MAMUSA LOCAL MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

GENERAL INFORMATION

LEGAL FORM OF ENTITY	Local Municipality
NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES	Service delivery
MAYORAL COMMITTEE	
Mayor	A Motswana
Councillors	RM Lee
	CP Herbst
	OM Stephen
	NG Masilo
	GG Mosebetsi
	SDJ Strydom
	PM Maine
	MY Moyake
	BT Thekiso
	TM Sepato
	JJ Modisapudi
	KM Setshameko
	LD Motlapele
	KM Mere
GRADING OF LOCAL AUTHORITY	Catergory 3
ACCOUNTING OFFICER	R Gincane
	Municipal Manager
CHIEF FINANCE OFFICER (CFO)	S Mini
REGISTERED OFFICE	No 28 Schweizer Street
	Schweizer-Reneke
	2780
POSTAL ADDRESS	P O Box 5
	Schweizer-Reneke
	2780
BANKERS	First National Bank
AUDITORS	Auditor General of South Africa

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

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ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
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 RESPONSIBILITIES AND APPROVAL

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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

The annual financial statements set out on pages 4 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2013 and were signed on its behalf by:

Accounting Officer
R Gincane - Municipal Manager

ACCOUNTING OFFICER'S REPORT

The accounting officer submits his report for the year ended 30 June 2013.

1. REVIEW OF ACTIVITIES

MAIN BUSINESS AND OPERATIONS

2. SUBSEQUENT EVENTS

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

	Note(s)	2013	2012
ASSETS			
CURRENT ASSETS			
Receivables from exchange transactions	5	772 295	575 457
VAT receivable		166 548	3 335 550
Consumer debtors	6	20 363 496	79 837 327
Cash and cash equivalents	7	6 186 026	14 095 448
		27 488 365	**97 843 782**
NON-CURRENT ASSETS			
Property, plant and equipment	3	100 778 073	81 561 596
Intangible assets	4	1 022 506	-
		101 800 579	**81 561 596**
Non-Current Assets		101 800 579	81 561 596
Current Assets		27 488 365	97 843 782
Total Assets		**129 288 944**	**179 405 378**
LIABILITIES			
CURRENT LIABILITIES			
Payables from exchange transactions	10	28 153 030	26 183 290
Consumer deposits	11	711 407	627 459
Unspent conditional grants and receipts	8	5 452 548	10 116 016
Bank overdraft	7	4 203 522	4 263 362
		38 520 507	**41 190 127**
NON-CURRENT LIABILITIES			
Provisions	9	12 552 929	11 999 202
Non-Current Liabilities		12 552 929	11 999 202
Current Liabilities		38 520 507	41 190 127
Liabilities of disposal groups		-	-
Total Liabilities		**51 073 436**	**53 189 329**
Assets		129 288 944	179 405 378
Liabilities		(51 073 436)	(53 189 329)
Net Assets		**78 215 508**	**126 216 049**
Accumulated surplus		78 215 508	126 216 049

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2013	2012
Revenue			
Service charges	13	54 606 993	48 521 348
Licences and permits		2 361 096	2 605 597
Commissions received		71 565	96 996
Rent income		157 976	400 123
Other income	15	3 085 961	2 109 022
Government grants		69 265 590	37 258 075
Interest received		12 886 439	9 574 832
Total revenue		**142 435 620**	**100 565 993**
Expenditure			
Personnel	17	(33 852 454)	(29 277 583)
Remuneration of councillors	18	(3 272 487)	(2 969 493)
Depreciation and amortisation	21	(851 907)	(755 091)
Finance costs	22	(190 105)	(132 109)
Debt impairment	19	(89 638 650)	(2 353 001)
Repairs and maintenance		(6 362 963)	(4 316 776)
Bulk purchases	25	(23 448 927)	(19 413 558)
Grants and subsidies paid	24	(242 573)	(129 922)
General Expenses	16	(21 774 776)	(14 081 318)
Total expenditure		**(179 634 842)**	**(73 428 851)**
		-	-
Total revenue		142 435 620	100 565 993
Total expenditure		(179 634 842)	(73 428 851)
Operating (deficit) surplus		**(37 199 222)**	**27 137 142**
(Deficit) surplus before taxation		(37 199 222)	27 137 142
Taxation		-	-
(Deficit) surplus for the year		**(37 199 222)**	**27 137 142**
ATTRIBUTABLE TO:			
Owners of the controlling entity		(37 199 222)	27 137 142

STATEMENT OF CHANGES IN NET ASSETS

	Accumulated surplus	Total net assets
Balance at 01 July 2011	**99 078 907**	**99 078 907**
Changes in net assets		
Surplus for the year	27 137 142	27 137 142
Total changes	27 137 142	27 137 142
Balance at 01 July 2012	**115 414 730**	**115 414 730**
Changes in net assets		
Surplus for the year	(37 199 222)	(37 199 222)
Total changes	(37 199 222)	(37 199 222)
Balance at 30 June 2013	**78 215 508**	**78 215 508**

Note(s)

CASH FLOW STATEMENT

	Note(s)	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		67 643 323	67 097 877
Interest income		12 886 439	9 574 832
		80 529 762	76 672 709
Payments			
Employee costs		(33 852 454)	(29 277 583)
Suppliers		(33 245 893)	(28 524 358)
Finance costs		(190 105)	(132 109)
		(67 288 452)	(57 934 050)
Total receipts		80 529 762	76 672 709
Total payments		(67 288 452)	(57 934 050)
Net cash flows from operating activities	26	**13 241 310**	**18 738 659**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(19 863 885)	(9 647 979)
Purchase of other intangible assets	4	(1 227 007)	-
Net cash flows from investing activities		**(21 090 892)**	**(9 647 979)**
Net increase/(decrease) in cash and cash equivalents		**(7 849 582)**	**9 090 680**
Cash and cash equivalents at the beginning of the year		9 832 086	741 406
Cash and cash equivalents at the end of the year	7	**1 982 504**	**9 832 086**

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:

TRADE RECEIVABLES / HELD TO MATURITY INVESTMENTS AND/OR LOANS AND RECEIVABLES

The municipality assesses its trade receivables, held to maturity investments 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, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

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 9 - Provisions.

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.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

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

EFFECTIVE INTEREST RATE

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

ALLOWANCE FOR DOUBTFUL DEBTS

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 INVESTMENT PROPERTY

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

FAIR VALUE

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

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

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

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.3 PROPERTY, PLANT AND EQUIPMENT

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

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

1.3 PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

1.3 PROPERTY, PLANT AND EQUIPMENT (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

ITEM	AVERAGE USEFUL LIFE
Plant and machinery	4 - 5
Furniture and fixtures	5 - 7
Motor vehicles	4 - 10
Office equipment	5 - 7
IT equipment	5 - 10
Infrastructure	
• highmasts Lights	30

1.4 INTANGIBLE ASSETS

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

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

Intangible assets are initially recognised at cost.

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

1.4 INTANGIBLE ASSETS (continued)

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

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

Computer software	5 years

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

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

1.5 HERITAGE ASSETS

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

RECOGNITION

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

ACCOUNTING POLICIES

1.5 HERITAGE ASSETS (continued)

INITIAL MEASUREMENT

Heritage assets are measured at cost.

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

SUBSEQUENT MEASUREMENT

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

IMPAIRMENT

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

TRANSFERS

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

DERECOGNITION

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

TRANSITIONAL PROVISION

The municipality changed its accounting policy for heritage assets in 2013. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure heritage assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Heritage assets. Heritage assets have not yet been recognised. The transitional provision expires on 2015/06/30.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where heritage assets was acquired through a transfer of functions, the municipality is not required to measure that heritage assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2013 and heritage assets have accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and heritage assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Heritage assets, the municipality need not comply with the Standards of GRAP on (to the extent that these Standards prescribe requirements for heritage assets):

- Presentation of Financial Statements (GRAP 1),

1.5 HERITAGE ASSETS (continued)

- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Heritage assets implies that any associated presentation and disclosure requirements need not be complied with for heritage assets not measured in accordance with the requirements of the Standard of GRAP on Heritage assets.

1.6 FINANCIAL INSTRUMENTS

INITIAL RECOGNITION AND MEASUREMENT

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

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

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

SUBSEQUENT MEASUREMENT

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

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

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

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

1.6 FINANCIAL INSTRUMENTS (continued)

IMPAIRMENT OF FINANCIAL ASSETS

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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

RECEIVABLES FROM EXCHANGE TRANSACTIONS

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

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

Trade and other receivables are classified as loans and receivables.

PAYABLES FROM EXCHANGE TRANSACTIONS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.6 FINANCIAL INSTRUMENTS (continued)

BANK OVERDRAFT AND BORROWINGS

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

DERIVATIVES

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

HELD TO MATURITY

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

ACCOUNTING POLICIES

1.6 FINANCIAL INSTRUMENTS (continued)

DERECOGNITION

FINANCIAL ASSETS

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

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

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

FINANCIAL LIABILITIES

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

IMPAIRMENT OF FINANCIAL ASSETS

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

Assets are carried at amortised cost.

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

1.7 LEASES

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

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

1.7 LEASES (continued)

FINANCE LEASES - LESSOR

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

FINANCE LEASES - LESSEE

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

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

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

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

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.

1.8 INVENTORIES

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1.8 INVENTORIES (continued)

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

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

1.9 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.

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS

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

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS (continued)

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:

- base 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;
- base 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
- income tax receipts or payments.

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.

DISCOUNT RATE

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

1.10 IMPAIRMENT OF CASH-GENERATING ASSETS (continued)

RECOGNITION AND MEASUREMENT (INDIVIDUAL ASSET)

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued 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 cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

REVERSAL OF IMPAIRMENT LOSS

The municipality assess at each reporting date 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.

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

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

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

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

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

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

REDESIGNATION

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.11 IMPAIRMENT OF NON-CASH-GENERATING ASSETS

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

1.11 IMPAIRMENT OF NON-CASH-GENERATING ASSETS (continued)

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

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

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

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

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

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow: [Specify criteria]

IDENTIFICATION

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

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

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

1.11 IMPAIRMENT OF NON-CASH-GENERATING ASSETS (continued)

VALUE IN USE

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

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

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.

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.

1.11 IMPAIRMENT OF NON-CASH-GENERATING ASSETS (continued)

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.

REDESIGNATION

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

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

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

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

DEFINED CONTRIBUTION PLANS

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

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

1.12 EMPLOYEE BENEFITS (continued)

DEFINED BENEFIT PLANS

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

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

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

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

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

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

OTHER POST RETIREMENT OBLIGATIONS

The entity provides post-retirement health care benefits 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 entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.13 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

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

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

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

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

ACCOUNTING POLICIES

1.13 PROVISIONS AND CONTINGENCIES (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

If 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 28.

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.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

1.13 PROVISIONS AND CONTINGENCIES (continued)

DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITY

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.14 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

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

1.14 REVENUE FROM EXCHANGE TRANSACTIONS (continued)

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 services performed to date as a percentage of total services to be performed.

INTEREST

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions 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.

1.15 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.

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.

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.

1.15 REVENUE FROM NON-EXCHANGE TRANSACTIONS (continued)

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.

1.16 INVESTMENT INCOME

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

1.17 BORROWING COSTS

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

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

1.18 COMPARATIVE FIGURES

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

1.19 UNAUTHORISED EXPENDITURE

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

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

1.20 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.

1.21 IRREGULAR EXPENDITURE

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or

ACCOUNTING POLICIES

1.21 IRREGULAR EXPENDITURE (continued)

(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

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

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

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.

1.22 USE OF ESTIMATES

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.23 PRESENTATION OF CURRENCY

These annual financial statements are presented in South African Rand.

1.24 OFFSETTING

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

1.25 INVESTMENTS

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.26 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.

ACCOUNTING POLICIES

1.27 BUDGET INFORMATION

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

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

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

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

The budget for the economic entity includes all the entities approved budgets under its control.

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 Statement of comparison of budget and actual amounts.

1.28 RELATED PARTIES

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

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

3. PROPERTY, PLANT AND EQUIPMENT

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Plant and machinery	1 558 145	(1 033 983)	524 162	1 558 145	(908 130)	650 015
Furniture and fixtures	3 326 522	(2 944 161)	382 361	3 326 522	(2 802 735)	523 787
Motor vehicles	1 044 989	(689 348)	355 641	689 375	(521 932)	167 443
Office equipment	417 511	(80 145)	337 366	100 876	(41 533)	59 343
IT equipment	1 774 783	(1 343 958)	430 825	1 592 213	(1 181 463)	410 750
Infrastructure	348 162	(46 804)	301 358	348 162	(35 198)	312 964
Capital work in progress	98 446 360	-	98 446 360	79 437 294	-	79 437 294
Total	**106 916 472**	**(6 138 399)**	**100 778 073**	**87 052 587**	**(5 490 991)**	**81 561 596**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2013

	Opening balance	Additions	Depreciation	Total
Plant and machinery	650 015	-	(125 853)	524 162
Furniture and fixtures	523 787	-	(141 426)	382 361
Motor vehicles	167 443	355 614	(167 416)	355 641
Office equipment	59 343	316 635	(38 612)	337 366
IT equipment	410 750	182 570	(162 495)	430 825
Infrastructure	312 964	-	(11 606)	301 358
Capital work in progress	79 437 294	19 009 066	-	98 446 360
	81 561 596	**19 863 885**	**(647 408)**	**100 778 073**

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2012

	Opening balance	Additions	Depreciation	Total
Plant and machinery	810 876	-	(160 861)	650 015
Furniture and fixtures	796 392	-	(272 605)	523 787
Motor vehicles	281 778	-	(114 335)	167 443
Office equipment	55 099	18 890	(14 646)	59 343
IT equipment	580 586	11 200	(181 036)	410 750
Infrastructure	324 569	-	(11 605)	312 964
Capital work in progress	69 789 315	9 647 979	-	79 437 294
	72 638 615	**9 678 069**	**(755 088)**	**81 561 596**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

4. INTANGIBLE ASSETS

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	1 227 007	(204 501)	1 022 506	-	-	-

RECONCILIATION OF INTANGIBLE ASSETS - 2013

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	1 227 007	(204 501)	1 022 506

5. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2013	2012
Suspense Accounts	-	35 978
Sundry debtors	230 473	159 923
Private telephone accounts	39 862	39 862
Salary deduction control account	365	128 202
Insurance debtor	177 266	599
Pensioners control account	104 360	207
Other debtors	219 969	210 686
	772 295	**575 457**

TRADE AND OTHER RECEIVABLES IMPAIRED

6. CONSUMER DEBTORS

	2013	2012
GROSS BALANCES		
Rates	7 214 584	5 282 444
Electricity	9 718 194	8 821 758
Water	23 810 006	22 921 485
Sewerage	24 956 811	24 348 792
Refuse	18 057 278	17 712 341
Debtors interest	38 948 525	38 127 050
Other Consumer Debtors	1 545 159	4 302 549
	124 250 557	**121 516 419**
LESS: ALLOWANCE FOR IMPAIRMENT		
Provision for bad debts	(103 887 061)	(41 679 092)
NET BALANCE		
Rates	7 214 584	5 282 444
Electricity	9 718 194	8 821 758
Water	23 810 006	22 921 485
Sewerage	24 956 811	24 348 792
Refuse	18 057 278	17 712 341
Debtors interest	38 948 525	38 127 050
Provision for doubtful debts	(102 341 902)	(37 376 543)
	20 363 496	**79 837 327**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

6. CONSUMER DEBTORS (continued)

	2013	2012
RATES		
Current (0 -30 days)	433 510	362 964
31 - 60 days	335 689	128 186
61 - 90 days	93 040	94 260
Over 90 days	5 509 197	4 340 183
	6 371 436	**4 925 593**
ELECTRICITY		
Current (0 -30 days)	1 676 307	1 531 795
31 - 60 days	1 193 492	666 120
61 - 90 days	473 649	380 845
Over 90 days	3 349 625	3 585 072
	6 693 073	**6 163 832**
WATER		
Current (0 -30 days)	568 758	768 886
31 - 60 days	1 433 060	684 323
61 - 90 days	2 094 820	732 025
Over 90 days	16 953 646	17 389 439
	21 050 284	**19 574 673**
INTEREST		
Current (0 -30 days)	1 009 043	841 515
31 - 60 days	1 987 056	821 094
61 - 90 days	2 347 836	798 656
Over 90 days	33 840 144	35 138 941
	39 184 079	**37 600 206**
SEWERAGE		
Current (0 -30 days)	729 872	640 702
31 - 60 days	1 326 867	562 573
61 - 90 days	625 129	543 145
Over 90 days	20 490 657	21 917 766
	23 172 525	**23 664 186**
REFUSE		
Current (0 -30 days)	431 394	380 165
31 - 60 days	782 748	331 125
61 - 90 days	365 938	316 526
Over 90 Days	14 801 916	16 223 380
	16 381 996	**17 251 196**

6. CONSUMER DEBTORS (continued)

	2013	2012
SUNDRIES		
Current (0 -30 days)	(262 780)	65 612
31 - 60 days	(140 616)	52 760
61 - 90 days	(3 421)	63 132
Over 90 days	3 560 826	3 131 984
	3 154 009	**3 313 488**
VAT		
Current (0 -30 days)	490 391	464 990
31 - 60 days	686 663	316 060
61 - 90 days	519 555	275 606
Over 90 days	7 908 834	8 003 779
	9 605 443	**9 060 435**

SUMMARY OF DEBTORS BY CUSTOMER CLASSIFICATION

	2013	2012
CONSUMERS		
Current (0 -30 days)	3 946 140	4 080 941
31 - 60 days	6 765 268	3 118 954
61 - 90 days	5 988 862	2 968 638
Over 90 days	102 091 246	107 669 746
	118 791 516	**117 838 279**
INDUSTRIAL/ COMMERCIAL		
Current (0 -30 days)	1 035 979	884 414
31 - 60 days	675 650	383 789
61 - 90 days	410 311	201 295
Over 90 days	1 332 552	777 694
	3 454 492	**2 247 192**
NATIONAL AND PROVINCIAL GOVERNMENT		
Current (0 -30 days)	94 376	69 437
31 - 60 days	164 041	59 504
61 - 90 days	117 373	34 265
Over 90 days	2 991 047	1 304 949
	3 366 837	**1 468 155**
TOTAL		
Current (0 -30 days)	5 076 496	5 034 793
31 - 60 days	7 604 960	3 562 247
61 - 90 days	6 516 548	3 204 198
Over 90 days	106 414 846	109 752 389
	125 612 850	121 553 627
Less: Allowance for impairment	(103 292 866)	(41 679 092)
	22 319 984	**79 874 535**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

6. CONSUMER DEBTORS (continued)

RECONCILIATION OF ALLOWANCE FOR IMPAIRMENT

	2013	2012
Balance at beginning of the year	(41 679 092)	(39 326 091)
Contributions to allowance	(62 207 969)	(2 353 001)
	(103 887 061)	**(41 679 092)**

CONSUMER DEBTORS PLEDGED AS SECURITY

No debtors have been pledged as security as at 30 June 2013.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

	2013	2012
Cash on hand	76 728	95 584
FNB Investments accounts	6 109 298	13 999 864
Bank overdraft	(4 203 522)	(4 263 362)
	1 982 504	**9 832 086**

	2013	2012
Current assets	6 186 026	14 095 448
Current liabilities	(4 203 522)	(4 263 362)
	1 982 504	**9 832 086**

The municipality have the following facilities, Short term direct facility of R4, 300,000 and Short term direct facility from Wesbank of R200,000.It is hereby specifically agreed that security given by the Dr Ruth Segomotsi Mompati District Municipality as cover for or in relation to the obligation and /or indebtedness of the local Municipality in terms of this Facility Letter toward the bank, has been approved by municipal council resolution in accordance with the provision of section 48(3),(4) and (5) of MFMA Act.

8. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

UNSPENT CONDITIONAL GRANTS AND RECEIPTS COMPRISES OF:

UNSPENT CONDITIONAL GRANTS AND RECEIPTS

	2013	2012
Municipal Infrastructure Grant	2 985 098	7 323 674
Municipal Systems Improvement Grant	40 434	995 853
Financial Management Grant	827 016	1 296 487
Department of Local Government & Housing	1 000 000	500 002
District Municipality Grant	600 000	-
	5 452 548	**10 116 016**

9. PROVISIONS

RECONCILIATION OF PROVISIONS - 2013

	Opening Balance	Additions	Total
Leave Pay Provision	1 766 143	541 051	2 307 194
Post Employment Benefit	8 867 868	(217 224)	8 650 644
Long Service Award	1 365 191	229 900	1 595 091
	11 999 202	**553 727**	**12 552 929**

RECONCILIATION OF PROVISIONS - 2012

	Opening Balance	Additions	Total
Leave Pay Provision	1 564 153	201 990	1 766 143
Post Employment Benefit	7 411 786	1 456 082	8 867 868
Long Service Award	1 130 828	234 363	1 365 191
	10 106 767	**1 892 435**	**11 999 202**

PEMA
Key financial assumptions
Table 9.1 summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year. The next contribution rate increase is assumed to occur at 1 January 2014.

The low net discount rate indicates that expected medical inflation over the term of the liabilities is almost equal to the return earned on government bonds. This phenomenon generally can only occur in the short term. In the long term, medical inflation is expected to be less than the return earned on government bonds by a greater margin.

Key demographic assumptions
Table 9.2 summarises the key demographic assumptions used.

Sensitivity results
The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed rate of health care cost inflation;
(ii) A one-year age reduction in the assumed rates of post-retirement mortality;
(iii) A one-year decrease in the assumed average retirement age; and
(iv) A 50% reduction in the assumed withdrawal rates

Sensitivity analysis
Table 9.3 summarises the results of the sensitivity analysis on the Accrued Liability (R Millions)

Note: The post-retirement mortality adjustment assumes that someone aged 70 will experience the mortality of someone aged 69. The liability is expected to increase under this scenario because members are expected to live longer.
The table below indicates, for example, that if medical inflation is 1% greater than the long-term assumption made, the liability will be 11% higher than that shown.

9. PROVISIONS (continued)

LSA

Key financial assumptions

Table 9.4 summarises the key financial assumptions used for the liabilities at the Valuation Date and the expense figures for the ensuing year.

The salaries used in the valuation include an assumed increase on 1 July 2013 of 6.84% which was budgeted for by the Municipality. The next salary increase was assumed to take place in July 2014.

The negative net discount rate implies that expected salary inflation in the short term is greater than the return on short-term government yields. The liability weighted average term of the total liability is short due to the nature of the remaining payments.

Key Demographic Assumptions

Table 9.5 summarises the key demographic assumptions used.

Sensitivity results

The assumptions which tend to have the greatest impact on the results are:
(i) The discount rate relative to the salary inflation assumptions;
(ii) The average retirement age of employees; and
(iii) Assumed rates of withdrawal of employees from service.

The liability at the Valuation Date was recalculated to show the effect of:
(i) A 1% increase and decrease in the assumed general salary inflation rate;
(ii) A two-year decrease and increase in the assumed average retirement age of employees; and
(iii) A 50% decrease in the assumed withdrawal rates from service

Sensitivity analysis

Table 9.6 summarises the results of the sensitivity analysis on the Unfunded Accrued Liability (in R Millions).
Liability 1.877
The table below indicates, for example, that if salary inflation is 1% greater than the long-term assumption made, the liability will be 6% higher than the results shown in Section 6.

9. PROVISIONS (continued)

Table 9.1 Key financial assumptions - PEMA	**Value p.a (%)**
Discount rate	7.95
Health care cost inflation rate	7.68
Net effective discount rate	0.25

	Table 9.2 Key demographic assumptions - PEMA		
	Value p.a (%)		
Average retirement age	60		
Continuation of membership at retirement	60%		
Proportion of eligible current non-member employees joining the scheme by retirement	40%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
		-	-
Withdrawal from service (sample annual rates)	Age	Females	Males
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50%	2%	2%
	>55	0%	0%

Table 9.3 Sensitivity Analysis - PEMA	**Change**	**In-service**	**Continuation**	**Total**	**% change**
Central Assumptions		3.139	5.512	8.651	0
Health care inflation	1%	5.512	6.076	9.588	22
	-1%	2.794	5.021	7.815	-10%
Post-retirement mortality	-1yr	3.315	5.756	9.071	5%
Average retirement age	-1yr	3.468	5.512	8.980	4%
Withdrawal Rate	-50%	3.474	5.512	8.985	4%

Table 9.4 Key financial assumptions - LSA	**Value p.a. (%)**
Discount rate	6.78%
General Salary Inflation (long-term)	6.93%
Net effective discount rate	-0.14%

	Table 9.5 Key demographic assumptions - LSA		
	Value p.a (%)		
Average retirement age	60		
Mortality during employment	SA85-90		
Withdrawal from service (sample annual rates)	Age	Rate Female	Rate Male
	20	24%	16%

	2013	2012

9. PROVISIONS (continued)

	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

Table 9.6 Sensitivity Analysis - LSA	**Change**	**Liability**	**% change**
Central assumptions		1.595	
General salary inflation	+1%	1.693	6%
	-1%	1.693	-6%
Average retirement age	-2yrs	1.408	-12%
	+2yrs	1.735	9%
Withdrawal rates	-50%	1.877	18%

10. PAYABLES FROM EXCHANGE TRANSACTIONS

	2013	2012
Trade payables	15 199 173	13 459 796
Salaries control	354 062	-
Accrued bonus	629 518	506 803
Accrued expense	-	160
Leave accrual	212 889	-
Other payables	335 906	185 131
Debtors with credit balances	1 446 606	845 244
Salary deductions control	30 685	(29 102)
Pensioners control account	(75 282)	(1)
Debtor Suspense Account	13 529	435 293
Private telephone account	(206 225)	158 340
Cash Control Account	10 169 482	10 592 871
Community hall deposits	42 687	28 755
	28 153 030	**26 183 290**

11. CONSUMER DEPOSITS

	2013	2012
Consumer deposits	590 035	580 334
Erf deposits	121 372	47 125
	711 407	**627 459**

12. REVENUE

	2013	2012
Service charges	54 606 993	48 521 348
Licences and permits	2 361 096	2 605 597
Commissions received	71 565	96 996
Rent income	157 976	400 123
Other income	3 085 961	2 109 022
Government grants	69 265 590	37 258 075
Interest received - investment	12 886 439	9 574 832
	142 435 620	**100 565 993**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

12. REVENUE (continued)

THE AMOUNT INCLUDED IN REVENUE ARISING FROM EXCHANGES OF GOODS OR SERVICES ARE AS FOLLOWS:

	2013	2012
Service charges	54 606 993	48 521 348
Licences and permits	2 361 096	2 605 597
Commissions received	71 565	96 996
Rent income	157 976	400 123
Other income	3 085 961	2 109 022
Government grants	69 265 590	37 258 075
Interest received - investment	12 886 439	9 574 832
	142 435 620	**100 565 993**

13. SERVICE CHARGES

	2013	2012
Sale of electricity	21 240 614	18 530 983
Sale of water	12 139 783	10 888 817
Sewerage and sanitation charges	8 848 421	7 996 265
Refuse removal	5 251 105	4 904 051
Property rates residential	7 127 070	6 201 232
	54 606 993	**48 521 348**

	2013	2012

14. GOVERNMENT GRANTS AND SUBSIDIES

EQUITABLE SHARE

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

MUNICIPAL INFRASTRUCTURE GRANT

Balance unspent at beginning of year	7 323 674	1 635 670
Current-year receipts	16 739 000	13 800 000
Conditions met - transferred to revenue	(21 077 577)	(8 111 996)
	2 985 097	**7 323 674**

Conditions still to be met - remain liabilities (see note 8).

The grant was used to fund various infrastructure projects such as roads.

MUNICIPAL SYSTEMS IMPROVEMENT GRANT

Balance unspent at beginning of year	995 853	706 523
Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(1 755 420)	(500 670)
	40 433	**995 853**

Conditions still to be met - remain liabilities (see note 8).

This grant was used to establish systems within the municipality.

FINANCIAL MANAGEMENT GRANT

Balance unspent at beginning of year	1 296 487	943 896
Current-year receipts	1 500 000	1 250 000
Conditions met - transferred to revenue	(1 969 471)	(897 409)
	827 016	**1 296 487**

Conditions still to be met - remain liabilities (see note 8).

The grant was used to fund the financial management systems within the municipality.

DEPARTMENT OF SPORT ART AND CULTURE - LIBRARY FUNDS

Balance unspent at beginning of year	500 000	-
Current-year receipts	500 000	500 000
	1 000 000	**500 000**

Conditions still to be met - remain liabilities (see note 8).

The grant is to be used to improvements on the municipal library.

DISTRICT MUNICIPALITY GRANT

Current-year receipts	12 957 514	-
Conditions met - transferred to revenue	(12 357 514)	-

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

14. GOVERNMENT GRANTS AND SUBSIDIES (continued)

	600 000	**-**

Conditions still to be met - remain liabilities (see note 8).

This was used for subsidising the indigent customers and meeting the costs of repairs to the water infrastructure assets.

EXTENDED PUBLIC WORKS PROGRAMME

Current-year receipts	2 280 610	-
Conditions met - transferred to revenue	(2 280 610)	-
	-	-

15. OTHER INCOME

Sundry income	695	49
Sales: erven	15 000	89 171
Rent: housing	4 009	75 566
Garden refuse	-	1 411
Plan fees	21 058	22 168
Prepaid sales	2 644 297	1 586 783
Other income	400 902	333 874
	3 085 961	**2 109 022**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

16. GENERAL EXPENSES

Advertising	138 697	65 605
Auditors remuneration	4 013 796	1 221 239
Bank charges	186 997	271 435
Consulting and professional fees	852 948	618 151
Consumables	128 676	143 814
Donations	441 587	99 800
Fines and penalties	651 352	36 847
Flowers	-	18 021
Community hall refund	129	5 418
Insurance	1 385 021	1 511 250
Community development and training	25 750	341 871
Congresses and conferences	42 289	48 544
IT expenses	1 839	2 040
Magazines, books and periodicals	137 345	5 360
Fuel and oil	1 254 132	920 505
Postage and courier	27 283	139 716
Printing and stationery	657 339	375 410
Uniforms and protective clothing	121 997	38 420
Security (guarding of municipal property)	770 557	243 561
Software Expenses	774 848	162 590
Refreshments and meals	162 397	146 916
Subscriptions and membership fees	450 500	62 479
Telephone and fax	577 371	462 890
Training and courses	384 164	133 498
Travel and subsistence: officials	2 265 223	1 137 829
Electricity	1 752 178	444 255
Pauper burials	26 230	7 305
Sundry Expences	1 519 618	3 090 060
Vehicles: licenses	79 113	84
Workmans's compensation	15 816	232 153
Rental equipment	1 252 204	967 603
Other Expense	1 449 577	1 021 899
Venue expenses	84 441	-
Billing charges	142 242	104 750
Chemicals	1 120	-
	21 774 776	**14 081 318**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

17. EMPLOYEE RELATED COSTS

Basic	18 803 800	15 039 170
Bonus	1 405 546	1 625 298
Medical aid - company contributions	2 479 645	2 067 742
UIF	224 122	184 032
SDL	298 725	222 734
Leave pay provision charge	528 702	202 002
Bargaining Council contribution	13 126	7 483
Group Insurance	224 006	183 801
Other short term costs	12 676	2 000 470
Post-employment benefits - Pension - Defined contribution plan	3 541 749	3 014 017
Travel, motor car, accommodation, subsistence and other allowances	2 141 227	1 515 866
Overtime payments	3 439 416	2 953 536
Long-service awards	137 869	136 871
Acting allowances	495 546	391 185
Housing benefits and allowances	1 013 558	760 806
Other allowances	870 776	769 675
Leave pay movement	(1 778 035)	(1 797 105)
	33 852 454	**29 277 583**

REMUNERATION OF MUNICIPAL MANAGER - R GINCANE

Annual Remuneration	511 117	493 451
Allowances	608 326	437 191
Contributions to UIF, Medical and Pension Funds	11 466	-
	1 130 909	**930 642**

REMUNERATION OF CHIEF FINANCE OFFICER

Annual Remuneration	454 824	180 000
Allowances	446 580	120 000
Contributions to UIF, Medical and Pension Funds	24 224	-
	925 628	**300 000**

REMUNERATION OF CORPORATE AND COMMUNITY SERVICES DIRECTORS

Annual Remuneration	712 704	638 772
Allowances	591 815	386 478
Contributions to UIF, Medical and Pension Funds	132 485	57 244
	1 437 004	**1 082 494**

18. REMUNERATION OF COUNCILLORS

Mayor	175 307	-
Councillors	1 839 817	1 779 842
Councillors’ pension, medical aid and SDL contributions	380 607	350 354
Councillors' allowances	876 756	839 297
	3 272 487	**2 969 493**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

19. DEBT IMPAIRMENT

Debt impairment	89 638 650	7 059 003
Contributions to debt impairment provision	-	(4 706 002)
	89 638 650	**2 353 001**

Included in total debt impairment above is bad debts written off during the year amounting to R28,669,946. The remaining balance of R60,968,704 relates to the provision for impairment made during the year.

20. INVESTMENT REVENUE

INTEREST REVENUE		
Bank and investments	572 098	433 460
Interest charged on trade and other receivables	12 314 341	9 141 372
	12 886 439	**9 574 832**
	-	-
	12 886 439	9 574 832

21. DEPRECIATION AND AMORTISATION

Property, plant and equipment	647 406	755 091
Intangible assets	204 501	-
	851 907	**755 091**

22. FINANCE COSTS

DBSA loan	-	3 573
Bank	190 105	128 536
	190 105	**132 109**

23. AUDITORS' REMUNERATION

Fees	4 013 796	1 221 239

24. GRANTS AND SUBSIDIES PAID

OTHER SUBSIDIES		
Sports projects	-	1 200
EPWP Group	-	128 722
LED Projects	242 573	-
	242 573	**129 922**
Grants paid to ME's	-	-
Other subsidies	242 573	129 922

25. BULK PURCHASES

Electricity	23 307 688	19 394 574
Water	141 239	18 984
	23 448 927	**19 413 558**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

26. CASH GENERATED FROM OPERATIONS

	2013	2012
(Deficit) surplus	(37 199 222)	27 137 142
ADJUSTMENTS FOR:		
Depreciation and amortisation	851 907	755 091
Interest income	(12 886 439)	(9 559 298)
Finance costs	190 105	132 109
Debt impairment	89 638 650	2 353 001
Movements in provisions	553 727	1 892 435
CHANGES IN WORKING CAPITAL:		
Receivables from exchange transactions	(196 838)	674 497
Consumer debtors	(28 269 802)	-
Payables from exchange transactions	1 969 740	(5 762 373)
VAT	3 169 002	(5 456 123)
Unspent conditional grants and receipts	(4 663 468)	6 829 924
Consumer deposits	83 948	(257 746)
	13 241 310	**18 738 659**

27. COMMITMENTS

AUTHORISED CAPITAL EXPENDITURE

	2013	2012
ALREADY CONTRACTED FOR AND APPROVED		
• Infrastructure	14 187 301	21 114 424
• Other	13 232 951	-
	27 420 252	**21 114 424**

This committed expenditure relates to property and will be financed by retained surpluses, and existing cash resources, funds internally generated, etc.

OPERATING LEASES - AS LESSEE (EXPENSE)

	2013	2012
MINIMUM LEASE PAYMENTS DUE		
- within one year	372 237	25 174
- in second to fifth year inclusive	647 574	55 765
	1 019 811	**80 939**

Operating lease payments represent rentals payable by the municipality for certain of its photocopier and telephone management system. No contingent rent is payable.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

28. CONTINGENCIES

GL Projects and services

The claim relates to a construction project and the case is currently in progress at the Gauteng High Court. The Municipality's financial exposure, should the parties be successful in their sections, is estimated at R130,000.

CONTINGENT LIABILITIES

Wage curve agreement:
As a result of the uncertainties arising from the dispute declared by the unions and the pending litigation regarding the wage curve agreement, the municipality may have an additional payable for employee wages, depending on the outcome of the pending litigation. It is not practicable to reliably estimate the amount of this payable prior to the outcome of the pending litigation.joint venture.

CONTINGENT ASSETS

There are no contigent assets that were identified in the current year.

29. RELATED PARTIES

No related party transactions were identified in the current year.

30. COMPARATIVE FIGURES

The comparative figures presented are different from the prior year audited financial statements. The prior year audited financial statements did not agree to the municipal accounting records.

31. RISK MANAGEMENT

FINANCIAL 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.

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 evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. The utilisation of credit limits is regularly monitored.

32. UNAUTHORISED EXPENDITURE

Current year-irregular	74 976 774	3 298 138

This is due to actual expenditure exceeding the approved budget. This will be presented to the council in the 2013/14 financial year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

	2013	2012

33. FRUITLESS AND WASTEFUL EXPENDITURE

	2013	2012
Interest payments	651 352	-
Salary payments	292 378	-
	943 730	**-**

1) This arose due to interest payments arising from late payments to service providers.
2) Salary payments were a result of salaries paid in excess of the approved salary increases and leave pay outs in excess of available leave days.

34. IRREGULAR EXPENDITURE

	2013	2012
Opening balance	8 162 860	-
Add: Irregular Expenditure - current year	13 786 292	8 162 860
Less: Amounts condoned	-	-
Less: Amounts recoverable (not condoned)	-	-
Less: Amounts not recoverable (not condoned)	-	-
	21 949 152	**8 162 860**

	2013	2012

34. IRREGULAR EXPENDITURE (continued)

DETAILS OF IRREGULAR EXPENDITURE – CURRENT YEAR

Contract appointment: MAM2011-004A	The tender amount is above R10m and was not advertised for the prescribed period. This will be investigated, presented to council and written off in the 2013/14 financial year	5 276 403
Contract appointment: Purification of water	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	212 357
Contract appointment: Rental of machines	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	358 330
Contract appointment: Purchase of computer equipment	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	327 294
Contract appointment: Rehabilitation of roads	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	1 157 446
Contract appointment: Electrification	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	2 257 514
Contract appointment: Forensic investigation	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	830 631
Contract appointment: Aquisition of munsoft accounting system	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	2 042 611
		175 233
Contract appointment: Business engineering	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	290 700
Contract appointment: Renovation of offices	No three qoutations were obtained	72 549
Contract Appointment : Purchase of computer equipment	No three qoutations were obtained	181 400
Contract : Services of transformers	No three qoutations were obtained	198 583
Development of new organogram	No three qoutations were obtained	180 000
Delivery of water purification	The contract did not go through the tender process even though the payments were above R200,000. This will be investigated, presented to council and written off in the 2013/14 financial year	203 524
Contract management: Photocopy machine	No three qoutations were obtained	8 613
Contract management: Installation of telephone management system	No adequate qoutations sought	13 104
		13 786 292

	2013	2012

35. IN-KIND ASSISTANCE

The Provincial Treasury is giving financial assistance in the current year at not cost to the Municipality.

36. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

AUDIT FEES

Opening balance	1 759 422	1 021 122
Current year subscription / fee	3 659 424	1 959 539
Amount paid - current year	(4 118 755)	(1 221 239)
	1 300 091	**1 759 422**

VAT

VAT receivable	166 548	3 335 550

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

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

36. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (continued)

COUNCILLORS' ARREAR CONSUMER ACCOUNTS

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013		Amount outstanding	Total
RM LEE	-	1 015	1 015
OM STEPHEN	-	(71)	(71)
A MOTSWANA	-	166	166
SDJ STRYDOM	-	64	64
JT MODISAPUDI	-	(261)	(261)
KM SETSHAMEKO	-	170	170
LD MOTLAPELE	-	9 920	9 920
KM MERE	-	71	71
KM MERE	-	77	77
MY MOYAKE	-	3 533	3 533
PM MAINE	-	5 884	5 884
NG MASILO	-	17 681	17 681
TM SEPATO	-	226	226
BT THEKISO	-	605	605
CP HERBST	-	2 053	2 053
	-	**41 133**	**41 133**

30 June 2012		Amount outstanding	Total
RM LEE	-	677	677
OM STEPHEN	-	670	670
JT MODISAPUDI	-	907	907
LD MOTLAPELE	-	18 897	18 897
MY MOYAKE	-	9 279	9 279
PM MAINE	-	10 245	10 245
NG MASILO	-	21 976	21 976
TM SEPATO	-	77	77
BT THEKISO	-	4 112	4 112
CP HERBST	-	5 274	5 274
	-	**72 114**	**72 114**

37. ACTUAL OPERATING EXPENDITURE VERSUS BUDGETED OPERATING EXPENDITURE

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

Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2013

	Forecast # 1 2013 Act. Bal. Rand	Forecast # 1 2013 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	7 127 070	6 920 634	206 436	3,0	Movement not significant
Electrity	21 240 614	27 786 630	(6 546 016)	(23,6)	There are customers converted from converntional electricity to prepaid electricity during 2012/13 financial year.
Water	12 139 783	7 334 707	4 805 076	65,5	Additional water pumps were installed in the locations and billing started in 2012/13 financial year.
Sanitation	8 848 421	6 442 201	2 406 220	37,4	Additional water pumps were installed in the locations and billing started in 2012/13 financial year.
Refuse	5 259 996	5 088 950	171 046	3,4	Variance less than 10%, considered not significant
Rental of facilities and equipment	157 976	498 653	(340 677)	(68,3)	
Interest received-Investments	572 098	760 848	(188 750)	(24,8)	Fastracking implmentation of MIG resulted to the municipality not investing the grant amount received.
Interest received-Outstanding debtors	12 314 341	6 954 453	5 359 888	77,1	Interest earned increased based on billing of additional water pumps and sewerage in the locations, and slow paying of those customers. Implementation of debt collection.
Transfers recognised	33 075 143	61 946 799	(28 871 656)	(46,6)	Budget includes includes both Equitable Shares and MIG grants
Agency services	71 565	1 013 302	(941 737)	(92,9)	Library fees are not included in the actual incurrence.
Licences, fines and permits	2 361 096	2 694 682	(333 586)	(12,4)	Fines are included in licenses and permits
Other revenue	3 085 961	5 461 578	(2 375 617)	(43,5)	Budget considered the average of customers converting from convertional electricity to prepaid electricity. Prepaid electricity is recognised as other revenue.
	106 254 064	132 903 437	(26 649 373)	(20,1)	
Expenses					
Personnel	(33 770 564)	(36 870 323)	3 099 759	(8,4)	Movement is less than 10%
Remuneration of councillors	(3 272 487)	(3 808 437)	535 950	(14,1)	Consideration of tools of trade discussion at SALGA level during the budget period which was not implemented in the 2012/2013 financial year.
Depreciation	(647 406)	-	(647 406)	-	No depreciation was budgeted for
Finance costs	(190 105)	(651 558)	461 453	(70,8)	
Debt impairment	(89 638 650)	(22 789 000)	(66 849 650)	293,3	The municipality budgeted to write off what they afford to write off. The actual expenditure consist of movement to provision for bad debts.
Bulk purchases	(23 854 910)	(24 173 230)	318 320	(1,3)	Variance less than 10%, considered not significant
Other expenses	(22 210 460)	(15 928 007)	(6 282 453)	39,4	Audit fees for 4 afs, s&t training of finance staff and managers to meet the competency levels, fuel and oil price increases, indigent electricity consumers increased.
Other expenses	(6 355 051)	(5 400 359)	(954 692)	17,7	
Transfers and grants	(242 573)	-	(242 573)	-	Movement is less than 10%
	(180 182 206)	(109 620 914)	(70 561 292)	64,4	
Other revenue and costs					
Net surplus/ (deficit) for the year	(73 928 142)	23 282 523	(97 210 665)	(417,5)	