,041,785)
Net income (losses) recognised directly in net assets	(5,041,785)	(5,041,785)
Surplus for the year	89,685,233	89,685,233
Total recognised income and expenses for the year	84,643,448	84,643,448
Total changes	84,643,448	84,643,448
Balance at 30 June 2012	**726,371,917**	**726,371,917**

Cash Flow Statement

	Note(s)	2012 R	2011 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		38,280,984	31,347,890
Grants		440,030,963	309,272,413
Interest income		19,048,071	21,260,353
Other receipts		3,019,579	31,065,297
		500,379,597	392,945,953
Payments			
Employee costs		(104,287,634)	(101,046,570)
Suppliers and others		(259,057,011)	(212,078,369)
Finance costs		(2,855,870)	(6,573,073)
		(366,200,515)	(319,698,012)
Net cash flows from operating activities	35	**134,179,082**	**73,247,941**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(38,107,055)	(68,343,637)
Sale of property, plant and equipment	3	-	292,804
Non-cash item		-	(6,762,374)
Net cash flows from investing activities		**(38,107,055)**	**(74,813,207)**
Cash flows from financing activities			
Decrease in long term loan		(2,155,562)	(2,732,106)
Increase/ (decrease) in finance lease liability		2,449,599	(704,185)
Net cash flows from financing activities		**294,037**	**(3,436,291)**
Net increase/(decrease) in cash and cash equivalents		**96,366,064**	**(5,001,557)**
Cash and cash equivalents at the beginning of the year		(7,961,873)	(2,960,316)
Cash and cash equivalents at the end of the year	12	**88,404,191**	**(7,961,873)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

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:

Loans and receivables

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

Allowance for slow moving, damaged and obsolete stock

An allowance is raised to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

Fair value estimation

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Useful lives of infrustructure and other assets

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

Effective interest rate

The municipality used the most relevant contractual risk rate applicable to each category of assets and liabillities to discount future cash flows. Where none exists the prime interest rate is used to discount future cash flows.

Allowance for impairment on trade and other receivables

On trade and other receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate based on the historical payment trend.

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Average useful life**
Buildings	
• Office	30
Plant and machinery	
• Graders	5
• Tractors	5
• Mechanical Horses	5
• Compressors	2
• Lawnmowers	5
• Laboratory equipment	5
• Radio equipment	5
• Telecommunication equipment	5
• Irrigation systems	10
• Lathes & Milling equipment	5
• Tippers	5
• Tools	5
• General	5
Water networks	
• Meters	10
• Dams	80
• Supply / reticulation	20
• Reservoirs	30
• Water pumps	5
• Mains	30
• Rights	30
• Boreholes	15
Wastewater Networks	
• Sewers	30
• Outfall sewers	40
• Purification works	30
• Sewerage pumps	5
• Sludge machines	15
Office equipment	
• Computer equipment	3
• Office machines	3-5
• Air conditioners	3
• Furniture & fittings	7
• Emergency equipment	5
• Security equipment	5
Other equipment	
• Motor vehicles	5
• Truck / bakkies	5

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

1.2 Property, plant and equipment (continued)

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.

1.3 Intangible assets

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

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

Intangible assets are initially recognised at cost.

For an intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

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

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

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

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

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

1.3 Heritage assets (continued)

Item	Useful life
Water rights	30 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.

1.4 Financial instruments

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

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

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:
- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or

1.4 Financial instruments (continued)

- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Loans and receivables
Trade and other receivables from non-exchange transactions	Loans and receivables
Trade and other receivables from exchange transactions	Loans and receivables
Long term receivables	Loans and receivables
Non current investments	Loans and receivables

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at fair value

Initial recognition

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

1.4 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm’s length exchange motivated by normal operating considerations. Valuation techniques include using recent arm’s length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured 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. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.4 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the municipality transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.4 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.5 Leases

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

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 or the incremental borrowing rate of the municipality.

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.

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 revenue.

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 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.

Accounting Policies

1.6 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.

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

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

1.7 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.8 Impairment of cash-generating assets

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

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

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and

1.8 Impairment of cash-generating assets (continued)

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.9 Impairment of non-cash-generating assets

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

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Identification

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

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

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

Value in use

Value in use of an asset is the present value of the asset’s remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. 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. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

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

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 to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

1.10 Share capital / contributed capital

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

1.11 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

1.11 Employee benefits (continued)

Termination benefits are employee benefits payable as a result of either:
- a municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an municipality’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

Accounting Policies

1.11 Employee benefits (continued)

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

Accounting Policies

1.11 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities 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. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.12 Provisions and contingencies

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

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

Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

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

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

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

1.13 Revenue from exchange transactions

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

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

1.13 Revenue from exchange transactions (continued)

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

1.14 Revenue from non-exchange transactions (continued)

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

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

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

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

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

1.14 Revenue from non-exchange transactions (continued)

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.15 Borrowing costs

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

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

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.

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.

Accounting Policies

1.18 Fruitless and wasteful expenditure

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

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

1.19 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 which is the functional currency of the municipality.

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 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Budget information

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

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

The 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.

Notes to the Annual Financial Statements

	2012	2011
	R	R

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been issued but not yet effective for the current financial year:

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 Assets
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

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	1,037,872	-	1,037,872	1,037,872	-	1,037,872
Buildings	482,857	(256,662)	226,195	482,857	(241,406)	241,451
Infrastructure	906,185,101	(206,164,615)	700,020,486	872,234,383	(182,050,814)	690,183,569
Other property, plant and equipment	25,867,530	(18,414,658)	7,452,872	24,842,928	(16,479,477)	8,363,451
Leased assets	7,030,446	(3,475,256)	3,555,190	4,121,530	(2,699,500)	1,422,030
Total	**940,603,806**	**(228,311,191)**	**712,292,615**	**902,719,570**	**(201,471,197)**	**701,248,373**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Assets under construction**	**Disposals**	**Depreciation**	**Total**
Land	1,037,872	-	-	-	-	1,037,872
Buildings	241,451	-	-	-	(15,256)	226,195
Infrastructure	690,183,569	3,699,331	30,251,407	-	(24,113,821)	700,020,486
Other property, plant and equipment	8,363,451	1,125,836	-	(21,938)	(2,014,477)	7,452,872
Leased assets	1,422,030	3,030,481	-	(43,358)	(853,963)	3,555,190
	701,248,373	**7,855,648**	**30,251,407**	**(65,296)**	**(26,997,517)**	**712,292,615**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Assets under construction**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Land	1,037,872	-	-	-	-	-	1,037,872
Buildings	256,707	-	-	-	(15,256)	-	241,451
Infrastructure	652,622,542	497,196	64,368,395	(80,596)	(23,834,972)	(3,388,996)	690,183,569
Other property, plant and equipment	8,695,133	3,478,046	-	(110,368)	(1,848,646)	(1,850,714)	8,363,451
Leased assets	2,370,363	-	-	(286,082)	(662,251)	-	1,422,030
	664,982,617	**3,975,242**	**64,368,395**	**(477,046)**	**(26,361,125)**	**(5,239,710)**	**701,248,373**

Assets subject to finance lease (Net carrying amount)

Motor vehicles	3,555,190	1,422,029

Other information

Property, plant and equipment temporarily idle (Carrying amount)		
Property, plant and equipment	3,186,841	3,230,944

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

Notes to the Annual Financial Statements

	2012 R	2011 R

4. Intangible assets

	2012			2011		
	Cost	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Water rights	55,000	(5,958)	49,042	55,000	(4,125)	50,875

Reconciliation of intangible assets - 2012

	Opening balance	**Amortisation**	**Total**
Water rights	50,875	(1,833)	49,042

Reconciliation of intangible assets - 2011

	Opening balance	**Amortisation**	**Total**
Water rights	52,708	(1,833)	50,875

5. Operating lease liability

	2012 R	2011 R
Non-current liabilities	-	-
Current liabilities	-	(49,897)
	-	**(49,897)**

The property occupied by the municipality is leased from third party. These leases are operating leases as defined in GRAP 13. The operating lease liability is the difference between actual payments made, in terms of the lease agreement, and the smoothing of the lease payment. The current lease expires on 30 September 2012. Renewal is being discussed at an EXCO level hence rentals have not been straight-lined for the forseeable future.

All other rental agreements have expired in terms of lease agreements. There is no indication that the leases have been renewed. Therefore, rental payments are treated as contingent rentals. There is no new agreement with Enambithi Construction with regards to the new offices.

6. Employee benefit obligations

Post retirement medical aid plan

The municipality has engaged Alexander Forbes Health (Pty) Ltd to conduct the 30 June 2012 actuarial valuation of the municipality's post retirement medical aid benefit. It is the policy of the municipality to provide retirement benefits to 17 employees. The results and assumptions of the valuation is noted below.

The amounts recognised in the statement of financial position are as follows:

	2012 R	2011 R
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(3,458,620)	(3,721,065)
Non-current liabilities	(3,310,395)	-
Current liabilities	(148,225)	(3,721,065)
	(3,458,620)	**(3,721,065)**

	2012 R	2011 R

6. Employee benefit obligations (continued)

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

Opening balance	3,721,065	3,395,286
Net expense recognised in the statement of financial performance	(262,445)	325,779
Closing balance	**3,458,620**	**3,721,065**

Net expense recognised in the statement of financial performance

Current service cost	260,834	258,286
Interest cost	320,297	308,593
Actuarial (gains) / losses	(728,587)	(123,628)
Expected employer benefit payment	(114,989)	(117,472)
Total included in employee related costs	**(262,445)**	**325,779**

Key assumptions used

Assumptions used at the reporting date:

Expected retirement age	65	65
Discount rates used	7.75 %	8.75 %
Health care costs inflation	7.00 %	7.75 %
Salary inflation	6.00 %	7.25 %

Assumed a 6% increase in salaries and maximum subsidies with effect from 1 July 2012.

The discount rate is based on current bond yields of appropriate terms gross of tax as required by IAS 19.

The underlying future rate of customer price index (CPI inflation) is assumed to be 5% per annum.

Health care cost inflation, it is assumed the current contribution table(s) of the medical aid scheme(s) would continue to apply in the future and exceed the CPI inflation by an average of 2.00% per annum.

Assumed that 0% of current in-service members eligible for a retirement subsidy would discontinue medical scheme membership upon reaching retirement with uThukela DM.

Assumed that 90% of current in-service members would be married at retirement, unless the member is older than the expected retirement age and marital status have been provided at the valuation date.

Assumed mortality rates:
During employment - SA 85-90 (light) ultimate table
Post-employment - PA(90) ultimate table rated down two years plus 1% improvement per annum (from a base of year 2006).

Assumed withdrawal are set out below:

AGE	**Annual rate of withdrawal**
20	15%
25	10%
30	7%
35	4%
40	2%
45+	0%

7. Prepayments

Prepayments	113,399	730,027

Notes to the Annual Financial Statements

	2012 R	2011 R

8. Inventories

Promotional Items	3,742	4,345
Chemicals	878,695	920,431
Water stock	300,708	73,843
Stores	2,520,797	2,522,134
	3,703,942	**3,520,753**

9. Trade and other receivables from exchange transactions

Deposits	1,446,206	1,446,206
Other debtors	1,121,283	698,658
Sundry debtors	674,920	52,914
	3,242,409	**2,197,778**

10. Other receivables

Other receivables from non-exchange transactions	9,556,724	6,266,814

11. Consumer debtors

Gross balances		
Rates	506,530	514,251
Water	413,707,450	358,429,746
	414,213,980	**358,943,997**
Less: Provision for debt impairment		
Rates	(224,976)	(513,726)
Water	(233,342,168)	(218,435,862)
	(233,567,144)	**(218,949,588)**
Net balance		
Rates	281,554	525
Water	180,365,282	139,993,884
	180,646,836	**139,994,409**
Age analysis		
Rates		
150+ days	281,554	525
Water & Sanitation		
Current (0 -30 days)	10,323,366	5,676,435
31 - 60 days	6,560,578	3,633,621
61 - 90 days	4,642,398	3,721,916
91 - 120 days	4,137,606	3,245,637
150+ days	154,701,334	123,716,275
	180,365,282	**139,993,884**

Summary of debtors by customer classification

Notes to the Annual Financial Statements

	2012 R	2011 R
11. Consumer debtors (continued)		
Consumers		
Current (0 -30 days)	16,113,397	13,328,442
31 - 60 days	10,960,211	9,324,791
61 - 90 days	9,365,538	9,431,819
91 - 120 days	8,522,969	8,873,494
150+ days	359,251,970	308,977,108
	404,214,085	349,935,654
Less: Provision for debt impairment	(229,737,867)	(214,047,737)
	174,476,218	**135,887,917**
Industrial/ commercial		
Current (0 -30 days)	501,218	631,197
31 - 60 days	185,892	243,856
61 - 90 days	145,494	265,046
91 - 120 days	117,336	191,253
150+ days	5,034,541	4,978,818
	5,984,481	6,310,170
Less: Provision for debt impairment	(2,902,781)	(4,395,340)
	3,081,700	**1,914,830**
National and provincial government		
Current (0 -30 days)	496,669	194,690
31 - 60 days	497,152	85,823
61 - 90 days	170,238	225,403
91 - 120 days	142,773	77,236
150+ days	2,202,053	2,115,020
	3,508,885	2,698,172
Less: Provision for debt impairment	(701,521)	(506,511)
	2,807,364	**2,191,661**
Total		
Current (0 -30 days)	17,111,284	14,154,329
31 - 60 days	11,643,256	9,654,470
61 - 90 days	9,681,269	9,922,268
91 - 120 days	8,783,078	9,141,984
150+ days	366,995,093	316,070,946
	414,213,980	358,943,997
Less: Provision for debt impairment	(233,567,144)	(218,949,588)
	180,646,836	**139,994,409**
Less: Provision for debt impairment		
Current (0 -30 days)	(6,787,918)	(8,477,894)
31 - 60 days	(5,082,677)	(6,020,850)
61 - 90 days	(5,038,871)	(6,200,351)
91 - 120 days	(4,645,472)	(5,896,346)
121 - 365 days	(212,012,206)	(192,354,147)
	(233,567,144)	**(218,949,588)**

Notes to the Annual Financial Statements

	2012 R	2011 R

11. Consumer debtors (continued)

Reconciliation of debt impairment provision

Balance at beginning of the year	(218,949,588)	(246,143,124)
Debt impairment written off against provision	(14,617,556)	152,224
Reversal of provision	-	27,041,312
	(233,567,144)	**(218,949,588)**

Fair value of consumer debtors

Consumer debtors	180,646,836	139,994,409

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 414,213,980 (2011: R 358,943,997) were impaired and provided for.

The amount of the provision was R 233,567,144 as of 30 June 2012 (2011: R 218,949,588).

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	7,700	7,312
Bank balances	27,952,435	-
Short-term deposits	60,444,056	205,728
Bank overdraft	-	(8,174,913)
	88,404,191	**(7,961,873)**
Current assets	88,404,191	213,040
Current liabilities	-	(8,174,913)
	88,404,191	**(7,961,873)**

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**
ABSA Bank(Ladysmith) Account No- 404880058	-	-	157,254	-	(456,429)	157,254
ABSA Bank(Ladysmith) Account No- 4062520058	-	-	88,072	-	(366,334)	88,072
FNB(Ladysmith) Account No- 62252306280	19,339,419	630,960	493,840	19,339,419	184,848	493,840
FNB(Ladysmith) Account No- 62253072385	8,154,202	(4,792,574)	(4,613,280)	8,613,016	(7,536,997)	(4,613,280)
FNB(Ladysmith) Account No- 62283176644	60,444,056	205,728	-	60,444,056	205,728	-
ABSA Bank(Ladysmith) Account No- 2058231079	-	-	-	-	-	906,186
Total	**87,937,677**	**(3,955,886)**	**(3,874,114)**	**88,396,491**	**(7,969,184)**	**(2,967,928)**

Notes to the Annual Financial Statements

	2012 R	2011 R

13. Long term liabilities

	2012 R	2011 R
Held at amortised cost		
Development Bank of South Africa	12,853,059	15,008,621

Loans bear an interest rate between 7.186% and 15.25% per annum and are repayable over twenty years. The balance comprises of seven loans approved by the Development Bank of South Africa.

	2012 R	2011 R
Non-current liabilities		
At amortised cost	10,535,808	12,905,704
Current liabilities		
At amortised cost	2,317,251	2,102,917
	12,853,059	**15,008,621**

14. Finance lease obligation

	2012 R	2011 R
Minimum lease payments due		
- within one year	1,780,897	529,684
- in second to fifth year inclusive	2,053,603	581,050
	3,834,500	1,110,734
less: future finance charges	(364,685)	(90,517)
Present value of minimum lease payments	**3,469,815**	**1,020,217**
Present value of minimum lease payments due		
- within one year	1,548,035	466,009
- in second to fifth year inclusive	1,921,780	554,208
	3,469,815	**1,020,217**
Non-current liabilities	1,921,781	554,208
Current liabilities	1,548,035	466,009
	3,469,816	**1,020,217**

It is the municiality's policy to lease motor vehicles under finance leases.

The average lease term was 3-5 years.

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

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2012 R	2011 R
Unspent conditional grants and receipts		
Municipal Infrastructure Grants (MIG)	86,412,810	5,155,732
Department of Water Affairs and Forestry Grant	5,355,096	3,817,098
KZN Projects	34,056,787	16,174,760
Sports and recreation grant	194,598	198,199
Municipal Systems Improvement Grant	331,593	333,745
	126,350,884	**25,679,534**

	2012 R	2011 R

15. Unspent conditional grants and receipts (continued)

Movement during the year

	2012 R	2011 R
Balance at the beginning of the year	25,679,534	30,703,847
Additions during the year	214,350,964	111,076,604
Income recognised during the year	(113,679,614)	(116,100,917)
	126,350,884	**25,679,534**

See note 23 for reconciliation of grants.

16. Provisions

	2012 R	2011 R
Non-current liabilities	-	-
Current liabilities	34,234,577	32,569,261
	34,234,577	**32,569,261**

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Legal proceedings	-	829,142	-	829,142
DWAF provision	17,766,151	5,119,451	-	22,885,602
Leave pay provision	14,803,110	-	(4,283,277)	10,519,833
	32,569,261	**5,948,593**	**(4,283,277)**	**34,234,577**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
DWAF provision	13,198,528	4,567,623	17,766,151
Leave pay provision	12,436,333	2,366,777	14,803,110
	25,634,861	**6,934,400**	**32,569,261**

Legal proceedings provisions

A provision, based on the best estimate received from the municipality's attorneys has been raised for litigation.

DWAF provision

A provision has been raised for the purchase of raw water from DWAF.

Leave pay provision

A provision has been raised for leave in accordance with the Basic Conditions of Employment Act.

17. VAT Payable

	2012 R	2011 R
VAT payable	28,089,247	15,299,420

Notes to the Annual Financial Statements

	2012 R	2011 R

18. Trade and other payables from exchange transactions

Trade payables	41,333,731	88,784,730
Discounting on accounts payable	(9,090,987)	(9,090,987)
DBSA accrued interest	356,850	414,669
Loan - Endumeni	-	8,000
Trust funds	3,019,571	2,719,155
Retentions	7,428,817	7,428,817
Other creditors	5,369,287	4,075,055
Sundry Creditors	6,355,743	8,958,875
	54,773,012	**103,298,314**

19. Consumer deposits

Water	8,408,026	7,672,358

20. Revenue

Property rates	-	446,938
Service charges	93,550,967	108,313,676
Interest income	19,048,071	21,260,353
Fines	-	700
Government grants & subsidies	341,485,743	314,296,727
	454,084,781	**444,318,394**

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

Service charges	93,550,967	108,313,676
Interest income	19,048,071	21,260,353
	112,599,038	**129,574,029**

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

Property rates	-	446,938
Fines	-	700
Levies	341,485,743	314,296,727
	341,485,743	**314,744,365**

Notes to the Annual Financial Statements

	2012 R	2011 R

21. Property rates

Rates received

Small holdings and farms	-	446,938

Valuations

Commercial	-	25,000,000
State	-	47,325,000
	-	**72,325,000**

In the current financial year the demarcation board reallocated the properties previously under the jurisidication of the district municipality to local municipalities. Hence no property rates were levied nor received.

Previously valuations on land and buildings were performed every 4 years. The last general valuation came into effect on 1 July 2009.

In 2011 a general rate of R 0,003 Farming, R 0,007 Nature conservation and R0,022 Commercial was applied to property valuations to determine assessment rates. Rebates of 30% was granted to commercial property owners.

Rates were levied on an annual basis with the final date for payment being 30 June 2011. Interest at prime plus 1% per annum is levied on rates outstanding two months after due date.

22. Service charges

Sale of water	81,194,771	96,427,170
Sewerage and sanitation charges	12,356,196	11,886,506
	93,550,967	**108,313,676**

Notes to the Annual Financial Statements

	2012 R	2011 R

23. Government grants and subsidies included in revenue

Equitable share	225,680,000	198,195,810
MIG agency fee	2,126,130	-
Municipal Infrastructure Grant	69,482,922	101,317,774
Department of Water Affairs and Forestry Grant	32,395,702	10,355,290
KZN Projects Grant	11,005,237	3,719,127
Sports and recreation grant	3,600	204,227
Municipal systems improvement grant	792,152	504,498
	341,485,743	**314,296,726**

Equitable Share

In terms of the Constitution and the Division of Revenue Act, this grant is used inter alia to subsidise the provision of free basic services and finance the administration costs of the Municipality.

Municipal Infrastructure Grant

Balance unspent at beginning of year	5,155,732	15,139,506
Current-year receipts	150,740,000	91,334,000
Conditions met - transferred to revenue	(69,482,922)	(101,317,774)
	86,412,810	**5,155,732**

Conditions still to be met - remain liabilities (see note 15)

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

Department of Water Affairs and Forestry Grant

Balance unspent at beginning of year	3,817,098	2,702,188
Current-year receipts	33,933,700	11,470,200
Conditions met - transferred to revenue	(32,395,702)	(10,355,290)
	5,355,096	**3,817,098**

Conditions still to be met - remain liabilities (see note 15)

This grant was provided to Uthukela municipality for water and sanitation projects.

KZN Projects grant

Balance unspent at beginning of year	16,174,760	11,871,484
Current-year receipts	28,887,263	7,522,403
Conditions met - transferred to revenue	(11,005,237)	(3,719,127)
Prior year adjustment	-	500,000
	34,056,786	**16,174,760**

Conditions still to be met - remain liabilities (see note 15)

This grant has been provided to Uthukela municipality mainly for water and sanitation projects, disaster management and Integrated Development Planning (IDP) support.

Sports and recreation grant

Balance unspent at beginning of year	198,199	402,426
Current-year receipts	-	-
Conditions met - transferred to revenue	(3,600)	(204,227)

Notes to the Annual Financial Statements

	2012 R	2011 R

23. Government grants and subsidies included in revenue (continued)

	194,599	**198,199**

Conditions still to be met - remain liabilities (see note 15)

This grant has been provided to Uthukela municipality for the building of sports fields.

Municipal systems improvement grant

	2012 R	2011 R
Balance unspent at beginning of year	333,736	88,234
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(792,152)	(504,498)
	331,584	**333,736**

Conditions still to be met - remain liabilities (see note 15)

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.

24. Other income

	2012 R	2011 R
Other income	3,019,578	31,065,297

In the prior year, the bad debt provision movement was allocated to sundry income. In the current financial year, the reversal of this movement was allocated against the Debt Impairment expenditure account as disclosed on the face of the Statement of Financial Performance.

Notes to the Annual Financial Statements

25. General expenses

	2012 R	2011 R
Advertising	215,348	87,695
Assessment rates & municipal charges	-	864
Auditors remuneration	2,679,740	1,662,376
Bank charges	279,195	407,484
Cleaning	119,579	266,370
Commission paid	330,691	271,999
Computer expenses	2,207,273	4,584,402
Consulting and professional fees	2,199,511	1,361,779
Consumables	20,050	33,970
Entertainment	513,075	429,766
Hire	4,256,578	6,075,099
Insurance	866,272	802,020
Conferences and seminars	35,215	47,989
Lease rentals on operating lease	2,933,871	3,785,858
Magazines, books and periodicals	7,968	9,474
Motor vehicle expenses	218,917	202,977
Fuel and oil	3,152,583	3,079,533
Postage and courier	10,981	4,627
Printing and stationery	1,063,186	1,052,157
Protective clothing	1,369	363,026
Security (Guarding of municipal property)	361,984	436,545
Subscriptions and membership fees	601,729	547,741
Telephone and fax	2,383,114	2,549,775
Training	60,585	22,370
Assets expensed	121,277	59,327
Electricity	34,645,318	29,527,813
Water	6,495,806	1,211,831
Water tankering	17,929,505	28,963,071
Audit committee	37,812	57,160
Government grant expenditure	80,207,289	51,513,577
Provision for Litigations	829,142	-
Chemicals	6,489,721	10,368,093
Other expenses	26,617,977	15,904,297
	197,892,661	**165,691,065**

Notes to the Annual Financial Statements

	2012 R	2011 R

26. Employee related costs

Basic	88,692,148	82,325,604
Medical aid - company contributions	2,785,762	2,518,426
UIF	636,864	578,697
SDL	883,500	797,057
Leave pay provision charge	(4,283,277)	2,366,777
Post-employment benefits - Pension - Defined contribution plan	(262,445)	325,779
Travel, motor car, accommodation, subsistence and other allowances	3,655,837	2,055,487
Surcharge Pension Fund	6,676,881	6,359,288
	98,785,270	**97,327,115**

Remuneration of municipal manager

Annual Remuneration	939,341	894,326
Car Allowance	260,175	247,708
Leave pay	304,946	-
Back pay normal	24,280	27,405
	1,528,742	**1,169,439**

Remuneration of chief finance officer

Annual Remuneration	660,761	649,105
Car Allowance	121,620	115,797
Entertrainment	63,491	60,446
Housing subsidy	29,779	28,347
Travel and subsistence	6,907	12,820
Back pay normal	17,725	-
Mileage	29,992	-
	930,275	**866,515**

Manager: Technical services

Annual Remuneration	306,845	-
Car Allowance	45,000	-
Other	5,168	-
	357,013	**-**

Manager: Corporate services

Annual Remuneration	394,085	587,459
Car Allowance	109,487	157,960
Housing subsidy	4,205	6,067
Other	151,052	-
	658,829	**751,486**

	2012 R	2011 R

26. Employee related costs (continued)

Manager: Health services, Environment services and WSA

	2012 R	2011 R
Annual Remuneration	595,342	618,899
Car Allowance	224,300	213,551
Housing subsidy	8,031	7,643
Travel and subsistence	1,764	34,676
Back pay normal	16,755	-
Mileage	52,370	-
	898,562	**874,769**

Manager: Water services

	2012 R	2011 R
Annual Remuneration	208,504	632,375
Car Allowance	67,444	198,250
	275,948	**830,625**

27. Remuneration of councillors

	2012 R	2011 R
Executive Mayor	692,784	421,074
Deputy Executive Mayor	581,982	452,041
Mayoral Committee Members	1,052,431	710,040
Speaker	560,852	452,877
Councillors	2,614,315	1,683,423
	5,502,364	**3,719,455**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each 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 full-time bodyguards.

28. Debt impairment

	2012 R	2011 R
Debt impairment - Consumer debtors	14,617,556	-
Debt impairment - Water and sanitation	224,976	-
Debt impairment - Sundry debtors	1,547,319	-
Debts impairment - Other	673	281
	16,390,524	**281**

In the prior years the municipality had engaged a credit bureau to assess the credit rating of the consumer debtors. The scope of the project included performing ITC searches on consumers, tracing debtors and updated the database with consumers contact details. Contact details included the consumer's residential address, employer's address and the consumers home, work and cellphone numbers. The majority of these debtors were initially considered impaired as the municipality was unable to contact the consumers via post or phone. At the conclusion of the project the service provider consider previously impaired debts to be collectable. The municipality is currently in the process of contacting the consumer to recover outstanding debts.

The same process followed by the credit bureau has been applied in the current financial year.

Notes to the Annual Financial Statements

	2012 R	2011 R

29. Interest income

	2012 R	2011 R
Interest on investments - short term deposits	2,069,734	512,754
Interest charged on consumer debtors	16,978,337	20,747,599
	19,048,071	**21,260,353**

Interest charged on consumer debtors accounts are charged at a rate of prime plus 1% on a monthly basis.

30. Depreciation and amortisation

	2012 R	2011 R
Property, plant and equipment	26,997,517	26,361,005
Intangible assets	1,833	1,833
	26,999,350	**26,362,838**

31. Impairment of assets

	2012 R	2011 R
Property, plant and equipment	-	5,239,710

32. Finance costs

	2012 R	2011 R
Fruitless and wasteful expenditure (refer note 44)	1,059,489	146,758
Bank	45,604	130,904
Fair value adjustments on payables	-	4,381,237
Development Bank of SA	356,850	414,669
Finance Leases	203,299	110,952
Other	1,190,628	1,388,553
	2,855,870	**6,573,073**

33. Auditors' remuneration

	2012 R	2011 R
Fees	2,679,740	1,662,376

34. Bulk purchases

	2012 R	2011 R
Water	4,043,301	2,918,787

Notes to the Annual Financial Statements

	2012 R	2011 R

35. Cash generated from operations

	2012 R	2011 R
Surplus	89,685,233	143,174,028
Adjustments for:		
Depreciation and amortisation	26,999,350	26,362,838
Loss on sale of assets	65,296	184,242
Impairment deficit	-	5,239,710
Debt impairment	16,390,524	281
Movements in operating lease assets and accruals	-	(52,554)
Movements in retirement benefit assets and liabilities	(262,445)	325,779
Movements in provisions	1,665,316	-
Provision for litigation	829,142	-
Leave pay provision	4,283,277	-
Interest - consumer debtors	(19,048,071)	-
Accumulated surplus - Non cash flow	(2,504,768)	-
Transfer in reserves	(5,041,785)	-
Changes in working capital:		
Inventories	(183,189)	411,230
Trade and other receivables from exchange transactions	(1,044,631)	(208,718)
Other receivables from non-exchange transactions	(3,289,910)	(99,626)
Consumer debtors	(40,652,427)	(104,606,541)
Prepayments	616,628	507,659
Trade and other payables from exchange transactions	(48,525,303)	2,403,699
VAT	12,789,827	2,747,056
Unspent conditional grants and receipts	100,671,350	(4,524,313)
Consumer deposits	735,668	1,383,171
	134,179,082	**73,247,941**

36. Commitments

Authorised capital expenditure

	2012 R	2011 R
Already contracted for but not provided for		
• Property, plant and equipment	299,437,892	171,697,015

This committed expenditure relates to plant and equipment and will be financed by government grants, subsidy, internal fundings.

Operating leases - as lessee (expense)

	2012 R	2011 R
Minimum lease payments due		
- within one year	-	1,683,964
- in second to fifth year inclusive	-	353,108
	-	**2,037,072**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of five years with an agreed escalation. No contingent rent is payable.

The current lease expires on 30 September 2012. Renewal is being discussed at an EXCO level hence rentals have not been straight-lined for the forseeable future.

	2012 R	2011 R

37. Contingencies

D Kistadu	15,240	15,000
AMJ Hlongwane	174,261	-
Aurecon	378,607	-
Jeffares & Green	576,484	597,000
IPTCO	-	600,000
Aon South African (Pty) Ltd	-	1,000,000
AQUAMANZI	-	690,000
J. Potgieter	-	5,000
J vd Merwe	-	4,000,000
Mgazi Engineering	-	3,000,000
Ladysmith Trading	-	3,500,000
Telkom	23,694	15,000
Telkom	49,448	15,000
ME Ndlovu	-	800,000
DK & V Property	756,000	-
	1,973,734	**14,237,000**

Claim Dispute -D Kistadu

A fire hydrant manhole cover was removed from the road.The claimant damaged his motor cycle when he drove the exposed fire hydrant. Both the Emnambith Local Municipality and uThukela District Municipality have being summoned to identify which municipality is liable.

Claim Dispute-AMJ Hlongwane

Eradication of bucket latrines in the Ekuvukeni area - contract 19/2005.The matter was defended in court and awaiting the plaintiff to take the next step.
The prospect of success in this case is good and its suggested Uthukela District Municipality continue with the defence.

Claim Dispute-Aurecon

E-section Ezakheni sanitation project engineers projects not completed.
The prospect of success in this case is good considering our consultation with S.Mthethwa and B H Khoza

Claim Dispute-Jeffares & Green

Relates to payments due to the supplier for services rendered.
This matter is currently being defended.

Claim Dispute-IPTCO

Dispute regarding property rates in respect of Giants Castle Hotel.The claimant resolved to legal action as the municipality did not want reassesses the rate randage applied to the property.Amount claimed includes legal cost incurred by the claimant.
This matter is currently being defended.

Claim dispute - Aon South African (Pty) Ltd

Aon lodged an appeal against the tender process and procurement of the appointment of Indwe Risk Services as the brokers for the Council's insurance portfolio.

Claim dispute - Telkom

In the prior year, Telkom lodged a claim against Council for damages caused to Telkom cables in Main Road C section Ezakheni during repairs done to burst water pipes. The matter was heard in the High Court and the rulling was against the Municipality.

	2012 R	2011 R

37. Contingencies (continued)

Claim dispute - Telkom

In the prior year, Telkom lodged a claim against Council for damages caused to Telkom cables in Pendy Street, Ladysmith during repairs done to burst water pipes. The matter was heard in the High Court and the rulling was against the Municipality.

Claim dispute - D K & V Property

DK & V Property lodged a claim against Council for damages to the previous municipal offices on vacating. The matter has been defended and an out of court settlement should be attempted. The Council is not obliged to settle the full claim amount, DK & V Property will be entitled to whatever amount they can prove to be the actual damages.

AQUAMANZI

Municipality is being sued for work done.

J. Potgieter

Municipality is being sued for damage to a wall during a repair to a burst pipe.

J vd Merwe

uThukela District Municipality and Emnambithi Local Municipality is being sued for a reservoir that was constructed on the plaintiff's land.

Mgazi Engineering

Relates to payments due the supplier for services rendered.

Ladysmith Trading

Relates to payments due the supplier for services rendered.

Claim dispute - M.E. Ndlovu

In the prior year, a child had been injured whilst playing on a windmill in the Thawa area. The claimant is suing the Council for injuries sustained. A settle of R150 000. agreed between the insurance company and the municipal lawyers, has been offered as settlement. The Council's insurers subsequently indicated that the matter must be decided in court and there should be no further negotiations. The matter is accordingly proceeded to Court.

38. Related parties

Relationships
In the prior year the following relationships existed:

Close family member of key management	Mrs S Mkhize

Related party transactions

Fees paid to related parties		
Nhloso Rural Development	-	153,958,327

Mrs S Mkhize, municipal staff member is married to the member of Nhloso Rural Development. The company was successful in being appointed to assist the municipality with some of its sanitation projects. Mrs Mkhize had not been involved in the tender process. Subsequently, Mrs Mkhize resigned from the employment of the municipality during the 2010/11 financial year.

The municipality did not enter into any related party transactions in the current financial year.

Notes to the Annual Financial Statements

	2012 R	2011 R

39. Prior period errors

The followingamounts resulted in adjustments to accumulated surplus:

Reallocation of prior period bank reconciling items	4,491,940	-
Reallocation of unidentified deposits and receipts	(166,683)	-
Expiry of certificate	8,000	-
Reallocation of prior period general expenditure	(9,375,042)	-
	(5,041,785)	**-**

40. Risk management

Liquidity risk

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

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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 evaluate credit risk relating to customers on an ongoing basis. The municipality has independently rated some of their customer. Others, 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.

41. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 726,371,917 and that the municipality's total assets exceed its liabilities by R 726,371,917.

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 municipality faces going concern challenges and the financial position of the municipality has deteriorated over years. This condition poses a risk that the municipality may fail to continue doing business in the foreseeable future as envisaged by the legislation.

The above condition is emanating from the following issues:

1) Demarcation process which left the municipality with huge debts with no accompanying income base.
2) High levels of poverty thus increased number of consumers who are not paying for services.
3) High unemployment rate.
4) Dilapidated infrastructure transferred by local municipalities during the transfer period which was accompanied by no reserves or provisions.
5) Socio political issues which saw some sectors of our communities not paying for services.
6) Drought and other factors associated with climate change (e.g drying of water sources)
7) Developments by other spheres of Government (in particular Housing) which are not accompanied by funding to assist the municipality to enhance its infrastructure and this results in further financial strain on already overstretched financial resources.

The above culminates in cash flow difficulties and resultant consequences (e.g delay in payment of creditors), used a portion of conditional grants for operating activities and a reduced financial strength of the municipality.

Over and above the strategy described above, the municipality is in serious discussion with the Development Bank of Southern Africa (DBSA) with an aim of implementing "Integrated Revenue Management Strategy".

The integrated revenue management strategy addresses the following:

1) Data cleansing process
2) Exploration of the Private Public Partnerships
3) Exploring Prepaid meters as a preferred mode of metering
4) Sourcing of loan funding to replace or refurbish the existing infrastructure
5) Infrastructure development opportunities
6) Front loading of MIG to speedily address infrastructure needs.

The municipality has developed a turnaround strategy which is aimed at addressing the going concern challenges experienced by the municipality.

42. Events after the reporting date

There are no matters or events arising after the reporting date.

	2012 R	2011 R
43. Unauthorised expenditure		
Council - Employee cost		
Opening balance	867	228,374
Movement	7,903	(227,507)
	8,770	**867**
Council - Depreciation		
Opening balance	-	43,687
Movement	127,053	(43,687)
	127,053	**-**
Council - Fuel and oil		
Opening balance	-	-
Movement	18,170	-
	18,170	**-**
Council - Transport official vehicle		
Opening balance	-	-
Movement	11,203	-
	11,203	**-**
Municipal Manager - Depreciation		
Opening balance	81,731	91,186
Movement	(81,731)	(9,455)
	-	**81,731**
Corporate Services - Subsistance and Travel		
Opening balance	-	-
Movement	218,024	-
	218,024	**-**
Corporate services - Telephone		
Opening balance	-	-
Movement	144,248	-
	144,248	**-**
Corporate Services - Provision for litigation		
Opening balance	-	-
Movement	756,000	-
	756,000	**-**
Corporate Services - Training direct cost		
Opening balance	-	-
Movement	9,890	-
	9,890	**-**
Corporate Services - Depreciation		
Opening balance	9,398	178,958
Movement	(9,398)	(169,560)
	-	**9,398**

	2012 R	2011 R
43. Unauthorised expenditure (continued)		
Finance - Employee cost		
Opening balance	202,959	520,638
Movement	(202,959)	(317,679)
	-	**202,959**
Finance - Depreciation		
Opening balance	-	148,618
Movement	140,003	(148,618)
	140,003	**-**
Finance - Subsistance and Travel		
Opening balance	-	-
Movement	255,458	-
	255,458	**-**
Finance - Bad debt reserve		
Opening balance	-	1,733,417
Movement	1,547,319	(1,733,417)
	1,547,319	**-**
Finance - General expenses		
Opening balance	-	29,516
Movement	-	(29,516)
	-	**-**
Technical: Regional - Employee cost		
Opening balance	433,710	-
Movement	(433,710)	433,710
	-	**433,710**
Technical: Planning - Employee cost		
Opening balance	212,081	-
Movement	(212,081)	212,081
	-	**212,081**
Health Services - Employee cost		
Opening balance	100,320	239,952
Movement	(100,320)	(139,632)
	-	**100,320**
Health Services - Telephone		
Opening balance	-	-
Movement	4,207	-
	4,207	**-**
Health Services - Subsistence and Travel		
Opening balance	-	-
Movement	72,636	-
	72,636	**-**

Notes to the Annual Financial Statements

	2012 R	2011 R

43. Unauthorised expenditure (continued)

Water and sanitation - Employee cost

Opening balance	2,160,021	3,234,058
Movement	(1,896,319)	(1,074,037)
	263,702	**2,160,021**

Water and sanitation - Impairment of assets

Opening balance	5,239,710	-
Movement	(5,239,710)	5,239,710
	-	**5,239,710**

Water and sanitation - Bad debts written off

Opening balance	-	-
Movement	673	-
	673	**-**

Water and sanitation - Collection fees

Opening balance	-	-
Movement	129,691	-
	129,691	**-**

Water and sanitation - Water purchases

Opening balance	-	-
Movement	1,043,301	-
	1,043,301	**-**

Water and sanitation - Cleansing materials

Opening balance	-	-
Movement	13,660	-
	13,660	**-**

Water and sanitation - Computer programs

Opening balance	-	-
Movement	127,716	-
	127,716	**-**

Water and sanitation - Department water accounts

Opening balance	-	-
Movement	700,643	-
	700,643	**-**

Water and sanitation - Electricity

Opening balance	-	-
Movement	1,324,351	-
	1,324,351	**-**

Water and sanitation - Bill printing

Opening balance	-	-
Movement	14,417	-
	14,417	**-**

43. Unauthorised expenditure (continued)

	2012 R	2011 R
Water and sanitation - Vehicle licences		
Opening balance	-	-
Movement	8,377	-
	8,377	**-**
Water and sanitation - Security		
Opening balance	-	-
Movement	102,482	-
	102,482	**-**
Water and sanitation - Uthukela security services		
Opening balance	-	-
Movement	119,637	-
	119,637	**-**
Water and sanitation - Drought relief		
Opening balance	-	-
Movement	50,105	-
	50,105	**-**
Water and sanitation - Water conservation		
Opening balance	-	-
Movement	489,715	-
	489,715	**-**
Acturial valaution		
Opening balance	-	-
Movement	262,445	-
	262,445	**-**
Strategic Planning and economic development - Depreciation		
Opening balance	-	-
Movement	258,963	-
	258,963	**-**
Strategic Planing and economic development - Subsistance and Travel		
Opening balance	-	-
Movement	149,140	-
	149,140	**-**
Strategic Planning and economic dvelopment - Telephone		
Opening balance	-	-
Movement	955	-
	955	**-**

Notes to the Annual Financial Statements

	2012 R	2011 R
44. Fruitless and wasteful expenditure		
Eskom		
Opening balance	110,470	49,112
Movement	(5,393)	61,358
	105,077	**110,470**
South African Post Office		
Opening balance	3,445	7,921
Movement	4,552	(4,476)
	7,997	**3,445**
Umtshezi Municipality		
Opening balance	-	-
Movement	4,949	-
	4,949	**-**
South African Revenue Services		
Opening balance	-	-
Movement	20,944	-
	20,944	**-**
Emnambithi/ Ladysmith Municipality		
Opening balance	16,576	-
Movement	1,103	16,576
	17,679	**16,576**
KZN Joint Municipal Pension		
Opening balance	3,185	553
Movement	(3,185)	2,632
	-	**3,185**
Auditor General of SA		
Opening balance	1,410	-
Movement	(1,410)	1,410
	-	**1,410**
Legal fees		
Opening balance	2,238	-
Movement	286,723	2,238
	288,961	**2,238**
Metro Protection Services		
Opening balance	9,433	-
Movement	(9,433)	9,433
	-	**9,433**
Halstead Paolo Trust Acco		
Opening balance	-	-
Movement	611,382	-
	611,382	**-**

	2012 R	2011 R

44. Fruitless and wasteful expenditure (continued)

South African Local Government Council (SALGBC)

Opening balance	-	-
Movement	2,500	-
	2,500	**-**

45. Irregular expenditure

Opening balance	577,566	-
Movement	76,789	577,566
	654,355	**577,566**

Irregular expenditure relates to repairs and maintenance and general expenses.

These amounts have not been taken to council for condonement.

46. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	-	5,500
Current year subscription / fee	19,086	69,756
Amount paid - current year	(19,086)	(69,756)
Amount paid - previous years	-	(5,500)
	-	**-**

Balance included in current liabilities.

Audit fees

Opening balance	(174,931)	277,504
Current year subscription / fee	1,790,900	1,200,000
Amount paid - current year	-	(1,374,931)
Amount paid - previous years	(174,931)	(277,504)
	1,441,038	**(174,931)**

PAYE and UIF

Opening balance	-	959,422
Current year subscription / fee	13,156,796	12,718,364
Amount paid - current year	(13,156,796)	(12,718,364)
Amount paid - previous years	-	(959,422)
	-	**-**

Pension and Medical Aid Deductions

Opening balance	-	1,142,038
Current year subscription / fee	9,527,534	14,078,418
Amount paid - current year	(9,527,534)	(14,078,418)
Amount paid - previous years	-	(1,142,038)
	-	**-**

	2012 R	2011 R

46. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

	2012 R	2011 R
VAT payable	28,089,247	15,299,420

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

Balance is included in current liabilities.

All VAT returns have been submitted.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2012:

30 June 2012	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
TJMB Jeebodh	343	-	343
BR Sithole	786	7,206	7,992
AS Mazibuko	2,382	56,375	58,757
MA & AM Mkhize	46	-	46
	3,557	**63,581**	**67,138**

30 June 2011	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
TJMB Jeebodh	256	15,311	15,567
SD Magubane	311	7,470	7,781
AS Mazibuko	976	53,119	54,095
	1,543	**75,900**	**77,443**

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. There were no deviations noted in the current financial year.

The municipality did not comply with section 65(2)(e) of the MFMA which states that creditors should be paid in 30 days. This is mainly due to cashflow problems experienced. Refer note 41 on Going concern.

47. Water losses estimated

	2012 R	2011 R
Water losses - quantity (KL)	28,851,148	26,259,648
Water losses - cost (Rand)	20,340,059	18,513,052

The cost of water losses is calculated using the quantity (KL) times the cost R 0.705 (2010/11: R 0.705) which is the cost incurred to purify water.

The above attributes, among other things, water loss during pipe bursts, unidentified leaks, theft of water meters, non-metered areas like Ezakheni and unidentified illegal connections. The water losses KL represents 68.4% (2010/11: 63.1%) of production capacity.