Planning by	Reviewed	Performed by	Final review

Client details

Client name:	Xhariep District Municipality
Year end:	Saturday, June 30, 2012

Print details

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Date printed	2012/11/28 12:52

Xhariep District Municipality
(Registration number : DC 16)
Annual Financial Statements
for the year ended June 30, 2012

General Information

Legal form of entity	District Municipality
Nature of business and principal activities	Administering and making rules of the district, which includes Kopanong Local Municipality, Letsemeng Local Muncipality and Mohokare Local Municipality and Naledi Local Municipality.
Mayoral committee	
Executive Mayor	Cllr M Ntwanambi
Councillors	Speaker: Cllr MJ Sehanka Members of Mayoral Committee: Cllr M Ntwanambi Cllr MG Modise Cllr V Mona Cllr I Mehlomakhulu Chief Whip: Cllr I Mehlomakhulu Councillors of the Council: Cllr P Dibe Cllr NS Jafta Cllr MM Khotlele Cllr MJ Mohapi Cllr MJ Mphore Cllr JJ Makitle Cllr SA Sola Cllr NC Spochter Cllr H Shebe Cllr AJ Van Rensburg
Grading of local authority	Low Capacity
Accounting Officer	TL Mkhwane
Chief Finance Officer (CFO)	EN Mokhesuoe
Registered office	20 Louw Street Trompsburg 9913
Business address	20 Louw Street Trompsburg 9913
Postal address	P.O. Box 136 Trompsburg 9913
Bankers	ABSA Bank Limited

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2013 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. Refer to note number 43 to the Annual Financial Statements.

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 48, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2012 and were signed on its behalf by:

Accounting Officer
Mr TL Mkhwane

Xhariep District Municipality

(Registration number : DC 16)
Annual Financial Statements for the year ended June 30, 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventory	3	36,020	-
Investments	4	5,000,000	5,031,973
Receivables from exchange transactions	5	17,392,548	8,449,143
VAT receivable	6	2,465,385	1,885,489
Cash and cash equivalents	7	11,062,090	1,358,177
		35,956,043	**16,724,782**
Non-Current Assets			
Property, plant and equipment	8	22,038,412	16,777,105
Intangible assets	9	455,024	344,908
		22,493,436	**17,122,013**
Total Assets		**58,449,479**	**33,846,795**
Liabilities			
Current Liabilities			
Finance lease obligation	10	362,288	397,947
Payables from exchange transactions	11	5,062,748	5,223,240
Unspent conditional grants and receipts	12	1,674,849	355,449
Long service bonus	13	84,000	107,000
		7,183,885	**6,083,636**
Non-Current Liabilities			
Finance lease obligation	10	-	362,289
Long service bonus	13	916,000	495,889
		916,000	**858,178**
Total Liabilities		**8,099,885**	**6,941,814**
Net Assets		**50,349,594**	**26,904,981**
Net Assets			
Accumulated surplus		50,349,594	26,904,981

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Rental income	14	366,954	290,957
Other income	15	1,504,275	16,410
Gain on disposals of assets	16	21,682	-
Government grants and subsidies	17	89,024,626	44,886,347
Interest earned	18	731,392	382,910
Total Revenue		**91,648,929**	**45,576,624**
Expenditure			
Employee related costs	19	(24,737,030)	(20,001,631)
Remuneration of councillors	20	(2,895,433)	(2,566,048)
Depreciation and amortisation	21	(2,306,724)	(1,394,183)
Impairment loss/ Reversal of impairments	22	(18,137)	-
Finance costs	23	(307,741)	(497,112)
Debt impairment	24	(9,388)	659,604
Repairs and maintenance	25	(2,124,674)	(1,418,656)
Loss on disposal of assets		-	(45,220)
General Expenses	26	(35,805,190)	(13,924,099)
Total Expenditure		**(68,204,317)**	**(39,187,345)**
Surplus for the year		**23,444,612**	**6,389,279**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	23,227,506	23,227,506
Adjustments		
Change in accounting policy	(2,334,728)	(2,334,728)
Prior year adjustments	(377,076)	(377,076)
Balance at July 01, 2010 as restated	**20,515,702**	**20,515,702**
Changes in net assets		
Surplus for the year	6,389,279	6,389,279
Total changes	6,389,279	6,389,279
Balance at July 01, 2011	**26,904,982**	**26,904,982**
Changes in net assets		
Surplus for the year	23,444,612	23,444,612
Total changes	23,444,612	23,444,612
Balance at June 30, 2012	**50,349,594**	**50,349,594**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		79,897,029	41,090,227
Payments			
Suppliers		(64,042,327)	(35,507,730)
Net cash flows from operating activities	27	**15,854,702**	**5,582,497**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(6,008,753)	(5,611,378)
Proceeds from sale of property, plant and equipment	8	40,288	774,286
Purchase of other intangible assets	9	(240,000)	-
Purchase of financial assets		(5,000,000)	(5,031,973)
Proceeds from sale of financial assets		5,031,973	4,130,717
Net cash flows from investing activities		**(6,176,492)**	**(5,738,348)**
Cash flows from financing activities			
Finance lease payments		(397,948)	(254,470)
Interest income		731,392	382,910
Finance costs		(307,741)	(497,112)
Net cash flows from financing activities		**25,703**	**(368,672)**
Net increase/(decrease) in cash and cash equivalents		**9,703,913**	**(524,523)**
Cash and cash equivalents at the beginning of the year		1,358,177	1,882,700
Cash and cash equivalents at the end of the year	7	**11,062,090**	**1,358,177**

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 in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

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, Loans and Receivables

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

The impairment for trade receivables and loans and receivables is calculated on a portfolio basis, 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.

Useful lives and residual values

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

Long Service Bonus

The present value of the long service bonus 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 long service bonus 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 long service bonus obligation. 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.

Effective interest rate and deferred payment terms

The entity used the prime interest rate adjusted for rates used by main suppliers or creditors to discount future cash flows.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current 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.

1.2 Property, plant and equipment (continued)

Property, plant and equipment is initially measured at cost on acquisition date.

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

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value at acquisition date. 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.

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.

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

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

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Subsequent measurement - Cost model
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

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

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

Land is not depreciated and depreciation commence when the asset is ready for intended use.

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

Item	Estimated useful life
Buildings	30
Security System	5
Plant and machinery	5
Furniture and fittings	7 - 10
Motor vehicles	5 - 7
Office equipment	3 - 7
Computer equipment	3 - 7

Accounting Policies

1.2 Property, plant and equipment (continued)

Finance lease assets

• Office equipment	The shorter of asset's useful life or the lease term
• Other assets	The shorter of asset's useful life or the lease term

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

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

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

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

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

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

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

1.3 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

Subsequent to initial recognition, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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.

Accounting Policies

1.3 Intangible assets (continued)

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

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

Item	**Useful life**
Computer software	3 - 5 years
Right to use land	The shorter of right to use land or useful life

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

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

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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

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

Held-to-maturity investments
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.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

1.4 Financial instruments (continued)

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

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

Fair value determination

Fair value information for trade and other receivables is determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The fair values of quoted investments, such as available for sale investments are based on current bid prices.

If the market for a financial asset is not active and for unlisted securities, the entity establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

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 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

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.

Accounting Policies

1.4 Financial instruments (continued)

Cash and cash equivalents

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

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

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.

Financial liabilities

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

Financial liabilities consist of trade paybles and borrowings. They are cateforised as financial liabilities held at amortised cost, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Gains and losses

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

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

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.

1.4 Financial instruments (continued)

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.

1.5 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

Operating lease revenue is recognised as revenue 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 either a pre-paid expense asset or liability depending on whether the payment exceeds the expense or vice versa.

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 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 either a pre-paid expense asset or liability depending on whether the payment exceeds the expense or vice versa.

1.6 Inventory

Inventory are initially measured at cost except where inventory are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

Accounting Policies

1.6 Inventory (continued)

Inventory 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 inventory comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventory to their present location and condition.

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

When inventory are sold, the carrying amounts of those inventory 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 inventory to net realisable value or current replacement cost and all losses of inventory are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventory, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

1.7 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.

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 and the obligation can be estimated reliably.

Liabilities for short-term employee benefits that are unpaid at year-end are measured at the undiscounted amount that the municipality expects to pay in exchange for that service and had accumulated at the reporting date.

Defined contribution plans

The municipality contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees, unless another standard requires or permits the inclusion of the contribution in the cost of an asset. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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.

Accounting Policies

1.8 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.

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.

Onerous contracts

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

1.9 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 entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Accounting Policies

1.9 Revenue from exchange transactions (continued)

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest

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

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

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

1.10 Revenue from non-exchange transactions

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

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

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

Measurement

1.10 Revenue from non-exchange transactions (continued)

Revenue is measured at the fair value of the consideration received or receivable.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

Conditions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

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

Other Grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

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

1.11 Investment income

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

1.12 Comparative figures

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

The comparative figures have been restated.

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.14 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.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.15 Irregular expenditure

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

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.

Detailed disclosures were made in the notes to the financial statements as required by the MFMA.

1.16 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.

1.17 Presentation of currency

These annual financial statements are presented in South African Rand.

All figures presented in the annual financial statements have been rounded to the nearest Rand.

1.18 Offsetting

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

1.19 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

1.20 Going concern

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

The municipality cannot continue to operate without receiving government grants. However the going concern assumption is based on the fact that according to DoRA the municipality will continue to receive government grants for the next three years.

1.21 Budget information

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

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

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

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Comparative information is not required.

1.22 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 local sphere of government are considered to be related parties.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arms length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Accounting Officer and Council members as key management per the definition of the financial reporting standard.

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.

1.23 Impairment of assets

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

Irrespective of whether there is any indication of impairment, the municipality also:
tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

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

Accounting Policies

1.23 Impairment of assets (continued)

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

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

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

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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

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

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

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities	April 01, 2011	Expected impact is not considered to be material
• IGRAP 3: Determining Whether an Arrangement Contains a Lease	April 01, 2011	Expected impact is not considered to be material
• IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	April 01, 2011	Expected impact is not considered to be material
• IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	April 01, 2011	Expected impact is not considered to be material
• IGRAP 6: Loyalty Programmes	April 01, 2011	Expected impact is not considered to be material
• IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions	April 01, 2011	Expected impact is not considered to be material
• IGRAP 9: Distributions of Non-cash Assets to Owners	April 01, 2011	Expected impact is not considered to be material
• IGRAP 10: Assets Received from Customers	April 01, 2011	Expected impact is not considered to be material
• IGRAP 13: Operating Leases – Incentives	April 01, 2011	Expected impact is not considered to be material
• IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease	April 01, 2011	Expected impact is not considered to be material
• IGRAP 15: Revenue – Barter Transactions Involving Advertising Services	April 01, 2011	Expected impact is not considered to be material
• GRAP 1 (as revised 2010): Presentation of Financial Statements	April 01, 2011	Expected impact is not considered to be material
• GRAP 2 (as revised 2010): Cash Flow Statements	April 01, 2011	Expected impact is not considered to be material
• GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors	April 01, 2011	Expected impact is not considered to be material
• GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates	April 01, 2011	Expected impact is not considered to be material
• GRAP 9 (as revised 2010): Revenue from Exchange Transactions	April 01, 2011	Expected impact is not considered to be material
• GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies	April 01, 2011	Expected impact is not considered to be material
• GRAP 11 (as revised 2010): Construction Contracts	April 01, 2011	Expected impact is not considered to be material
• GRAP 12 (as revised 2010): Inventories	April 01, 2011	Expected impact is not considered to be material
• GRAP 13 (as revised 2010): Leases	April 01, 2011	Expected impact is not considered to be material
• GRAP 14 (as revised 2010): Events After the Reporting Date	April 01, 2011	Expected impact is not considered to be material
• GRAP 16 (as revised 2010): Investment Property	April 01, 2011	Expected impact is not considered to be material
• GRAP 17 (as revised 2010): Property, Plant and Equipment	April 01, 2011	Expected impact is not considered to be material
• GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets	April 01, 2011	Expected impact is not considered to be material

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations	April 01, 2011	Expected impact is not considered to be material
• GRAP 105: Transfers of functions between entities under common control	April 01, 2011	Expected impact is not considered to be material

2.2 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 July 01, 2012 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 18: Segment Reporting	April 01, 2013	Expected impact is not considered to be material
• GRAP 23: Revenue from Non-exchange Transactions	April 01, 2012	Expected impact is not considered to be material
• GRAP 24: Presentation of Budget Information in the Financial Statements	April 01, 2012	Expected impact is not considered to be material
• GRAP 103: Heritage Assets	April 01, 2012	Expected impact is not considered to be material
• GRAP 21: Impairment of non-cash-generating assets	April 01, 2012	Expected impact is not considered to be material
• GRAP 26: Impairment of cash-generating assets	April 01, 2012	Expected impact is not considered to be material
• GRAP 25: Employee benefits	April 01, 2013	Expected impact is not considered to be material
• GRAP 104: Financial Instruments	April 01, 2012	Expected impact is not considered to be material
• IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	April 01, 2013	Expected impact is not considered to be material
• GRAP 106: Transfers of functions between entities not under common control	April 01, 2014	Expected impact is not considered to be material
• GRAP 107: Mergers	April 01, 2014	Expected impact is not considered to be material
• GRAP 20: Related parties	April 01, 2013	Expected impact is not considered to be material

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Inventory

Inventory - Stationery	30,584	-
Inventory - Cleaning material	5,436	-
	36,020	**-**

Inventories recognised as an expense during the year	84,082	-

Inventory pledged as security

No inventory was pledged as security for any financial laibility.

4. Investments

Held to maturity financial assets		
Held-to-maturity investments maturing 4 to 12 months Held to maturity investments comprises a fixed deposit held at Nedbank with account number 7662022528 with an interest rate of 5.91%.	5,000,000	-
Held-to-maturity investments maturing 4 to 12 months Held to maturity investments comprises a fixed deposit held at FNB with account number 71246266863 with an interest rate of 5.68% for 2011.	-	5,031,973
	5,000,000	**5,031,973**

Total Investments		
Held to maturity	5,000,000	5,031,973

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

5. Receivables from exchange transactions

Trade debtors	850,855	3,092,434
Accrued Income	16,220,028	5,176,333
Prepaid Expense	38,237	23,708
Credit cards	1,710	-
Car loans receivable	87,160	80,313
Other debtors	194,558	76,355
	17,392,548	**8,449,143**

Fair value of trade and other receivables

Building and Facilities Rentals: Ageing		
Current (0 – 30 days)	40,053	418,222
31 - 60 Days	81,132	66,489
61 - 90 Days	40,558	53,183
91 - 120 Days	92,032	29,922
121 - 150 Days	120,484	29,922
151 - 180 Days	92,953	26,605
+ 180 Days	32,959	1,603,665
	500,171	**2,228,008**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Receivables from exchange transactions (continued)

Summary of Debtors by Customer Classification - National Provincial and Local Goverment

Current (0 – 30 day	32,505	409,270
31 - 60 Days	81,055	46,524
61 - 90 Days	40,558	46,523
91 - 120 Days	92,032	23,262
121 - 150 Days	120,483	23,262
151 - 180 Days	92,953	23,260
+ 180 Days	32,959	1,603,665
Less: Provision for doubtful debts	(3,040)	(3,040)
	489,505	**2,172,726**

Summary of Debtors by Customer Classification - Industrial/Commercial

Current (0 – 30 days)	7,548	8,952
31 - 60 Days	76	19,965
61 - 90 Days	-	6,660
91 - 120 Days	-	6,660
121 - 150 Days	-	6,660
151 - 180 Days	-	3,345
	7,624	**52,242**

Trade and other receivables past due but not impaired

Trade and other receivables from exchange transactions which were past due where not impaired at year end due to the following.

Kopanong Local Municipality is indebted to Xhariep District Municipality to an amount equal to impaired debt less the subsequent receipts received	491,572	1,298,016

Reconciliation of provision for impairment of trade and other receivables

Balance at the beginning of the year (as previously stated)	83,353	920,467
Contribution to / (from) provision	6,848	(669,766)
Bad debts written off against provision	-	(167,348)
	90,201	**83,353**

Debtors were disclosed at nominal value net of provision for doubtful debts.

6. VAT receivable

VAT receivable	2,465,385	1,885,489

The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only declared once cash is received or actual payments are made.

Figures in Rand	2012	2011

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	30	83
Bank balances	5,928,818	1,346,663
Short-term deposits	5,133,242	11,431
	11,062,090	**1,358,177**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral	-	-

The municipality had the following bank accounts

Current Account (Primary Bank Account)	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011		June 30, 2012	June 30, 2011	
ABSA BANK - Brandwag Branch - Account Number - 4053628182	5,929,718	1,347,005	-	5,928,818	1,346,663	-
FNB - Call Deposit - Account number 62044232958	-	11,431	-	-	11,431	-
Standard Bank - Notice deposit - Account number - 24853260-003	5,123,264	-	-	5,123,264	-	-
Standard Bank - Notice deposit - Account number - 24853260-002	9,978	-	-	9,978	-	-
Total	**11,062,960**	**1,358,436**	**-**	**11,062,060**	**1,358,094**	**-**

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	16,659,552	(3,079,107)	13,580,445	15,184,522	(2,605,932)	12,578,590
Plant and machinery	2,096,675	(101,969)	1,994,706	-	-	-
Furniture and fittings	1,870,055	(552,323)	1,317,732	1,261,215	(338,001)	923,214
Motor vehicles	1,306,556	(466,805)	839,751	1,306,556	(225,490)	1,081,066
Office equipment	582,404	(215,956)	366,448	535,781	(73,698)	462,083
Computer equipment	1,842,379	(976,469)	865,910	1,628,277	(603,131)	1,025,146
Finance lease assets	1,281,358	(928,338)	353,020	1,281,358	(574,352)	707,006
Security System	2,879,313	(158,913)	2,720,400	-	-	-
Total	**28,518,292**	**(6,479,880)**	**22,038,412**	**21,197,709**	**(4,420,604)**	**16,777,105**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings	12,578,590	1,475,030	-	(473,175)	-	13,580,445
Plant and machinery	-	2,096,675	-	(101,969)	-	1,994,706
Furniture and fittings	923,214	614,351	-	(217,502)	(2,331)	1,317,732
Motor vehicles	1,081,066	-	-	(241,315)	-	839,751
Office equipment	462,083	52,325	-	(146,174)	(1,786)	366,448
Computer equipment	1,025,146	357,195	(18,606)	(483,804)	(14,021)	865,910
Finance lease assets	707,006	-	-	(353,986)	-	353,020
Security System	-	2,879,313	-	(158,913)	-	2,720,400
	16,777,105	**7,474,889**	**(18,606)**	**(2,176,838)**	**(18,138)**	**22,038,412**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	11,011,239	1,948,526	-	(381,175)	12,578,590
Furniture and fittings	783,261	256,741	-	(116,788)	923,214
Motor vehicles	353,848	1,670,528	(819,506)	(123,804)	1,081,066
Office equipment	78,025	431,152	-	(47,094)	462,083
Computer equipment	740,141	571,140	-	(286,135)	1,025,146
Finance lease asset	1,060,026	-	-	(353,020)	707,006
Capital Work in Progress	1,221,227	733,291	(1,954,518)	-	-
	15,247,767	**5,611,378**	**(2,774,024)**	**(1,308,016)**	**16,777,105**

Restrictions on title

The land on which the Administrative Building of Xhariep District Municipality is built is owned by Kopanong Local Municipality. As per the contract to use the land, certain events should take place before the land can be sold to Xhariep District Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	780,177	(325,153)	455,024	540,177	(195,269)	344,908

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software	344,908	240,000	(129,884)	455,024

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software	431,075	(86,167)	344,908

10. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	432,927	664,339
- in second to fifth year inclusive	-	432,356
	432,927	1,096,695
less: future finance charges	(70,639)	(336,459)
Present value of minimum lease payments	**362,288**	**760,236**

	2012	2011
Present value of minimum lease payments due		
- within one year	362,288	397,947
- in second to fifth year inclusive	-	362,289
	362,288	**760,236**

	2012	2011
Non-current liabilities	-	362,289
Current liabilities	362,288	397,947
	362,288	**760,236**

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 22%

Interest rates are fixed at the contract date. Some leases have fixed repayments and other escalate at 10%/15% per annum. No arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Payables from exchange transactions

Credit cards	-	8,692
Other creditors	103,037	372,318
Staff bonuses accrual	664,988	546,767
Staff leave accrual	1,659,720	1,711,764
Trade creditors	2,635,003	2,583,699
	5,062,748	**5,223,240**

The fair value of trade and other payables approximates their carrying amounts.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Systems Implementation Grant	116,476	69,319
THETHA Grant	36,080	36,080
Provincial Infrastructure Grant	204,193	250,050
EPWP Incentive Grant	151,644	-
Finance Management Grant	45,772	-
Motheo District Municipality Disestablishment Grant	1,120,684	-
	1,674,849	**355,449**

See note 17 for reconciliation of grants from other spheres of government. No grants were withheld due to unfulfilled conditions.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Long service bonus

Non-current liabilities	916,000	495,889
Current liabilities	84,000	107,000
	1,000,000	**602,889**

The long service awards liability arises from XDM being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC . This agreement is effective 1 July 2010.

The long service awards plan is a defined benefit plan. At year end 73 (2011 - 69) employees were eligible for long service bonuses.

The current service cost for the ensuing year is estimated to be R 503,000 (2011 - R 91,589) whereas the interest-cost for the next year is estimated to be R79,000 (2011 - R 82,826).

The key assumptions utilised by management in determining the Long service awards liability are listed below:

Discount Rate	8%	9%
Salary Increase	7%	7%
Net Discount rate	1%	2%
Mortality	SA85-90	SA85-90
Normal Retirement age	63	63

Present value of unfunded obligations:

Present value of unfunded obligations at the beginning of the year	-	-
Fair value of plan assets	-	-
Unrecognised past service costs	-	-
Unrecognised actuarial gains / (losses)	-	-
Present value of unfunded obligations	1,000,000	602,890
Net liability / (asset)		
	1,000,000	**602,890**

Reconciliation of present value of fund obligations

Present value of fund obligations at the beginning of the year	602,890	-
Total expenses	-	-
Current service costs	405,000	602,890
Long service awards paid	(31,108)	-
Interest costs	47,000	-
Actuarial gains / (losses)	(23,782)	-
	1,000,000	**602,890**

The effect of a 1% increase in the salary cost inflation assumption will lead to a 9.8% increase in the accrued liability at 30 June 2012.

The effect of a 1% decrease in the salary cost inflation assumption will lead to a 8.5% decrease in the accrued liability at 30 June 2012.

14. Revenue

Rental of facilities	366,954	290,957

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

Rental of facilities	366,954	290,957

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Other income

Donations	1,466,136	50
Parking income	15,741	-
Tender income	22,398	16,360
	1,504,275	**16,410**

16. Gain on disposal of assets

Gain on disposal of assets	21,682	-

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Government grants and subsidies

Equitable share	21,143,250	15,186,457
COGTA and Treasury Financial Assistance Grant	30,000,000	27,032,779
Financial Management Grant	1,204,228	1,000,000
Municipal Systems Implementation Grant	742,843	709,360
Provincial Infrastructure Grant	45,852	957,751
EPWP Grant	205,356	-
Motheo District Municipality Disestablishment Grant	35,683,093	-
	89,024,622	**44,886,347**

Municipal Systems Implementation Grant

Balance unspent at beginning of year	69,319	28,679
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(742,843)	(709,360)
	116,476	**69,319**

The purpose of the grant is to assist municipalitities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the local Government Municipal Systems Act of 2000.

THETHA Grant

Balance unspent at beginning of year	36,080	36,080

Grant will be used for capacity building of the municipality

Provincial Infrastructure Grant (PIG)

Balance unspent at beginning of year	250,050	1,207,801
Conditions met - transferred to revenue	(45,857)	(957,751)
	204,193	**250,050**

The grant is used to subsidise municipal capital budget to eradicate backlogs in municipal infrastructure. The grant was specifically allocated for the completion of the sewerage treatment network which will later be transfered to Kopanong Local Municipalit at no cost.

EPWP

Current-year receipts	357,000	-
Conditions met - transferred to revenue	(205,356)	-
	151,644	**-**

The purpose of the grant is to expand job creation programs.

Financial Management Grant (FMG)

Current-year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,204,228)	(1,000,000)
	45,772	**-**

The purpose of the grant is to promote and support reforms to financial management and implementation of the Municipal Finance Management Act (MFMA)

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Government grants and subsidies (continued)

Motheo District Municipality Disestablishment Grant

Current-year receipts	36,803,777	-
Conditions met - transferred to revenue	(35,683,093)	-
	1,120,684	**-**

The purpose of the grant is to provide general assistance to local municipalities within the district as well as completing specific infrastructure projects on behalf of Naledi Local Municipality.

The financial assistance grant has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

Equitable Share

Current-year receipts	21,143,250	15,186,457
Conditions met - transferred to revenue	(21,143,250)	(15,186,457)
	-	**-**

Equitable share has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

COGTA and Treasury Financial Assistance Grant

Current-year receipts	30,000,000	27,032,779
Conditions met - transferred to revenue	(30,000,000)	(27,032,779)
	-	**-**

The financial assistance grant has no conditions and can be used to finance the capital and operating activities of the Municipality in line with the Municipality Budget.

Changes in level of government grants

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

18. Interest earned

Interest earned		
Current bank account	7,079	11,961
Outstanding receivables	97,462	201,486
Money market and call accounts	623,655	166,392
Electricity deposit	3,196	3,071
	731,392	**382,910**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Employee related costs

Bonuses under remuneration	1,175,246	930,757
Employee related costs - Salaries and Wages	17,206,011	14,075,453
Employee related costs - contributions for UIF, pensions and medical aids	3,710,754	2,798,355
Housing benefits and allowances	147,205	126,535
Travel, motor car, accommodation, subsistence and other allowances	2,497,814	2,070,531
	24,737,030	**20,001,631**

Remuneration of the Chief Financial Officer		
Annual Remuneration	422,612	502,305
Bonuses under remuneration	9,625	41,834
Travel, motor car, accomodation, subsistence and other allowances	47,391	366,787
Contributions to UIF, Medical and Pension Funds	80,485	9,524
	560,113	**920,450**

Remuneration of the Municipal Manager		
Annual Remuneration	635,348	525,964
Travel, motor car, accomodation, subsistence and other allowances	463,934	311,241
Bonuses under remuneration	76,512	44,011
Contributions to UIF, Medical and Pension Funds	164,071	141,406
	1,339,865	**1,022,622**

Remuneration of the Executive Director: Corporate Services		
Annual Remuneration	618,611	547,566
Bonuses under remuneration	51,879	45,678
Travel, motor car, accomodation, subsistence and other allowances	247,180	162,581
Contributions to UIF, Medical and Pension Funds	28,525	24,965
	946,195	**780,790**

Remuneration of the Executive Director: Planning & Development		
Annual Remuneration	407,435	-
Bonuses under remuneration	13,478	-
Travel, motor car, accomodation, subsistence and other allowances	135,054	-
Contributions to UIF, Medical and Pension Funds	65,194	-
	621,161	**-**

20. Remuneration of councillors

Executive Mayor	597,999	568,383
Mayoral Committee Members	1,003,293	917,747
Speaker	298,581	453,197
Councillors	995,560	626,721
	2,895,433	**2,566,048**

In-kind benefits

The Mayor and Speaker are full-time councillors. Each is provided with an office and secretarial support at the cost of the Council.

The salaries and allowances of the councillors are within the limits as prescribed by the Remuneration of Public Office Bearers Act, 1998 (No. 20 of 1998).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Depreciation and amortisation

Property, plant and equipment	1,822,852	954,995
Finance leased assets	353,987	353,020
Intangible assets	129,885	86,168
	2,306,724	**1,394,183**

22. Impairment of assets

Impairments		
Property, plant and equipment	18,137	-

23. Finance costs - suppliers

Late payment of creditors	41,349	144,491
Finance lease liabilities	266,392	352,621
	307,741	**497,112**

24. Debt impairment

Contribution to debt impairment	6,848	6,309
Bad debt write off	2,540	(665,913)
	9,388	**(659,604)**

25. Repairs and maintenance

Furniture and equipment	321,659	234,083
Website	209,000	-
Computer equipment	36,285	426,429
Building	1,430,532	653,805
Motor vehicles	132,634	104,339
	2,130,110	**1,418,656**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. General expenses

Advertising	566,290	394,115
Auditors remuneration	1,215,847	1,581,379
Bank charges	48,822	38,177
Bursaries	121,488	105,388
Conferences and delegations	90,042	43,747
Consulting fees	3,502,707	1,624,812
Disaster mangement	391,337	-
Donations - Upgrade Sewer Network	45,857	2,178,978
Donations - Upgrade Cemetry	296,426	579,968
Entertainment	405,573	398,756
Financial Assistance - Naledi Outfall Sewer	3,459,023	-
Financial Assistance Bulk Water Purchases	7,023,780	-
Financial Assistance Naledi - IT Support	3,093,504	-
Financial Assistance Naledi - Upgrading of streets	2,346,960	-
Financial asssistance - Audit Fees	2,466,185	-
Fuel and oil	380,187	275,902
Insurance	226,986	141,800
Legal expenses	75,766	231,767
Licence fees - computers	331,696	58,669
Licence fees - vehicles	930	1,757
Membership fees	215,898	166,769
Other Expenses	799,876	1,421,951
Postage	2,213	8,227
Printing and stationery	483,527	199,698
Security costs	11,285	4,277
Staff welfare	5,200	-
Subscriptions	33,243	17,538
Telephone costs	977,963	760,939
Training	1,794,359	888,385
Travel - local	4,918,139	2,533,717
Wages - EPWP	205,356	-
Water and electricity	268,725	67,383
Website launch costs	-	200,000
	35,805,190	**13,924,099**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Cash generated from operations

Surplus	23,444,612	6,389,279
Adjustments for:		
Depreciation and amortisation	2,306,724	1,394,183
Loss on sale of assets	-	45,220
Interest income	(731,392)	(382,910)
Finance costs	307,741	497,112
Impairment deficit	18,137	-
Debt impairment	9,388	(659,604)
Movements in lomg service awards provisions	397,118	602,890
Donations received - Building	(1,466,136)	-
Donation on disposal of asset	-	1,954,517
Gain on disposal of asset	(21,682)	-
Changes in working capital:		
Inventory	(36,020)	-
Receivables from exchange transactions	(8,943,412)	(3,275,436)
Consumer debtors	(9,388)	-
Payables from exchange transactions	(160,492)	762,408
VAT	(579,896)	(828,051)
Unspent conditional grants and receipts	1,319,400	(917,111)
	15,854,702	**5,582,497**

28. Auditors' remuneration

Fees	1,215,847	1,581,379

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Commitments

Capital and current commitments

Approved and contracted for		
• Other assets	1,435,766	-
• Current expenditure	4,633,033	-
	6,068,799	**-**
Approved but not yet contracted for		
• Other assets	-	-
The capital expenditure will be financed from:		
Own resources	6,068,799	-

Operating leases - as lessor

Minimum lease payments due		
- Payable within one year	71,011	74,194
- Payable within 1 - 5 years	-	71,011
- Payable later than 5 years	-	-
	71,011	**145,205**

Operating lease receipts represent rentals received by the municipality for the use of its administrative and other office space.

Lease terms are as follows:
Lease 1 - Initial period of 12 months, renewable annually on the 1st July with a 10% escalation.
Lease 2 - Initial period of 30 months, escalation on the 1st December. Expiry date 15 May 2013.

A portion of the Municipality's buildings are held to generate rental income. At year end the rental contracts for the 2012 / 2013 (2011/2012) financial year had not yet been concluded.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Contingencies

Contingent liabilities

Contingent liabilities 2012

Matter description:

A service provider appointed to perform a VAT review for the period 1 July 2009 to 30 June 2011 has instituted a claim against the Municipality for breach of cotract and non-payment of professional fees.

Financial Implication:

The probable loss is R70,000

Contingent liabilities 2011

The Municipality had no contigent liabilities at the reporting date.

Contingent assets

2012

The Municipality had no contingent assets at the reporting date.

2011

Disestablishment of Motheo District Municipality:

Motheo District Municipality was disestablished through the issuing of Provincial Gazette number 13 of 2011 dated 16 May 2011 by the Member of the Executive Council responsible for Cooperative Governance, Traditional Affairs and Human Settlements. The Gazette further stipulates the following:

"After completion of all capital projects at the municipality, or the transfers of any incomplete capital project and the funding pertaining to such a project to the relevant municipality at the end of the current financial year, the remainder of all investments, cash and cash balances of the Motheo district municipality after the payment of all liabilities and debts are divided as follows:

(a) 50% transferred to Xhariep district municipality;
(b) 30% transferred to Thabo Mofutsanyane district municipality, and
(c) 20% transferred to Mangaung metropolitan municipality."

Based on initial information obtained from the Motheo District Municipality (MDM), the Xhariep District Municipality should receive approximately R27,000,000 based on the annual financial statements of MDM at 30 June 2011.

31. Related parties

Relationships	
Post employment benefit plan for employees of municipality and/or other related parties.	Refer to note 13 for the details.
Compensation to Councillors and other key management	Refer to note 19 and 20 for the details.

Related party transactions

	2012	2011
Purchases from related parties		
Mamello Trading	50,000	-

A Councillor is member in Mamello Trading CC. All the transactions with Mamello Trading CC were at arm's length (no discounts or premiums) except for normal trade discounts were applicable.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. 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.

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

Interest rate risk

The municipality's interest rate risk arises from finance lease liabilities, credit cards & investments. These are issued at variable rates and expose the Municipality to cash flow interest rate risk. Financial instruments that are issued at fixed rates expose the municipality to fair value interest rate risk.

Credit risk

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

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

Financial instrument	2012	2011
ABSA Bank: Current Account	5,928,818	1,346,663
First National Bank: Call Deposits	-	11,431
First National Bank: Fixed Deposits	-	5,031,973
ABSA Bank: Credit Cards	1,710	(8,691)
Trade and other receivables	1,488,977	2,224,968
Nedbank	5,000,000	-
Standard Bank	5,123,264	-
Standard Bank	9,978	-
Finance leases	362,288	760,236

Price risk

The municipality has no exposure to changes in price risk

33. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Prior period errors

The following errors were corrected in terms of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors

Understatement of trade and other payables from exchange transactions.:

Payables from exchange transactions were understated in the previous year. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Understatement of government grants and subsidies:

Government grants and subsidies were understated in the previous year as a result of a misallocation error. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Understatement of staff leave accrual:

The staff leave accrual was understated in the previous year due to the use of the incorrect staff remuneration in the calculation. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Overstatement of the cost price of office equipment:

The cost price of a certain item of office equipment was overstated due to VAT being wrongly capitilised as part of the cost of the asset. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Overstatement of general expenses:

Certain items meeting the recognition criteria for property, plant and equipment were incorrectly expensed during the 2011 financial year. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Understatement of the short term portion of the long service bonus:

The short term portion of the long service bonus was not separately disclosed in the 2011 financial year as required. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

Overstatement of irregular expenditure:

Irregular expenditure was overstated in the 2011 financial year due to the disclosure of the expenditure incurred inclusive of VAT as well as the duplication of certain payments. Furthermore additional irregular expenditure for the 2011 which was not disclosed in note 38 has been detected. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised in note 38.

Statement of financial position		
Increase in trade and other payables from exchange transactions	-	(255,887)
Increase in vat receivable	-	36,436
Decrease in unspent conditional grants and receipts	-	312,077
Increase in staff leave accrual	-	(559,227)
Decrease in property, plant and equipment	-	(5,012)
Decrease in opening accumualted surplus	-	377,076
Long service bonus	-	107,000
Current portion long service bonus	-	(107,000)
Increase in property, plant and equipment	-	10,319
Statement of Financial Performance		
Increase in government grants and subsidies	-	(312,077)
Increase in general expenditure	-	214,144
Increase in Employment related costs	-	182,151

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Changes in accounting policy

During the previous financial year the Municipality applied the transitional provisions for GRAP 17 as included in Directive 7 of the Accounting Standards Board. The exemption period for this expired on the 30 June 2011. The Municipality has fully adopted GRAP 17 with effect from 1 July 2011. The comparative statements for 2010/11 have been restated. The effect of the restatement is summarised below:

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended June 30, 2011 is as follows:

Statement of financial position

Decrease in Property, plant and equipment		
Previously stated	-	20,305,440
Adjustment	-	(3,528,335)
	-	**16,777,105**

Decrease in intangible assets		
Previously stated	-	540,176
Adjustment	-	(195,270)
	-	**344,906**

Decrease in Accumulated surplus		
Previously stated	-	23,227,507
Adjustment	-	(2,334,728)
	-	**20,892,779**

Statement of Financial Performance

Depreciation and impairment		
Previously stated	-	-
Adjustment	-	1,394,183
	-	**1,394,183**

36. Unauthorised expenditure

Opening balance	6,538,442	2,934,185
Unauthorised expenditure current year	1,524,583	3,604,257
Approved by Council	(2,579,544)	-
	5,483,481	**6,538,442**

The unauthorised expenditure relates to unbudgeted capital expenditure incurred under the planning and development vote during the financial year.	1,524,583	3,604,257

Full report is to be given to Council for condoment at the next possible Council meeting.

37. Fruitless and wasteful expenditure

Opening balance	62,861	6,754
Fruitless and wasteful expenditure current year	41,398	56,107
	104,259	**62,861**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

37. Fruitless and wasteful expenditure (continued)

Interest and penalties late payment of suppliers	11,019	10,217
Penalty interest early redemption of investment	30,379	45,890
	41,398	**56,107**

No disciplinary proceedings have been instituted as the instances were incurred as an operational matter.

38. Irregular expenditure

Opening balance	13,200,291	1,281,768
Add: Irregular Expenditure - current year	10,465,869	12,048,766
Less: Amounts written off	(10,849,086)	-
Less: Amounts incorrectly disclosed in prior year	-	(1,199,680)
Add: Amounts not disclosed in the prior year	-	1,069,437
	12,817,074	**13,200,291**

The breakdown of the above expenditure is as follows:

Tax clearance certificates not obtained as per SCM policy	1,101,262	128,603
Tender process not followed as required by SCM policy	5,718,079	9,813,960
Insufficient quotations obtained as required by SCM policy	3,646,528	1,975,960
	10,465,869	**11,918,523**

Details of irregular expenditure – current year

Tax clearance certificates not obtained as per SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	1,101,262
Tender process not followed as required by SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	5,718,079
Insufficient quotations obtained as required by SCM policy	The expenditure was identified during the current financial year and still needs to be investigated.	3,646,528
		10,465,869

Details of irregular expenditure written off

Expenditure items identified where the supply chain process was not followed	Written off by Council	10,849,086

39. In-kind donations and assistance

The Municipality was granted ownership of a budiling to the value of R1,446,136.00 by the Department of Tourism during the current financial year.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	32,829	-
Current year subscription / fee	210,389	152,829
Amount paid - current year	(243,218)	(120,000)
	-	**32,829**

Audit fees

Opening balance	369,333	955,800
Current year subscription / fee	1,382,292	1,885,755
Amount paid - current year	(1,378,653)	-
Amount paid - previous years	(369,333)	(2,472,222)
	3,639	**369,333**

PAYE and UIF

Opening balance	332,880	225,137
Current year subscription / fee	5,056,025	3,601,968
Amount paid - current year	(5,056,025)	(3,269,088)
Amount paid - previous years	(332,880)	(225,137)
	-	**332,880**

Pension and Medical Aid Deductions

Opening balance	9,373	(40,317)
Current year subscription / fee	1,986,131	1,824,223
Amount paid - current year	(1,986,131)	(1,774,533)
Amount paid - previous years	(9,373)	-
	-	**9,373**

VAT

VAT receivable	2,465,385	1,885,489

VAT output payables and VAT input receivables are shown in note 6

Notes to the Annual Financial Statements

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

Non-compliance with MFMA

Municipal Finance Management Act Section 15
The municipality incurred expenditure in excess of the limits of the amounts provided for in the votes in the approved budget.

Supply chain management regulations 17(1)(a) - (c)
Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from at least three different prospective providers as required.

Preferential Procurement Policy Framewrok Act, 2000 2(a) and Supply chain management regulation 28(1)(a)
The preference point system was not applied in all procurement of goods and services above R30,000, as required..

Municipal Finance Management Act Section 32(2) and 32(4)
Fruitless and wasteful expenditure incurred was not recovered from liable persons as required.
Reports detailing the fruitless and wasteful expenditure incurred were not tabled to MEC, Auditor-General and Council.

Supply chain management regulations 43 and 44
Awards were made to service providers whose tax matters had not been declared by the South African Revenue Services to be inorder as required.

Awards were made to service providers whose directors are persons in service of other state institutions in contravention of the requirements.

Municipal Finance Management Act Section 53(1)(c)
The Service Delivery and Budget Implementation Plan was not approved by the Mayor within 28 days after the approval of the budget.

Municipal Finance Management Act Section 62(1)(d)
The accounting officer failed to take all reasonable steps to ensure that unauthorised, irregular or fruitless and wasteful expenditure and other losses are prevented.

Municipal Finance Management Act Section 63(2)(a)
An adequate management, accounting and information system which accounts for assets was not in place, as required.

Municipal Finance Management Act Section 116(2)(b)
The performance of all contractors were not monitored on a monthly basis

Municipal Finance Management Act Section 116(2)(c)
The contract performamce measures and methods applied to measure contract performance was insufficient and did not ensure effective contract management as required.

Municipal Finance Management Act Section 122
The fiancial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements.

41. Actual operating expenditure versus budgeted operating expenditure

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

42. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

43. Going concern

2012

During the compilation of the annual financial statements management has assessed the appropriateness of the going concern principle. Management have identified one potential factor which may impact on the ability of XDM to continue as a going concern.

Financial Assistance from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements:

Management has budgeted for Intergovernmental grants amounting to R56,722,767 for the 2012/2013 financial year. Included in this total is an amount of R30,000,000 being financial assistance which is to be received from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements. The Xhariep District Municipality has received a written confirmation from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements that the funding will be received during November 2012.

2011

During the compilation of the annual financial statements management has assessed the appropriateness of the going concern principle. Management have identified two potential factors which may impact on the ability of XDM to continue as a going concern.

Financial Assistance from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements:

Management has budgeted for Intergovernmental grants amounting to R53,295,000 for the 2011/2012 financial year. Included in this total is an amount of R30,000,000 being financial assistance which is to be received from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements. To date an amount of R10,000,000 has been received from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements. The Xhariep District Municipality has not received any written confirmation or guarantee from the Free State Department of Co-operative Governance, Traditional Affairs and Human Settlements that the commitment with respect to the remaining R20,000,000 will be honored.

Should the R20,000,000 not be received it would impact on the ability of the Xhariep District Municipality to render the required services within this district as well as the District Municipality’s ability to continue as a going concern in the foreseeable future.

Disestablishment of Motheo District Municipality:

Motheo District Municipality was disestablished through the issuing of Provincial Gazette number 13 of 2011 dated 16 May 2011 by the Member of the Executive Council responsible for Cooperative Governance, Traditional Affairs and Human Settlements. The Gazette further stipulates the following:

"After completion of all capital projects at the municipality, or the transfers of any incomplete capital project and the funding pertaining to such a project to the relevant municipality at the end of the current financial year, the remainder of all investments, cash and cash balances of the Motheo district municipality after the payment of all liabilities and debts are divided as follows:

(a) 50% transferred to Xhariep district municipality;
(b) 30% transferred to Thabo Mofutsanyane district municipality, and
(c) 20% transferred to Mangaung metropolitan municipality."

Based on initial information obtained from the Motheo District Municipality (MDM), the Xhariep District Municipality should receive approximately R27,000,000 based on the annual financial statements of MDM at 30 June 2011.

44. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below except for the other receivables from non-exchange transactions which are not a contractual instrument:

2012

44. Financial assets by category (continued)

	Loans and receivables	Held to maturity investments	Total
Other financial assets	16,541,693	-	16,541,693
Trade and other receivables	850,857	-	850,857
Cash and cash equivalents	11,062,090	-	11,062,090
Investments	-	5,000,000	5,000,000
	28,454,640	**5,000,000**	**33,454,640**

2011

	Loans and receivables	Held to maturity investments	Total
Other financial assets	5,356,709	-	5,356,709
Trade and other receivables	3,092,435	-	3,092,435
Cash and cash equivalents	1,358,177	-	1,358,177
Investments	-	5,031,973	5,031,973
	9,807,321	**5,031,973**	**14,839,294**

45. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	Financial liabilities at amortised cost	Total
Finance lease obligation - non current	-	-
Finance lease obligation - current	362,288	362,288
Other financial liabilities	2,635,003	2,635,003
Trade and other payables	2,427,745	2,427,745
	5,425,036	**5,425,036**

2011

	Financial liabilities at amortised cost	Total
Finance lease obligation - non current	362,288	362,288
Finance lease obligation - current	397,947	397,947
Other financial liabilities	2,639,542	2,639,542
Trade and other payables	2,583,699	2,583,699
	5,983,476	**5,983,476**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

46. Retirement Benefit Information

Defined contribution plan

Xhariep District Municipality and its employees contribute to various funds which provide benefits to such employees. The retirement benefit plan is subject to the Pension Funds Act of 1956, with pensions being calculated on the final pensionable remeneration paid. Current contributions are charged against operating income. No actuarial information was available for the funds listed below on the preparation of financial statements.	2,322,607	1,947,495

The employees of the Council as well as the Council as employer, contribute to Municipal Pension, Retirement and various Provident Funds as listed below:

- Free State Municipal Pension Fund
- SAMWU National Provident Fund
- Municipal Employees Pension Fund
- South African Local Authorities Pension Fund