FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

GENERAL INFORMATION

Members of the Executive Committee:

Councillor T M H Mofokeng	Chairperson
Councillor P P Mokoena	MMC for community services
Councillor T J Seekane	MMC for public works and rural development
Councillor L U Makhalema	MMC for corporate services
Councillor A L Rakhothule - Mkwanazi	MMC for human settlement
Councillor C C Harrington	MMC for local economic development and tourism
Councillor M J Tshabalala	MMC for finance
Councillor L J Lemako	MMC for IDP, performance management and monitoring
Councillor T J Tshabalala	MMC for women, children, disability and vulnerable groups

Grade of Local Authority:

Grade 8

Auditor:

Auditor-General South Africa

Bankers:

ABSA Bank

Branch 502-233 Account number 4052898966

Registered Office:

Civic centre	PO Box 551	Telephone:	058-303 5732
Muller street	Bethlehem	Fax:	058-303 5076
Bethlehem	9700		

E-mail address:

info@dihlabeng.co.za

Municipal Manager:

Mr. Thabiso Tsoaeli

Chief Financial Officer:

Mr. Raymond Provis

Members of the Dihlabeng Local Municipality

Ward No:	Councillor
1	Mrs M.A. Mokoena
2	Mr S Msimanga
3	Mr N.N. Nzimande
4	Mr P.P. Mokoena
5	Mr M.D. Shabalala
6	Mr M J Tshabalala
7	Ms T.M. Mofokeng
8	Mr T.M.H. Mofokeng
9	R.P. Mofokeng
10	Mr G.J. Roetz
11	Mr T.A. Masoeu
12	Mr J.M. Radebe
13	Mr T.J. Seekane
14	Mr T.J. Tseki
15	Ms M.E. Sempe
16	Mrs S.M. Jacobs
17	Mrs A.L. Rakhothule - Mkhwanazi
18	Mr J.F. Bonthuys
19	Mr M. St V. Mofokeng
20	Ms M.R. Mokoena

Public Representatives Councillors

Ms M.A. Noosi	Ms N.E. Mabizela
Mr M.M. Radebe	Mr L J Mosikili
Mrs H.E. Mokoena	Mr M.J. Mokoena
Ms L.U. Makhalema	Mr B.D.L. Venter

Mr P.D. Lengoabala
Mrs T.J. Tshabalala
Mr L.J. Lemako
Mr J.J.H. Pienaar
Mr C.C. Harrington
Ms M.K Mofokeng
Mrs D M Mofokeng (Passed away)
Mr P.T. Ramaele
Mrs M. Prior
Mr P.A. Maasdorp
Mr T.V. Mofokeng
Mr P.H.J Olivier
Mr D. Stevens

Executive Mayor:
Councillor TMH Mofokeng

Speaker:
Councillor M A Noosi

APPROVAL OF FINANCIAL STATEMENTS:

I am responsible for the preparation of these annual financial statements, which are set out on pages 15 to 88 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 26 and 27 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Municipal Manager (Accounting Officer)
Thabiso Tsoaeli

Chief Financial Officer
Raymond Provis

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

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Abbreviations

INCA	Infrastructure Finance Corporation Limited
PRMA	Post Retirement Medical Aid
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
SARS	South African Revenue Service
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)
CFO	Chief Financial Officer
MSA	Municipal Systems Act
VAT	Value Added Tax

ACCOUNTING OFFICER'S REPORT

1. INTRODUCTION

The 2011/12 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.
The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2010/11 budget:

- The eradication of backlogs and investment in infrastructure for basic services and growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

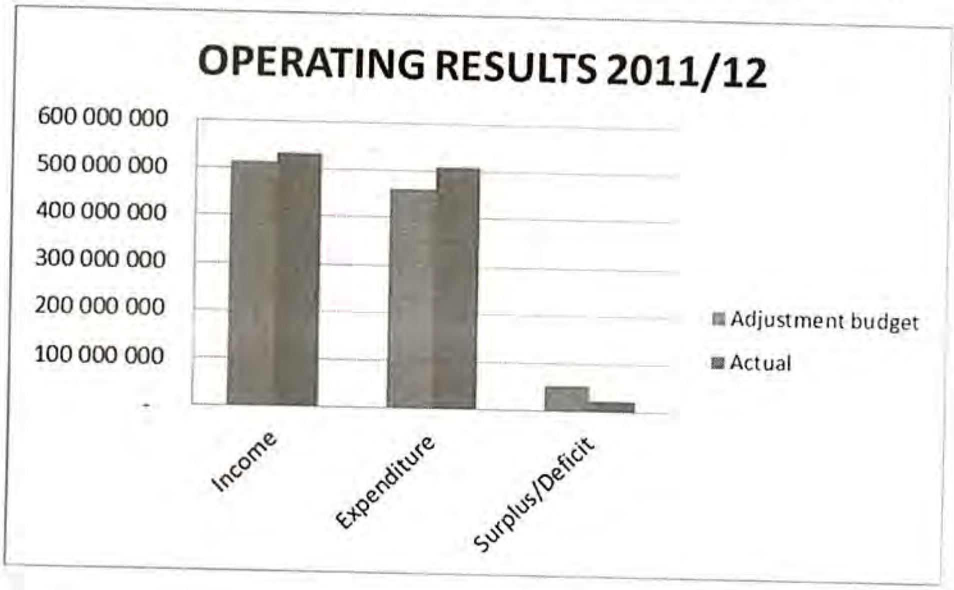
To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2011/12 financial year.
The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

2. REVIEW OF OPERATING RESULTS

The 2011/12 budget of Dihlabeng was approved by Council on the 12th of May 2011. The early adoption was due to the local government elections that were 18th of May 2011.

2.1 General

Details of the 2011/12 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:
The overall operating results for the year ending 30 June 2012 are as follows:



Description	Original Budget 2012	Adjusted Budget 2012	Actual 2012	Variance Actual/ Adjusted Budget	Actual 2011
	R'000	R'000	R'000	%	R'000
REVENUE					
Operating revenue for the year	508 075	514 898	532 514	3.42%	426 599
	508 075	514 898	532 514		426 599
EXPENDITURE					
Operating expenditure for the year	459 428	462 251	509 261	10.17%	529 497
Fair value adjustment	-	-	(6 219)		(2 184)
Gain on disposal of assets	-	-	-		(221)
Accumulated surplus / (deficit)	48 647	52 647	29 105		(100 493)
	508 075	514 898	532 147		426 599

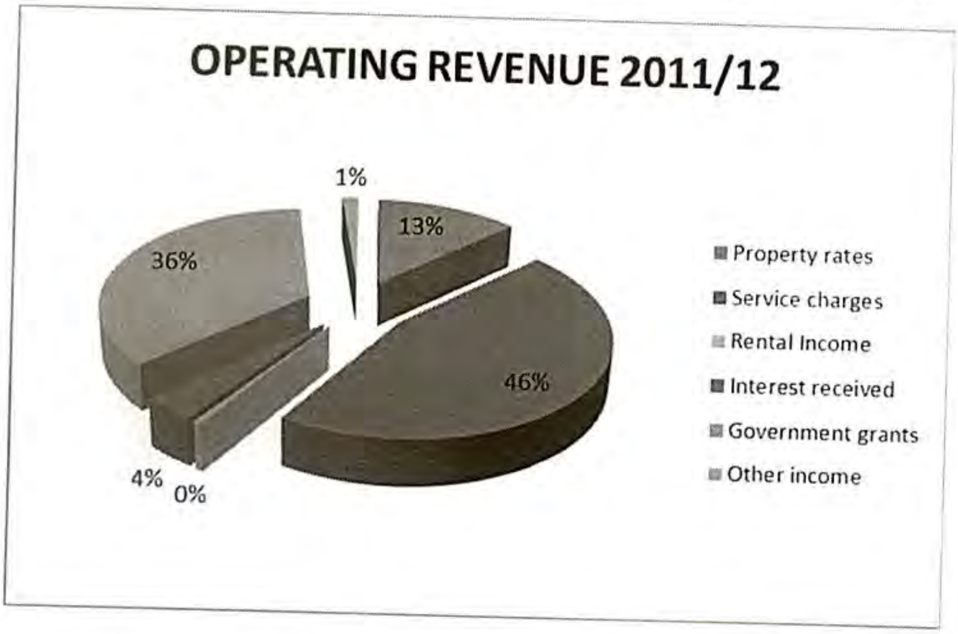
The actual net expenditure of the Municipality reflects a decrease of 3,8% while the actual revenue of the Municipality has increased by 24,8% since 2010/11.

The largest increase on revenue occurred on service charges, property rates and government grants.

The largest increase on expenditure occurred on bulk purchases and salaries.

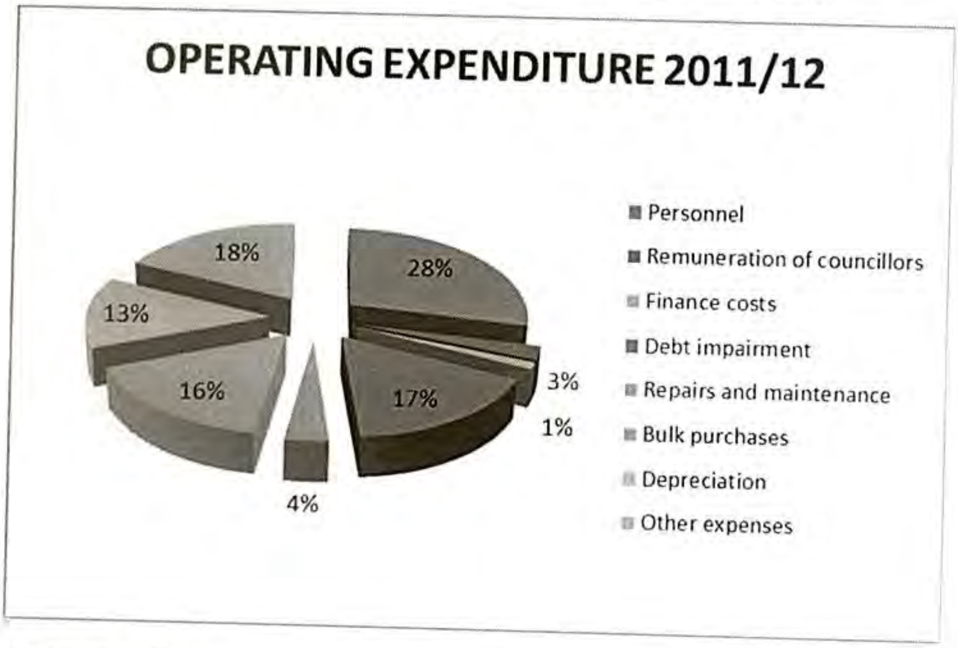
2.2 Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.



2.3 Operating expenditure

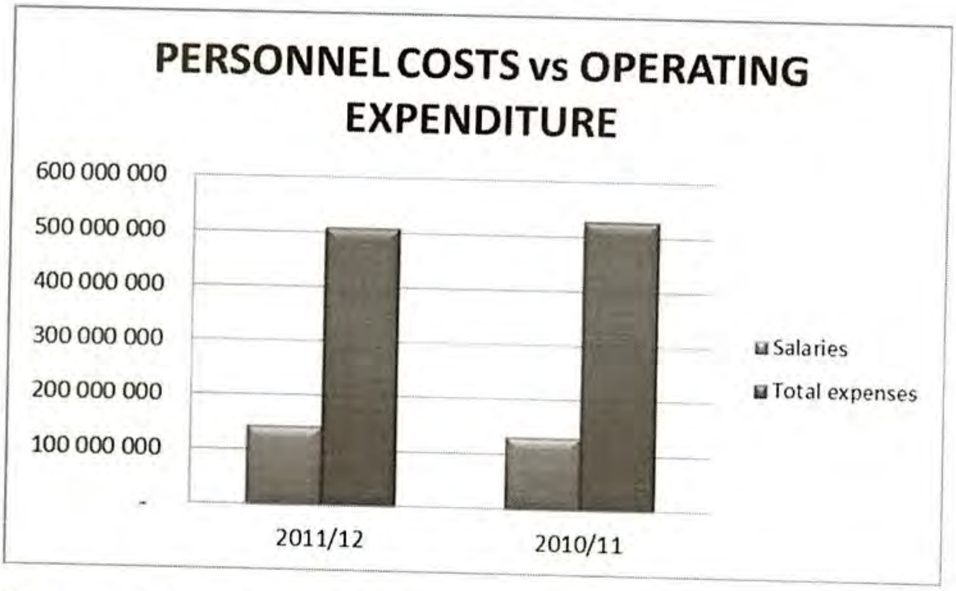
The graph below indicates the break down per main expenditure group.



Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows an increase from 24,83% in 2010/11 to 28,02% in 2011/12. The major cause of this increase was the increase in the employee costs of R 11,2 million. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

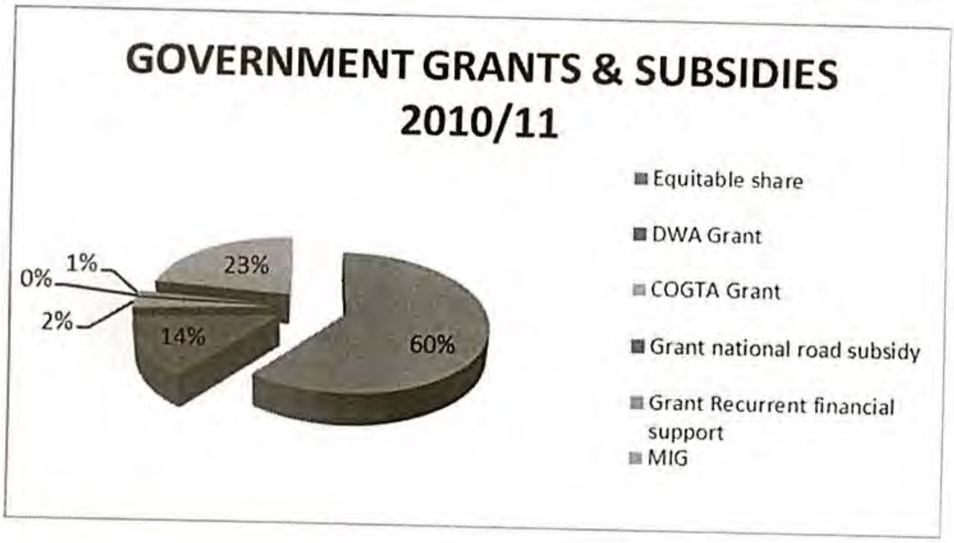
Description	2011/12 R'000	2010/11 R'000
Total operating expenditure	509 261	529 497
Total operating revenue	532 514	426 599
Employee remuneration	142 711	131 488
Ratio: % of total expenditure	28.02%	24.83%
Ratio: % of total revenue	26.80%	30.82%
% increase in remuneration	8.54%	27.47%



2.4 Government grants and subsidies

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which have been included in the total revenue:

Description	2011/12	2010/11
Equitable share	114 851 000	103 056 863
DWA Grant	26 391 850	1 318 195
COGTA Grant	4 414 778	4 298 860
Grant national road subsidy	0	17 100
Grant Recurrent financial support	2 240 000	1 950 000
MIG	42 647 000	35 459 000
	190 544 628	146 100 018



3. DEBTORS

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2011/12	2010/11
Service charges: Consumer debtors	334 252 615	274 595 063
Balance on 1 July	280 445 427	209 940 305
Balance on 30 June	327 707 188	280 445 427
Average balance	304 076 308	245 192 866
Days in the financial year	365	365
Turnover: Number of days	332	326
Turnover: Number of times (charges/average balance)	1.10	1.12

From the table it is clear that, the number of days to recover debt increased from 326 to 332 days since 2010/11. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. The increase in debtors has an impact on the going concern of the municipality.

4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2011/12 amounted to R 73,6 million and was accepted by National Treasury. The capital budget was adjusted by means of an adjustments budget approved by Council to R 77,6 million in total.

Of these funds the MIG funding of R 42 million was spent in the 2011/12 financial year, R 26 million was spent from DWA funding and R 4,4 million was spent from COGTA on capital projects.

Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

5. ACCOUNTING RATIOS

5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

DESCRIPTION	2011/12	2010/11
CURRENT ASSETS:		
Cash	3 543 668	102 566
Inventory	916 054	807 887
Consumer Debtors	57 610 134	50 253 143
Receivables from exchange transactions	10 958 343	10 491 373
Other financial assets	794 177	750 055
Other receivables from exchange transactions	4 838 609	2 640 806
Total	78 660 985	65 045 830
CURRENT LIABILITIES:		
Creditors	129 084 056	63 243 425
Finance lease obligation	-	20 255
Unspent conditional grants and receipts	9 281 950	5 701 140
Other financial liabilities	3 965 492	3 135 415
Taxes and transfers payable	11 917 156	13 862 623
Consumer deposits	3 587 147	3 414 215
Overdrawn cash book balance	-	61 396 448
Total	157 835 801	150 773 521
Net Operating Capital	(79 174 816)	(85 727 691)
Current asset Ratio	0,50 : 1	0,43 : 1

The ratio improved slightly since 2010/11. This is due to the fact that the current liabilities increased with 5% whilst the current assets increased with 21%. The increase in current assets can mainly be ascribed to the increase in consumer debtors. The increase in current liabilities mainly lies with the increase in the creditors' balance, which is mitigated by a significant decrease in the cash book balance.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.

5.2 Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

DESCRIPTION	2011/12	2010/11
Current assets	78 660 985	65 045 830
Less: Inventory	916 054	807 887
Total	77 744 931	64 237 943
Current liabilities	157 835 801	150 773 521
Quick asset ratio	0,49 : 1	0,43 : 1

The ratio improved slightly due to an increase in the current liabilities and the increase in the current assets, serious attention will be required to increase the ratio even further in this area to ensure the going concern of the municipality.

5.3 Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

DESCRIPTION	2011/12	2010/11
TOTAL ASSETS:		
Current assets	78 660 985	65 045 830
Non-current assets	1 878 853 837	1 855 810 907
Total	1 957 514 822	1 920 856 737
TOTAL LIABILITIES:		
Current liabilities	157 835 801	150 773 521
Plus: Long-term loans	36 830 023	32 762 574
Non-current provisions	35 310 164	36 545 243
Total	229 975 988	220 081 338
Solvability Ratio	8,51 : 1	8,73 : 1

The total assets of the Municipality increased with 1,91% while the total liabilities increased with 4% resulting in a decrease in the solvability ratio as stated above. Non-current assets increased with 1,24% while external loans increased with 12%.

5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio decreased from 22,81% to 7,66% since 2010/11. This decrease can be ascribed to the fact that the total debt decreased with 58% in relation to the increase of 25% in total revenue.

DESCRIPTION	2011/12	2010/11
Total debt	40 795 515	97 294 437
Total revenue	532 513 940	426 598 853
Ratio	7.66%	22.81%

5.5 Cashbook balance plus short-term loans to total operating revenue

DESCRIPTION	2011/12	2010/11
Cash book overdraft plus short term portion of long-term loans	3 965 492	64 531 863
Total revenue	532 513 940	426 598 853
Ratio	0.74%	15.13%

According to credit rating companies, the benchmark is a ratio of less than 5%. The ratio improved dramatically due to the nonexistence of a negative cash book balance.

5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

DESCRIPTION	2011/12	2010/11
Cash generated from operations (Nett cash flow)	437 046 916	348 233 040
Interest paid on external loans	6 219 442	7 845 142
Ratio	70,27 : 1	44,39 : 1

The ratio shows an increase as the interest paid on external loans decreased with 21% and the cash generated from operations increased with 26% since 2010/11.

5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2011/12	2010/11
Annual operating revenue	532 513 940	426 598 853
Debtors (excluding provision for bad debt)	327 707 188	280 445 427
Percentage	61.54%	65.74%

This ratio had a decrease of 4,2%. This is a clear indication that the debt collection process of the municipality has been improved but however still needs to be improved even more.

6. CHALLENGES EXPERIENCED DURING 2011/12

6.1 GOING CONCERN ISSUES

The going concern of the municipality remains an issue that management needs to address; the following areas are of concern:

- The government subsidies equate to 36% of our income. The situation showed an increase as the 2010/11 financial year the percentage was 34%. This means that there was a greater reliance by the municipality on government grants. However the increase was largely due an increase in the DWA grant of R 26 million.
- With reference to 5.2 (Quick asset ratio), the ratio of 0,49 : 1 is still a poor ratio despite the marginal increase from the previous financial year given the norm of 1 : 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.

- Our overdrawn cash book balance plus short portion of long-term debt to operating revenue ratio (section 5.5 above) is a vast improvement as it decreased from 15,13% (2010/11) to 0,74% (2011/12).
- Although the personnel costs are within the norm of 30%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 30% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)
- The profit of R 29,1 million for the 2011/12 financial year was a great improvement from deficit of the previous financial year of R 100,5 million. Resulting in an improvement of R 130 million. Due to the fact that conditional grants relating to capital are included in the income statement of R 73,5 million (R 41,1 million in 2010/11) would have resulted in an operating deficit of R 44 million (R 142 million in 2010/11). An additional effort to address this deficit will need to be put in as if we break even excluding capital grants it will mean that the municipality is cash funded.

6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2011/12. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

6.3 COMPLIANCY OF ASSET REGISTER

It was a tremendously challenging exercise during the 2011/12 financial year to compile a compliant and purified asset register. However, due to a lack of capacity within the Municipality and the complexity of the asset register, a service provider was appointed to assist the municipality to ensure compliance to the accounting standards. The service provider assisted with the verification, review of useful lives, impairment, etc.

7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, previous Councillors, Office of the Municipal Manager, Directors, Managers, especially the Financial Manager (Mr C Barnard) for putting in long hours and the staff for the support they have given me and my personnel during the 2011/12 financial year. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period of 2 months after year end (i.e. 31 August).

THABISO TSOAELI
MUNICIPAL MANAGER

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Other financial assets	6	794,177	750,055
Inventories	8	916,054	807,887
Receivables from exchange transactions	9	10,958,343	10,491,373
Other receivables from non-exchange transactions	10	4,838,609	2,640,806
Consumer debtors	11	57,610,134	50,253,143
Cash and cash equivalents	12	3,543,668	102,566
		78,660,985	**65,045,830**
Non-Current Assets			
Investment property	3	76,471,194	76,471,194
Property, plant and equipment	4	1,801,877,049	1,778,210,129
Intangible assets	5	259,853	888,918
Other financial assets	6	245,740	240,666
		1,878,853,836	**1,855,810,907**
Total Assets		**1,957,514,821**	**1,920,856,737**
Liabilities			
Current Liabilities			
Bank overdraft	12	-	61,396,448
Other financial liabilities	13	3,965,492	3,135,415
Finance lease obligation	14	-	20,255
Unspent conditional grants and receipts	15	9,281,950	5,701,140
Payables from exchange transactions	17	129,084,055	63,243,425
VAT payable	18	11,917,156	13,862,623
Consumer deposits	19	3,587,147	3,414,215
		157,835,800	**150,773,521**
Non-Current Liabilities			
Retirement benefit obligation	7	24,452,112	25,580,112
Other financial liabilities	13	36,830,023	32,762,574
Provisions	16	35,310,164	36,545,243
		96,592,299	**94,887,929**
Total Liabilities		**254,428,099**	**245,661,450**
Net Assets		**1,703,086,722**	**1,675,195,287**
Net Assets			
Accumulated surplus		1,703,086,722	1,675,195,287

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

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	21	67,323,155	53,402,700
Service charges	22	244,118,181	204,728,799
Government grants & subsidies	23	190,544,628	146,100,018
Rendering of services		1,463,284	1,582,018
Other income	24	4,031,169	1,244,565
Interest received - investment	29	9,420	30,274
Gains on disposal of assets		1,500,000	2,739,547
Sales of housing		44,178	62,945
Rental of facilities and equipment		2,953,055	2,770,355
Interest received - Consumer debtors		19,858,224	13,693,209
Fines		641,082	204,708
Licences and permits		27,564	39,715
Total Revenue		**532,513,940**	**426,598,853**
Expenditure			
General Expenses	25	(81,344,604)	(98,426,445)
Employee costs	26	(142,710,963)	(131,487,855)
Remuneration of councillors	27	(12,888,264)	(8,724,295)
Debt impairment	28	(85,708,586)	(115,009,420)
Depreciation and amortisation	31	(67,385,287)	(67,551,101)
Finance costs	32	(6,219,442)	(7,845,142)
Repairs and maintenance		(17,723,643)	(19,533,527)
Contracted services	35	(2,533,104)	(1,965,708)
Bulk purchases	36	(83,154,096)	(73,651,650)
Grants and subsidies paid		(5,734,041)	(5,301,504)
Loss on disposal of assets		(3,859,233)	-
Total Expenditure		**(509,261,263)**	**(529,496,647)**
Fair value adjustments	30	6,219,417	2,183,727
Fair value adjustment of game stock		(367,300)	221,400
Surplus (deficit) for the year		**29,104,794**	**(100,492,667)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,774,474,595	1,774,474,595
Adjustments		
Prior year adjustments	1,213,359	1,213,359
Balance at 01 July 2010 as restated	**1,775,687,954**	**1,775,687,954**
Changes in net assets		
Deficit for the year	(100,492,667)	(100,492,667)
Total changes	(100,492,667)	(100,492,667)
Balance at 01 July 2011	**1,673,981,934**	**1,673,981,934**
Changes in net assets		
Surplus for the year	29,104,788	29,104,788
Total changes	29,104,788	29,104,788
Balance at 30 June 2012	**1,703,086,722**	**1,703,086,722**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		242,912,058	206,117,608
Grants		194,125,438	142,085,158
Interest income		9,420	30,274
		437,046,916	348,233,040
Payments			
Employee costs		(152,591,116)	(131,054,179)
Suppliers		(120,787,192)	(170,409,459)
Finance costs		(6,219,442)	(7,845,142)
		(279,597,750)	(309,308,780)
Net cash flows from operating activities	37	**157,449,166**	**38,924,260**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(96,975,596)	(73,375,069)
Proceeds from sale of property, plant and equipment	4	1,500,000	2,898,406
Loss on the sale of property, plant and equipment	3	8,601,361	-
Purchase of other intangible assets	5	-	(509,866)
Purchase of financial assets		314,840	-
Net cash flows from investing activities		**(86,559,395)**	**(70,986,529)**
Cash flows from financing activities			
Repayment of other financial liabilities		(6,204,897)	(3,941,610)
Movement in consumer deposits		172,931	135,893
Finance lease payments		(20,255)	(36,921)
Net cash flows from financing activities		**(6,052,221)**	**(3,842,638)**
Net increase/(decrease) in cash and cash equivalents		**64,837,550**	**(35,904,907)**
Cash and cash equivalents at the beginning of the year		(61,293,882)	(25,388,975)
Cash and cash equivalents at the end of the year	12	**3,543,668**	**(61,293,882)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

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

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including maintenance, changes in technology, market conditions, together with economic factors such as interest rate fluctuations.

Provisions

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

Useful lives of waste and water network and other assets

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

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 7.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

1.2 Investment property (continued)

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

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

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

Fair value

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

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

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

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

1.3 Property, plant and equipment (continued)

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

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

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

Item	Average useful life
Infrastructure solid waste - Land	
• Community Assets	Infinite
• Operational	Infinite
Community Assets - Buildings	
• Community Assets	15 - 50
• Operational	15 - 50
Plant and equipment	5 - 15
Furniture and equipment	7 - 10
Motor vehicles	3 - 20
Office equipment	5 - 7
Infrastructure Roads	
• Electricity	5 - 50
• Sewer	15 - 50
• Roads and Storm Water	10 - 80
• Water	12 - 50
• Solid Waste - Land	Infinite
• Solid Waste - Buildings	15 - 50
Emergency Equipment	5 - 15
Bins and containers	5 - 10

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.

The useful lifes are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and the required return on assets to determine the optimum useful life expectation where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and what their condition will be at that time.

The Municipality maintains and aquires assets to provide a social service to the community, with no intention of disposing of the assets for any economic gain, and thus no residual value are determined other than for motor vehicles.

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.

1.4 Intangible assets

An asset is identified as an intangible asset when it:

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

1.4 Intangible assets (continued)

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

Item	Useful life
Computer software	3 years
Operating computer software	6 years
Vending machines	10 years

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities at fair value through surplus or deficit - held for trading
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

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.

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

1.5 Financial instruments (continued)

Subsequent measurement

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

Net gains or losses on the financial instruments at fair value through surplus or deficit include dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

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

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality 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

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

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

Accounting Policies

1.5 Financial instruments (continued)

Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Derivatives

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

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

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

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

1.5 Financial instruments (continued)

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 and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

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;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Financial assets

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

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

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

Financial liabilities

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

1.5 Financial instruments (continued)

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.6 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.7 Inventories

Water inventory is measure at the lower of cost and net realisable value.

Other inventory is measure at the lower of cost and net replacement value.

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.

1.7 Inventories (continued)

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

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

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

1.8 Non-current assets held for sale and disposal groups

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

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

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

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

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

1.9 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

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

1.11 Share capital / contributed capital

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

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Figures in Rand 2012 2011

39. Contingencies (continued)

Telkom Limited SA/DLM:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a claim that Telkom lodged against the Dihlabeng Local Municipality to the amount of R141 513,59. Telkom claim that a sewerage spillage damaged their equipment. Possible liability of R141 513,59.

Riemland Scrap Yard - Eviction: Erf 3568: Dortmund Road: Bethlehem:
This case is handled by Breytenbach Mavuso Attorneys and is regarding the illegal occupation of erf 3568, Bethlehem. No liability for Council.

Udumo Trading 147 CC:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a claim that Udumo Trading lodged against the Dihlabeng Local Municipality for R1 159 000,05. Udumo claim that they completed a reservoir in Clarens and was not fully paid. Possible liability of R1 159 000,05.

J Kleynhans:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a claim that is lodged by J Kleynhans. The allegation is that a stormwater hole was not properly sealed and the claimant was injured. Possible liability of R100 000,00.

Neon Electrical:
This case is handled by Breytenbach Mavuso Attorneys and is regarding electrical equipment that was couriered to Electrical Section and was again loaded by another courier service and got lost. Possible liability of R363 150,00.

Tswelopele Driving School:
This case is handled by Breytenbach Mavuso Attorneys and is regarding the illegal occupation of erf 2559, Bethlehem by this company. No liability for Council.

F and A Civils Engineering:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a Salveir SDC 10/10 Pump that is in the possession of F and A Civils Engineering from August 2011 we struggled to get this pump from the company without any success. No liability for Council.

Illegal occupiers: Portion of erf 3787, Bethlehem Extension 46:
This case is handled by Breytenbach Mavuso Attorneys and is regarding the illegal occupation of a portion of erf 3787, Bethlehem Extension 46. No liability for Council.

Illegal occupiers of Council land: Fouriesburg 228:
This case is handled by Breytenbach Mavuso Attorneys and is regarding the illegal occupation and erection of illegal housing on Council land: Fouriesburg 228. No liability for Council.

Illegal occupiers of Council land: Paul Roux: Wassau 711:
This case is handled by Breytenbach Mavuso Attorneys and is regarding the illegal occupation and erection of illegal housing on Council land: Paul Roux: Wassau 711. No liability for Council.

1900 Mzizi Street, Bohlokong:
This case is handled by Breytenbach Mavuso Attorneys and is to halt an eviction order. No liability for Council.

Willa's Supermarket:
This case is handled by Breytenbach Mavuso Attorneys and is regarding a collection matter in which Willa's Supermarket sold prepaid electricity and did not pay the amount owed to the municipality in the account of the municipality. No liability for Council.

Illegal occupiers of Council land: Clarens / Saron 1205, Franshoek 1208, Erven 747, 850, 1109 and 1110:
This case is handled by Breytenbach Mavuso Inc and is regarding the illegal occupation and erection of illegal housing on Council land: Clarens / Saron 1205, Franshoek 1208, Erven 747, 850, 1109 and 1110. No liability for Council.

Mr I M Skhula:
This case is handled by Breytenbach Mavuso Inc and is regarding the application for a claim against his pension fund for losses to Council. No liability for Council.

Figures in Rand 2012 2011

39. Contingencies (continued)

ARC – Small Grain Institute:
This case is handled by Breytenbach Mavuso Inc and is regarding the defending of the matter where a summons was received for an outstanding water account. No liability for Council.

Hardware Mecca:
This case is handled by Breytenbach Mavuso Inc and is regarding the defending of the matter where a summons was received for an outstanding account. No liability for Council.

Deed of Sale: C du Plooy: Farm Wassau 711 and Mary Ann 712: Illegal occupation:
This case is handled by Breytenbach Mavuso Inc. Mr C du Plooy claim that he is the owner of the Farm Wassau 711 and Mary Ann 712, Paul Roux. The Dihlabeng Local Municipality is of the opinion that Mr C du Plooy is occupying municipal ground without any legal basis. No liability for Council.

Blue Horizon vs Dihlabeng Local Municipality:
Phatshoane Henney Inc, Bloemfontein handle this case on behalf of Council and the Advocate is Mr J P Daffue. Council is awaiting further court documents from the applicant. In this application the applicant wants more information regarding the selling of a business erf in Bethlehem. No liability for Council.

Clarens Residents Action Group and others:
This case is handled by Phatshoane Henney Inc, the case is regarding two sites erven 724 and 726 in Clarens that was illegally sold. No liability for Council.

G T Enslin and Z T Enslin:
This case is handled by Symington and De Kok Attorneys, Bloemfontein and is regarding a motor accident claim of Mr G T Enslin and Z T Enslin to the amount of R872 381,33. It must be noted that this is also an insurance claim. Possible liability of R872 381,33.

Sandstone mining licence in Fouriesburg:
This case is handled by Peyper Sesele Attorneys and is regarding the application for a sandstone mining licence in Fouriesburg. No liability for Council.

40. Related parties

Relationships	
Municipal staff member managing the pound	Sekanou Rental and Trading CC 2010/027020/23 of Mr CP Changube (Pound master)
Close family member of key management	Dinatla Advisory Services (Pty) Ltd 2007/034357/07 of Mr R Provis (Chief Financial Officer)

Related party transactions

	2012	2011
Consulting fees paid to related party		
Sekanou Rental and Trading CC	82,280	120,300
Dinatla Advisory Services (Pty) Ltd	7,691,100	5,300,250

Sekanou Rental and Trading CC was sub-contracted for the paving of roads in Fouriesburg.

Dinatla Advisory Services (Pty) Ltd was contracted for Revenue Enhancement Programme.

41. Change in estimate

Property, plant and equipment

The useful life of certain property, plant and equipment was estimated in 2009 and is contained in the accounting policy. In the current period management have revised their estimate and it varies from asset to asset as their remaining usefull lifes will differ based on the condition of the individual asset. The depreciation has been re-stated and the effect of the revision and restatement has increased the depreciation charges for the prior period by R 5,535,216. It is not possible to reliably estimate the depreciation for future periods as it is impracticable to do so and due to the nature of the assets.

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42. Prior period errors

Transactions relating to the previous reporting period were re-stated as a result of information which became available after the reporting period.

The correction of the error(s) results in adjustments as follows for the reporting period:

- Inventory - printing and stationery issues were of 2011 were only captured in 2012.
- Property, plant and equipment - assets of 2011 were not capitalised in the prior year. Accumulated depreciation of assets were corrected and re-stated as well as the disposal / write-off of property, plant and equipment.
- Depreciation - assets accumulated depreciation and depreciation were corrected for the prior years.
- Insurance / Other receivables from exchange transactions- arrears portion of insurance were only accounted for in 2012 but it relates to 2011 insurance expenditure and input VAT were accordingly not accounted for.
- Investment property - investment property were incorrectly accounted for in the prior period.
- Sundry creditors / Sundry income - unallocated receipts that prescribed were recognised as revenue.
- Property, plant and equipment (game stock) - the value for one game stock item were incorrectly accounted for in the prior year.
- Unspent grants / Grant income - the balance for the unspent portion of the COGTA grant were incorrectly accounted for in the prior year.

	2012	2011
Statement of financial position		
Property, plant and equipment	-	566,407,095
Trade and other payables	-	(5,969,796)
Input VAT	-	(98,898)
Investment property	-	(607,830,414)
Inventory	-	(91,248)
Accumulated surplus	-	(31,506,156)
Unspent grants	-	3,321,881
Statement of Financial Performance		
Machinery and equipment	-	8,378
Printing and stationery	-	85,549
Insurance	-	406,706
Rental - general	-	41,571
Buildings	-	291
General maintenance	-	28,986
Depreciation of property, plant and equipment	-	(6,497,583)
Fair value adjustment on game stock	-	(48,000)
Profit / (loss) on the disposal of property, plant and equipment	-	(3,586,742)
Grants - COGTA	-	3,321,881
Cash flow statement		
Cash flow from operating activities		
Grants	-	(3,321,881)
Working capital changes	-	6,159,942
	-	**2,838,061**
Cash flow from investing activities		
Property, plant and equipment	-	566,407,095
Investment property	-	(607,830,414)
	-	**(41,423,319)**
Cash flow from financing activities		
Adjustments posted directly to surplus	-	(37,445,415)

Notes to the Annual Financial Statements

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43. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Statement of financial position		
Consumer debtors (Re-classification of balances to split consumer debtors from trade receivables from exchange transactions)	-	12,242,190
Consumer deposits (Re-classified from long-term liabilities to short-term liabilities)	-	3,414,215
Consumer debtors with credit balances	-	7,261,598

44. Risk management

Liquidity risk

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

Interest rate risk

Interest rate risk is defined as the risk that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

Credit risk

Credit risk is defined as the risk that one party to a financial instrument will fail to honour their obligation, thus causing the other party to incurr a financial loss.

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well established financial institutions of high quality credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's investment policy. These limits are reviewed annualy by the CFO and authorised by the executive mayoral committee.

Consumer debtors comprise of a large number of ratepayers, dispersed accross different industries and geographical areas. Ongoing credit valuations are performed on the financial condition of these debtors. Consumers debtors are presented net of an allowance for doubtful debt. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due dates are cut immediately.

Price risk

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

45. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated surplus of R 1,703,086,722 and that the municipality's total assets exceed its liabilities by R 1,703,086,722.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Notes to the Annual Financial Statements

Figures in Rand

	2012	2011

46. Events after the reporting date

Assets sold on auction:
In August 2012 council decided to auction assets that is no longer used by the Municipality in September 2012. The process was only actively marketed during the month of August 2012 and September 2012. The profit from the sale of the auction was R822 783.

Wolhuterskop Nature Reserve feld fire:
A portion of Wolhuterskop Nature Reserve were destroyed in a fire that took place in the month of September 2012. At reporting date the extent of the damage has not yet been determined.

47. Unauthorised expenditure

	2012	2011
Provision for doubtful debt, depreciation and amortisation	-	159,253,174

Unauthorised expenditure of the current year was condoned by Section 52 D report on 17 August 2012. (Council resolution nr 129/2012).

Unauthorised expenditure of the prior year was condoned by MPAC on 17 August 2012. (Council resolution nr 152/2012).

48. Fruitless and wasteful expenditure

	2012	2011
Interest and penalties paid to SARS	876,976	-
Interest paid on Eskom account	3,294,329	1,265,092
Interest on arrears on DBSA and INCA loans	5,650,796	405,842
Interest paid on Auditor-General fees	35,153	-
	9,857,254	**1,670,934**

Interest and penalties paid on Eskom, SARS, DBSA loan and the INCA loan occured due to cash flow constraints during the year.

49. Irregular expenditure

	2012	2011
Opening balance	47,899,414	26,210,087
Add: Irregular Expenditure - current year	60,385,887	16,389,077
Less: Amounts written off	(42,599,164)	-
Less: Amounts not recoverable (not condoned)	-	5,300,250
	65,686,137	**47,899,414**

Notes to the Annual Financial Statements

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49. Irregular expenditure (continued)

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	2012	2011
Kopanong Services	Proper supply chain processes were followed for the tender. The initial tender was awarded but the supplier could not deliver on the terms and conditions. Kopanong was the second best tenderer and they were appointed to ensure service delivery is not hampered as it relates to the reading of water and electricity meters.	2,109,230	
Mashinini Enterprise Plant Hire	Misleading information was sumbitted by the competitive bidder and the contract was awarded to Mashinini for the maintenace of the landfill site.	19,353,811	
MVD Xariep Consulting Engineers CC	Proper supply chain processes were not followed and the appointment of the supplier was risk based. The tender was for the sourcing of additional funding for projects.	1,215,153	
Badiri Ba Setso CC	Proper supply chain processes were not followed. The supplier prepared the SDBIP for the municipality.	780,615	
Maqelepo Office Style	Proper supply chain processes were not followed for the procurement of office furniture.	661,328	
Marwin Marketing	Proper supply chain processes were not followed for the procurement of water chemicals.	658,978	
Izingcweti Zomzansi Consulting & Project Management	Proper supply chain processes were not followed. The intitial contract period for the appointment was increased.	637,762	
Open Water Advanced Risk Solutions Pty Ltd	Proper supply chain processes were not followed for the procurement of a special investigation.	481,597	
Kitshoff Consulting	Proper supply chain processes were not followed for the procurement of body guards as it was an emergency.	402,640	
CYBKO Security Services	The tendered amount for the rendering of security services was exceeded due to the increased number of guards.	4,390,923	
Dinatla Advisory Services	Proper supply chain processes were not followed for the revenue enhancement programme.	7,691,100	
Molprocon CC	Proper supply chain processes were not followed for the appointment of contractors on turn key projects.	5,471,922	
Bohlokong Computer Solutions	Proper supply chain processes were not followed for the supply of IT goods and services.	3,480,317	
Ke a Dira Construction & Civil Engineering	Additional tender documents submitted lost due to non fastening to the tender document. It relates to the Kgubetswana paved roads.	5,997,512	
Boiketlo Consulting Engineers	Proper supply chain processes were not followed for the appointment of contractors on turn key projects.	1,451,801	
Ndlovu Ngwenyama Civil Construction & Project Managers	Proper supply chain processes were not followed for the appointment of contractors on turn key projects.	1,348,414	
Proper Consulting Engineers CC	Proper supply chain processes were not followed for the appointment of contractors on turn key projects.	1,148,494	
Mogan Govender	Proper supply chain processes were not followed for the appointment of contractors on turn key projects.	765,184	
Marenza Civils & Kwena Ya Madiba JV	The contractor were appointed to build and maintain roads but the roads were not completed. The project was then completed internally and it was not advertised.	367,392	
Seleke Attorneys	No tender process followed for the selection of Attorneys to handle a legal case on behalf of Councillor D Lengoabala.	327,757	

Notes to the Annual Financial Statements

Figures in Rand		2012	2011
49. Irregular expenditure (continued)			
Kgalapa Training Institution	Proper supply chain processes were not followed for the training of unskilled staff members.		201,070
Little Venice Trading 513 CC	Proper supply chain processes were followed for the tender. The initial tender was awarded but the supplier could not deliver on the terms and conditions. They were sub-contractors.		186,265
GC Tech	Proper supply chain processes were not followed for the appointment of IT goods and services. GC Tech is a sub-contractor of BC Solutions.		140,866
Utilities World	Proper supply chain processes were not followed for the selling of pre-paid electricity on behalf of the municipality.		116,394
Autumn Skies Trading 581 CC	Proper supply chain processes were not followed for the supplying of shacks.		262,887
Wandile Catering	The value of the catering exceeded the threshold of 7 day bids. The services was for the catering for the winter school programme.		457,530
E Snyman Consulting and Investments	Proper supply chain processes were not followed for the resurfacing for roads in Bergsig and Panorama East.		111,000
Deloitte	No proper supply chain processes not followed for the appointment of Deloitte for the actuarial valuation.		39,900
Masterplan Architects	Proper supply chain processes were not followed for the design of the head quarters.		27,312
Frontier Inn & Casino	No proper supply chain processes followed for the accommodation of the close protection services.		100,733
			60,385,887

Figures in Rand

49. Irregular expenditure (continued)

Details of irregular expenditure written off

	Condoned by council	2012	2011
Contract awarded to Bohlokong Computer Solutions without following a competitive bidding process.	Council resolution number (129/2012) and (152/2012).		4,275,860
Misleading information submitted by competitive bidder. Mashini Enterprise was awarded the contract to maintain and rehabilitate the landfill site.	Council resolution number (129/2012) and (152/2012).		6,274,560
Contract was awarded to Mashinini Enterprise through a quotation process and not the normal supply chain processes. The contract was for the hiring of heavy duty equipment.	Council resolution number (129/2012) and (152/2012).		4,514,491
No market research was performed and a tax clearance certificate was not presented prior to the deviation from normal supply chain processes. Carboncor is supplying asphalt for the repairs and maintenance of roads.	Council resolution number (129/2012) and (152/2012).		81,722
No tax clearance certificate presented prior to the deviation from normal supply chain processes. Utilities World are pre-paid electricity vendors.	Council resolution number (129/2012) and (152/2012).		91,770
The second best tenderer has been awarded to Kopanong for meter reading services as the previous service provider failed to deliver. The supply chain processes were not followed.	Council resolution number (129/2012) and (152/2012).		1,150,674
Upgrading of Fateng Stadium is affecting additions to Community Assets Recreational Facilities.	Council resolution number (129/2012) and (152/2012).		9,181,132
Upgrading of cemetries is affecting additions to Community Assets Recreational Facilities.	Council resolution number (129/2012) and (152/2012).		4,439,640
Upgrade of Internal Roads in Fateng is affecting additions to Infrastructure Roads.	Council resolution number (129/2012) and (152/2012).		3,434,994
Unit stand and access card is affecting additions to Office Equipment.	Council resolution number (129/2012) and (152/2012).		475,000
Electronic rev counter is affecting additions to Office Equipment.	Council resolution number (129/2012) and (152/2012).		289,754
Payment for services rendered in respect of the recover of VAT not previously claimed is affecting Service Provider fees.	Council resolution number (129/2012) and (152/2012).		1,102,119
Upgrading of roads in Clarens is affecting additions to Infrastructure Roads.	Council resolution number (129/2012) and (152/2012).		596,860
Rehabilitation of dumping sites is affecting Infrastructure Roads and Expenditure.	Council resolution number (129/2012) and (152/2012).		6,690,588
			42,599,164

Details of irregular expenditure not condoned of 2011

Dinatla Advisory Services	5,300,250

Notes to the Annual Financial Statements

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	2012	2011

50. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2012	2011
Opening balance	-	879,215
Current year subscription / fee	3,057,064	1,919,408
Amount paid - current year	(3,057,064)	(2,798,623)
	-	-

PAYE and UIF

	2012	2011
Opening balance	1,313,613	-
Current year subscription / fee	15,763,356	13,451,101
Amount paid - current year	(15,088,932)	(12,137,488)
	1,988,037	**1,313,613**

Pension and Medical Aid Deductions

	2012	2011
Opening balance	3,073,533	-
Current year subscription / fee	36,882,396	35,831,753
Amount paid - current year	(35,482,909)	(32,758,220)
	4,473,020	**3,073,533**

VAT

	2012	2011
VAT payable	11,917,156	13,862,623

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

Councillors' arrear consumer accounts

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

30 June 2012

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	18,440	170,233	188,673
NN Nzimande	4,135	103,673	107,808
PR Mofokeng	1,409	16,330	17,739
MA Mokoena	1,005	11,255	12,260
TJ Seekane	536	4,765	5,301
MR Mokoena	792	3,787	4,579
MK Mofokeng	788	3,007	3,795
SM Jacobs	2,238	43	2,281
JM Radebe	740	1,513	2,253
TV Mofokeng	1,583	138	1,721
MSTV Mofokeng	767	649	1,416
DM Mofokeng	761	564	1,325
	33,194	**315,957**	**349,151**

30 June 2011

	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	12,103	193,314	205,417
NN Nzimande	2,674	92,083	94,757
M Prior	8,001	29,769	37,770
MA Mokoena	1,607	30,794	32,401
MR Mokoena	997	24,065	25,062
MK Mofokeng	1,071	23,457	24,528
PHJ Olivier	7,470	14,526	21,996
PR Mofokeng	2,064	15,903	17,967
JJH Pienaar	5,068	11,377	16,445
TJ Tseki	860	15,371	16,231
ME Sempe	1,295	9,737	11,032
TA Masoeu	976	9,911	10,887
MJ Mokoena	786	9,826	10,612
TJ Seekane	1,158	7,230	8,388
MA Noosi	2,934	484	3,418
TM Mofokeng	694	2,316	3,010
PP Mokoena	771	1,960	2,731
TV Mofokeng	693	1,970	2,663
PA Maasdorp	1,498	517	2,015
LJ Lemako	658	1,092	1,750
TMH Mofokeng	702	148	850
	54,080	**495,850**	**549,930**

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

30 June 2012

	Highest outstanding amount	Aging (in days)
PD Lengoabala	170,233	120
NN Nzimande	103,673	120
PR Mofokeng	16,330	120

Figures in Rand

	2012	2011

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

MA Mokoena	11,255	120
TJ Seekane	4,765	120
MR Mokoena	3,787	120
MK Mofokeng	3,007	120
JM Radebe	1,513	120
MSTV Mofokeng	649	120
DM Mofokeng	564	120
TV Mofokeng	138	120
SM Jacobs	43	120
	315,957	**1,440**

Councillor DM Mofokeng and Councillor NM Mosupa passed away during the financial year.

The councillors made arrangements during the current financial year to settle their arrear accounts.

30 June 2011

	Highest outstanding amount	Aging (in days)
PD Lengoabala	193,314	120
NN Nzimande	92,083	120
MA Mokoena	30,794	120
M Prior	29,769	120
MR Mokoena	24,065	120
MK Mofokeng	23,457	120
PR Mofokeng	15,903	120
TJ Tseki	15,371	120
PHJ Olivier	14,526	120
JJH Pienaar	11,377	120
TA Masoeu	9,911	120
MJ Mokoena	9,826	120
ME Sempe	9,737	120
TJ Seekane	7,230	120
PT Ramaele	4,681	120
TM Mofokeng	2,316	120
TV Mofokeng	1,970	120
PP Mokoena	1,960	120
LJ Lemako	1,092	120
PA Maasdorp	517	90
MA Noosi	484	120
TMH Mofokeng	148	120
	500,531	**2,610**

The balance of councillors arrear accounts were re-stated due to the non-disclosure of all municipal accounts. The effect of the re-statement resulted in an increase of R99 088.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council.

Incident		
Emergencies	3,004,222	-
Sole providers	705,793	-
Strip and quote	81,977	-
	3,791,992	**-**

The above-mentioned deviations were reported to council and the 2011 totals were not available.

A full list containing the details of the deviations is avialable for inspection at the offices of the municipality.

Schedule of external loans as at 30 June 2012

	Loan Number	Redeemable	Balance at 30 June 2011 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2012 Rand
Development Bank of South Africa						
Long-term loan (restructured loan)	61006906	2022/12/31	-	40,214,623	1,516,309	38,698,314
Long-term loan	61000056	2021/03/21	32,272,927	-	32,272,927	-
			32,272,927	**40,214,623**	**33,789,236**	**38,698,314**
INCA						
Long-term loan	1264	2013/07/31	2,477,001	-	1,099,255	1,377,746
Long-term loan	2813	2013/11/30	1,148,060	-	428,605	719,455
			3,625,061	**-**	**1,527,860**	**2,097,201**
Total external loans						
Development Bank of South Africa			32,272,927	40,214,623	33,789,236	38,698,314
INCA			3,625,061	-	1,527,860	2,097,201
			35,897,988	**40,214,623**	**35,317,096**	**40,795,515**

Dihlabeng Local Municipality
Dihlabeng Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2012

	Cost/Revaluation				Accumulated depreciation				
	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Land and buildings									
Land - owned	425,962,010	14,102	-	425,976,112	(245,492)	-	(110,159)	(355,651)	425,620,461
Land - Solid waste	4,605,363	-	-	4,605,363	-	-	-	-	4,605,363
Buildings - Solid waste	11,369,158	176,500	-	11,545,658	(1,576,825)	-	(527,575)	(2,104,400)	9,441,258
	441,936,531	**190,602**	**-**	**442,127,133**	**(1,822,317)**	**-**	**(637,734)**	**(2,460,051)**	**439,667,082**
Infrastructure									
Water	365,512,918	4,379,304	(1,267,522)	368,624,700	(72,698,718)	315,221	(24,607,704)	(96,991,201)	271,633,499
Sewer	309,041,896	19,973,253	(2,339,915)	326,675,234	(39,895,043)	746,461	(13,368,196)	(52,516,778)	274,158,456
Roads	307,273,707	17,815,262	(683,039)	324,405,930	(56,361,704)	317,632	(20,685,435)	(76,729,507)	247,676,423
Electricity	144,014,454	3,708,479	(198,515)	147,524,418	(20,076,874)	147,627	(6,934,370)	(26,863,617)	120,660,801
Railways	48,755,739	-	-	48,755,739	(8,125,957)	-	(2,708,652)	(10,834,609)	37,921,130
WIP	54,990,692	149,809	-	55,140,501	-	-	-	-	55,140,501
	1,229,589,406	**46,026,107**	**(4,488,991)**	**1,271,126,522**	**(197,158,296)**	**1,526,941**	**(68,304,357)**	**(263,935,712)**	**1,007,190,810**
Community Assets									
Land	107,931,863	-	-	107,931,863	-	-	-	-	107,931,863
Buildings	179,394,192	2,678,027	-	182,072,219	(24,891,847)	-	(8,461,968)	(33,353,815)	148,718,404
	287,326,055	**2,678,027**	**-**	**290,004,082**	**(24,891,847)**	**-**	**(8,461,968)**	**(33,353,815)**	**256,650,267**

Dihlabeng Local Municipality
Dihlabeng Local Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2012

	Cost/Revaluation				Accumulated depreciation				
	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Other assets									
Motor vehicles	16,326,050	-	(626,399)	15,699,651	(7,680,624)	294,535	(907,299)	(8,293,388)	7,406,263
Office equipment	10,956,841	755,610	(216,555)	11,495,896	(5,002,408)	57,978	(1,417,622)	(6,362,052)	5,133,844
Bins and containers	1,258,589	-	(1,085)	1,257,504	(578,993)	705	(76,407)	(654,695)	602,809
Emergency Equipment	334,165	-	(31,178)	302,987	(113,517)	12,742	(20,883)	(121,658)	181,329
Furniture and equipment	2,488,420	1,017,888	(82,462)	3,423,846	(1,338,457)	53,929	(299,649)	(1,584,177)	1,839,669
Game stock	1,667,200	-	-	1,667,200	-	-	(367,300)	(367,300)	1,299,900
Office Equipment - Leased	15,731	-	-	15,731	-	-	-	-	15,731
Security equipment	6,139	-	-	6,139	(4,746)	-	(279)	(5,025)	1,114
Plant and equipment	15,834,617	648,795	(593,906)	15,889,506	(7,192,845)	379,090	(1,125,048)	(7,938,803)	7,950,703
	48,887,752	2,422,293	(1,551,585)	49,758,460	(21,911,590)	798,979	(4,214,487)	(25,327,098)	24,431,362
Total property plant and equipment									
Land and buildings	441,936,531	190,602	-	442,127,133	(1,822,317)	-	(637,734)	(2,460,051)	439,667,082
Infrastructure	1,229,589,406	46,026,107	(4,488,991)	1,271,126,522	(197,158,296)	1,526,941	(68,304,357)	(263,935,712)	1,007,190,810
Community Assets	287,326,055	2,678,027	-	290,004,082	(24,891,847)	-	(8,461,968)	(33,353,815)	256,650,267
Other assets	48,887,752	2,422,293	(1,551,585)	49,758,460	(21,911,590)	798,979	(4,214,487)	(25,327,098)	24,431,362
	2,007,739,744	51,317,029	(6,040,576)	2,053,016,197	(245,784,050)	2,325,920	(81,618,546)	(325,076,676)	1,727,939,521
Intangible assets									
Computer software	1,983,342	-	-	1,985,325	(1,723,489)	-	(629,085)	(2,352,574)	(367,249)
	1,983,342	-	-	1,985,325	(1,723,489)	-	(629,085)	(2,352,574)	(367,249)
Investment properties									
Investment property	76,471,194	-	-	76,471,194	(7,407,855)	-	(2,410,418)	(9,818,273)	66,652,921
	76,471,194	-	-	76,471,194	(7,407,855)	-	(2,410,418)	(9,818,273)	66,652,921
Total									
Land and buildings	441,936,531	190,602	-	442,127,133	(1,822,317)	-	(637,734)	(2,460,051)	439,667,082
Infrastructure	1,229,589,406	46,026,107	(4,488,991)	1,271,126,522	(197,158,296)	1,526,941	(68,304,357)	(263,935,712)	1,007,190,810
Other assets	48,887,752	2,422,293	(1,551,585)	49,758,460	(21,911,590)	798,979	(4,214,487)	(25,327,098)	24,431,362
Intangible assets	1,983,342	-	-	1,985,325	(1,723,489)	-	(629,085)	(2,352,574)	(367,249)
Investment properties	76,471,194	-	-	76,471,194	(7,407,855)	-	(2,410,418)	(9,818,273)	66,652,921
	2,086,194,280	51,317,029	(6,040,576)	2,131,472,716	(254,915,394)	2,325,920	(84,658,049)	(337,247,523)	1,794,225,193

Dihlabeng Local Municipality
Appendix C

Segmental analysis of property, plant and equipment as at 30 June 2010

	Cost/Revaluation				Accumulated Depreciation				
	Opening Balance Rand	Additions Rand	Disposals Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Closing Balance Rand	Carrying value Rand
Municipality									
Mayor	484,313	11,913	(1,402)	494,824	(59,179)	540	(19,653)	(78,292)	416,532
Finance & Admin/Finance	53,452,103	1,314,836	(154,771)	54,612,168	(6,531,397)	59,594	(2,169,094)	(8,640,897)	45,971,271
Planning and Development/Economic	2,575,022	63,341	(7,456)	2,630,907	(314,646)	2,871	(104,495)	(416,270)	2,214,637
Development/Plan									
Corporate services	4,637,222	114,068	(13,427)	4,737,863	(566,630)	5,170	(188,179)	(749,639)	3,988,224
Comm. & Social/Libraries and archives	577,493,655	14,205,417	(1,672,133)	590,026,939	(70,564,867)	643,854	(23,434,771)	(93,355,784)	496,671,155
Mayoral office administration	5,325,503	130,999	(15,420)	5,441,082	(650,732)	5,937	(216,110)	(860,905)	4,580,177
Municipal manager adiministration	73,460,396	1,807,008	(212,705)	75,054,699	(8,976,243)	81,902	(2,981,033)	(11,875,374)	63,179,325
Public works	1,368,766,065	33,669,447	(3,963,262)	1,398,472,250	(167,251,700)	1,526,052	(55,544,714)	(221,270,362)	-
Total	**2,086,194,279**	**51,317,029**	**(6,040,576)**	**2,131,470,732**	**(254,915,394)**	**2,325,920**	**(84,658,049)**	**(337,247,523)**	**617,021,321**
Municipality	2,086,194,279	51,317,029	(6,040,576)	2,131,470,732	(254,915,394)	2,325,920	(84,658,049)	(337,247,523)	617,021,321
	2,086,194,279	**51,317,029**	**(6,040,576)**	**2,131,470,732**	**(254,915,394)**	**2,325,920**	**(84,658,049)**	**(337,247,523)**	**617,021,321**

Dihlabeng Local Municipality
Appendix D

Segmental Statement of Financial Performance for the year ended

Prior Year Actual Income Rand	Prior Year Actual Expenditure Rand	Prior Year Surplus /(Deficit) Rand		Current Year Actual Income Rand	Current Year Actual Expenditure Rand	Current Year Surplus /(Deficit) Rand
			Municipality			
-	4,664,373	(4,664,373)	Executive & Council/Mayor and Council	-	6,492,406	(6,492,406)
69,137,763	21,726,218	47,411,545	Finance & Admin/Finance	90,767,441	29,066,728	61,700,713
65,320	5,192,546	(5,127,226)	Planning and Development/Economic Development/Plan	65,898	4,547,449	(4,481,551)
32,387,941	37,624,927	(5,236,986)	Comm. & Social/Libraries and archives	36,270,812	12,220,258	24,050,554
329,772	-	329,772	Housing	227,813	-	227,813
1,659,607	97,791,468	(96,131,861)	Public Safety/Police	1,764,209	98,795,054	(97,030,845)
110,682,582	250,411,109	(139,728,527)	Sport and Recreation	63,606,803	231,726,235	(168,119,432)
173,853,655	93,285,966	80,567,689	Waste Water Management/Sewerage	216,794,988	100,373,886	116,421,102
43,316,942	35,672,851	7,644,091	Road Transport/Roads	116,979,802	28,601,636	88,378,166
431,433,582	**546,369,458**	**(114,935,876)**		**526,477,766**	**511,823,652**	**14,654,114**
			Municipal Owned Entities			
			Other charges			
431,433,582	546,369,458	(114,935,876)	Municipality	526,477,766	511,823,652	14,654,114
431,433,582	**546,369,458**	**(114,935,876)**	**Total**	**526,477,766**	**511,823,652**	**14,654,114**

Dihlabeng Local Municipality
Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rendering of services	1,463,284	1,569,113	(105,829)	(6.7)	
Property rates	67,323,155	63,215,119	4,108,036	6.5	
Service charges	244,118,183	218,780,983	25,337,200	11.6	Consumers used more services than anticipated.
Sales of housing	44,178	37,499	6,679	17.8	More houses were sold than anticipated.
Gains on disposal of assets	1,500,000	-	1,500,000	-	
Rental of facilities and equipment	2,953,054	3,706,861	(753,807)	(20.3)	Lesser consumers rented the facilities of the Municiaplity.
Interest received (trading)	19,858,218	17,928,263	1,929,955	10.8	The increase is due to the increase in debtors.
Fines	641,082	467,318	173,764	37.2	A new system was implemented for traffic fines which exceeded expectations.
Licences and permits	27,563	17,548	10,015	57.1	More consumers paid for licences.
Government grants & subsidies	190,544,628	156,528,785	34,015,843	21.7	The municipality received an additional grant to speed up the water infrastructure projects.
Other income	4,031,170	-	4,031,170	-	
Interest received - investment	9,420	-	9,420	-	
	532,513,935	462,251,489	70,262,446	15.2	
Expenses					
Employee costs	(142,710,962)	(136,319,073)	(6,391,889)	4.7	
Remuneration of councillors	(12,888,264)	(12,888,264)	-	-	
Depreciation	(79,570,122)	(48,979,131)	(30,590,991)	62.5	The anticipated additions and impairment of assets during the year could not be determined when the budget was prepared.
Amortisation	-	-	-	-	
Finance costs	(6,219,442)	(4,733,953)	(1,485,489)	31.4	The DBSA loan was re-structured during the year and therefore the increase in the finance costs.
Debt impairment	(85,708,586)	(13,499,656)	(72,208,930)	534.9	The increase in the debt impairment was due to the non-payment of service accounts.
Repairs and maintenance - General	(17,723,644)	(23,790,026)	6,066,382	(25.5)	More expenditure were capitalised instead of doing repairs and maintenance.
Bulk purchases	(83,154,096)	(110,000,000)	26,845,904	(24.4)	The expected increase in Eskom tariffs was higher than the actual increase.
Contracted Services	(2,533,103)	(2,075,239)	(457,864)	22.1	The cost for the meter reading services increased as the disconnection of services are also included in contracted services.

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012

	Current year 2012 Act. Bal.	Current year 2012 Adjusted budget	Variance		Explanation of Significant Variances greater than 10% versus Budget
Grants and subsidies paid	(5,734,041)	(3,307,447)	(2,426,594)	73.4	More indigents received a subsidy than what was budgeted for.
Loss on disposal / write off of assets	(6,125,073)	-	(6,125,073)	-	
General Expenses	(81,344,604)	(106,658,700)	25,314,096	(23.7)	The municipality spend less on general expenses than budgeted as unneccesary expenditure were eliminated.
Other revenue and costs	(523,711,937)	(462,251,489)	(61,460,448)	13.3	
Gain or loss on disposal of assets and liabilities	-	-	-	-	
Fair value adjustments	6,219,417	-	6,219,417	-	
Gain or loss on disposal of non-current assets held for sale or disposal groups	(367,300)	-	(367,300)	-	
	5,852,117	-	5,852,117	-	
Net surplus/ (deficit) for the year	14,654,115	-	14,654,115	-	

Dihlabeng Local Municipality
Appendix E(2)

Budget Analysis of Capital Expenditure as at 30 June 2012

	Additions	Original Budget	Revised Budget	Variance	Variance	Explanation of significant variances from budget
	Rand	Rand	Rand	Rand	%	
Municipality						
Property plant and equipment	51,317,029	96,743,746	77,647,000	26,329,971	34	The variance is due to capital projects that is still work in progress and should be completed in the next financial year.
	51,317,029	**96,743,746**	**77,647,000**	**26,329,971**	**34**	

Dihlabeng Local Municipality
Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
		Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Yes/ No
Equitable Share	National Government	48,255,000	-	66,596,000	-	24,127,500	24,127,500	33,298,000	33,298,000	Yes
Municipal Systems Improvement Grant	National Government	790,000	-	-	-	197,500	197,500	197,500	197,500	Yes
Municipal Infrastructure Grant	National Government	21,803,000	-	20,844,000	-	4,012,552	11,651,497	15,377,283	11,605,668	Yes
Financial Management Grant	National Government	1,450,000	-	-	-	362,500	362,500	362,500	362,500	Yes
Department of Water Affairs Grant	National Government	990,624	3,882,235	18,879,005	10,635,572	990,624	3,882,235	5,633,124	15,885,866	Yes
COGTA Grant	Provincial Government	-	-	-	-	-	-	2,895,655	-	Yes
		-	-	-	-	-	-	-	-	Yes
		73,288,624	3,882,235	106,319,005	10,635,572	29,690,676	40,221,232	57,764,062	61,349,534	

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