



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

Auditor-General of South Africa (AGSA)
Issued 31 August 2012

Setsoto Local Municipality

General Information

Legal form of entity	Municipality
Mayor	Jakobo, Tshediso
Executive Committee	Koalane, Komane Mthimkhulu, Motena Mahlangu, Matseliso Lithebe, Moeletsi Makae, Thabang Strydom, Evert
Councillors	Mohlomi, Molefi - Speaker Mothibeli, Moselantja Mohapi, Dieketseng Mokhuoane, Krog Motsei, Matlakala Selasi, Motsamai Modire, Lehlaku Nakasi, Mojabeng Bath, Henry Thamae, Motsamai Makhalanyane, Tieho Mohala, Vunga Kere, Lefa Mavaliso, Pakalitha Maduna, Mbothoma Semahla, Mookho Maphisa, Mapuleng Musu, Tshepiso Tsolo, Thabiso Malebo, Matsiliso Fuso, Sabata Raboroko, Mantwa Mohase, Teboho Selai, Lithebe Lubbe, Cornelias Du Toit, Benjamin Marwick, Clive (Dr) Bester, Catherine
Grading of local authority	06
Accounting Officer	S T R Ramakarane
Chief Finance Officer (CFO)	D J Van Tonder (Acting)

Setsoto Local Municipality

General Information

Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank (FNB)
Auditors	Auditor-General of South Africa (AGSA)
Telephone Number	(051) 933 9300
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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of Southern Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act [Act No. 56 of 2003]
MIG	Municipal Infrastructure Grant

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

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

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

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

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

The annual financial statements set out on pages 5 to 43, which have been prepared on the going concern basis (Please refer to Note 47), were approved by the accounting officer on 31 August 2012 :

Accounting Officer
S T R Ramakarane

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Statement of Financial Position as at 30 June 2012

	Note	2012 R	2011 R
Assets			
Current Assets			
Inventories	6	1 705 451	1 744 376
Investments	7	3 729 474	10 006 881
Other receivables from non-exchange transactions	5	25 351 562	20 987 794
VAT receivable	12	18 485 335	12 414 187
Trade and Other Receivables from Exchange Transactions	4	78 878 124	70 231 973
Current Portion of Receivables		3 573	3 573
Cash and cash equivalents	3	814 278	4 300 406
		128 967 797	119 689 190
Non-Current Assets			
Property, plant and equipment	8	270 004 742	210 513 554
Investments	7	1 167 713	1 131 714
Non Current Receivables		4 866	8 439
		271 177 321	211 653 707
Total Assets		400 145 118	331 342 897
Liabilities			
Current Liabilities			
Current Portion of Borrowings		481 389	3 342 020
Current Portion of Finance lease Liability	15	1 729 946	4 255 768
Trade and other payables from exchange transactions	9	35 355 453	25 671 567
VAT Payable	11	33 486 651	22 512 143
Consumer deposits	10	2 168 198	1 997 051
Current Portion of Unspent conditional grants and receipts	14	14 298 070	28 062 562
Current Provisions	13	493 643	896 175
Bank overdraft	3	15 096 863	31 241 798
		103 110 213	117 979 084
Non-Current Liabilities			
Non Current Borrowings		8 452 149	8 075 240
Current Portion of Finance lease Liability	15	637 756	2 437 369
Current Provisions	13	4 620 492	3 957 634
		13 710 397	14 470 243
Total Liabilities		116 820 610	132 449 327
Net Assets		283 324 508	198 893 570
Net Assets			
Revaluation reserve	48&48	28 724 876	28 471 476
Housing Development Fund		271 297	271 297
Accumulated surplus		254 328 335	170 150 797
Total Net Assets		283 324 508	198 893 570

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Statement of Financial Performance for the year ended 30 June 2012

	Note(s)	2012 R	2011 R
Revenue from exchange transactions			
Service charges	17	83 218 921	95 427 270
Rental of facilities and equipment	18	131 818	435 891
		83 350 73	95 863 16
Revenue from non-exchange transactions			
Property rates	16	28 459 664	23 679 681
Interest earned - Outstanding Receivables		27 280 406	11 835 982
Fines		386 664	296 925
Licences and permits		12 115	756
Government grants & subsidies	20	234 546 666	206 606 760
Sale of land		20 041	1 184 211
Other income	21	1 634 064	1 466 897
Interest earned - External investment	19	1 577 540	2 344 364
Total Revenue		377 267 899	343 278 737
Expenses			
Employee Related Cost	22	(90 247 776)	(82 152 482)
Remuneration of councillors	23	(8 223 103)	(8 143 684)
Depreciation and amortisation expense	25	(17 917 661)	(18 613 645)
Finance costs	26	(1 874 590)	(2 850 122)
Bad Debts	24	(44 160 224)	(56 657 462)
Repairs and maintenance		(15 230 392)	(11 955 766)
Bulk purchases	27	(44 284 271)	(30 341 173)
Contracted services		(726 892)	-
Grants and subsidies paid	28	(7 894 262)	(13 384 929)
General Expenses	29	(41 867 564)	(47 134 617)
Total Expenses		(272 426 735)	(271 233 880)
Surplus for the year		104 841 164	72 044 857

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Statement of Changes in Net Assets for the year ended 30 June 2012

	Revaluation reserve	Housing development fund	Total reserves	Accumulated surplus	Total net assets
	R	R	R	R	R
Balance at 01 July 2010	-	271 810	271 810	287 420 972	287 692 782
Revaluations: Land and buildings	28 471 476	-	28 471 476	-	28 471 476
Net income (losses) recognised directly in net assets	28 471 476	-	28 471 476	-	28 471 476
Surplus/(deficit) for the period	-	-	-	72 044 857	72 044 857
Total recognised income and expenses for the period	28 471 476	-	28 471 476	72 044 857	100 516 333
Correction Asset Register	-	(513)	(513)	(189 315 032)	(189 315 545)
Total changes	28 471 476	(513)	28 470 963	(117 270 175)	(88 799 212)
Opening balance as previously reported	28 471 476	271 297	28 742 773	128 823 547	157 566 320
Adjustments					
Correction of prior period error	-	-	-	20 663 624	20 663 624
Balance at 01 July 2011 as restated	28 471 476	271 297	28 742 773	149 487 171	178 229 944
Other 1	253 400	-	253 400	-	253 400
Net income (losses) recognised directly in net assets	253 400	-	253 400	-	253 400
Surplus/(deficit) for the period	-	-	-	104 841 164	104 841 164
Total recognised income and expenses for the year	253 400	-	253 400	104 841 164	105 094 564
Total changes	253 400	-	253 400	104 841 164	105 094 564
Balance at 30 June 2012	28 724 876	271 297	28 996 173	254 328 335	283 324 508
Note(s)	48				

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Cash flow statement for the year ended 30 June 2012

	Note(s)	2012 R	2011 R
Cash flows from operating activities			
Receipts			
Taxation		21 110 275	23 679 681
Sale of goods and services		78 627 838	95 427 271
Grants		219 917 000	198 301 938
Interest income received		1 577 540	2 344 364
Other receipts		2 032 843	15 220 663
		323 265 496	334 973 917
Payments			
Employee costs		(98 470 879)	(89 885 406)
Interest Paid		(1 874 590)	(2 850 122)
Suppliers		(111 877 971)	(182 990 377)
		(212 223 440)	(275 725 905)
Undefined difference compared to the cash generated from operations note		(1)	-
Net cash flows from operating activities	30	111 042 055	59 248 012
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(77 941 025)	(66 610 886)
Purchase of investment property		-	(483 010)
Proceeds from Call Investments		6 241 408	4 336 032
Proceeds from Non Current receivables		3 573	3 573
Net cash flows from investing activities		(71 696 044)	(62 754 291)
Cash flows from financing activities			
Repayment of current portion of borrowings		(2 483 722)	(3 074 650)
Finance lease payments		(4 325 435)	(3 827 067)
Net cash flows from financing activities		(6 809 157)	(6 901 717)
Net increase/(decrease) in cash and cash equivalents		32 536 854	(10 407 996)
Cash and cash equivalents at the beginning of the year		(26 941 392)	(16 533 400)
Cash and cash equivalents at the end of the year	3	5 595 462	(26 941 396)

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Accounting Policies for the year ended 30 June 2012

1. Presentation of Annual Financial Statements

Setsoto Local Municipality is a local government institution. The address of its registered office, principal place of business and its principal activities are disclosed under "General Information" in the annual report.

2. Basis of Accounting

2.1 Statement of compliance

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. In accordance with section 122 (3) of the Municipal Finance management Act [Act No. 56 of 2003]

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

2.2 Standards, amendments to Standards and Interpretations issued and Effective

The following GRAP standards have been issued and are effective from the 01 July 2009 and have been adopted by the municipality subject to Directive 4.

Reference	Topic
GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4	The Effects of Changes in Foreign Exchange Rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events After the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 100	Non-current Assets Held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets

The following standards, amendments to standards and interpretations have been issued and are not effective and have been implemented by the municipality:

	Effective Date
GRAP 21 Impairment of Non Cash Generating Assets	01 April 2012
GRAP 23 Revenue from Non Exchange Transactions	01 April 2012
GRAP 24 Presentation of Budget Information in the Financial Statements	01 April 2012
GRAP 26 Impairment of Cash Generating Assets	01 April 2012
GRAP 103 Heritage Assets	01 April 2012
GRAP 104 Financial Instruments	01 April 2012

2.3 Functional and presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 Going concern assumption

The annual financial statements have been prepared on a going concern basis. Refer to Note 32 for a detailed information.

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Accounting Policies for the year ended 30 June 2012

2.5 Housing development fund

The Housing Development Fund was established in terms of the Housing Act (Act No. 107 of 1997). Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, requires that the municipality should maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires, in terms of Section 14(4)(d)(ii)(aa) – read with, inter alia, Section 16(2) – that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account, and be utilised by the municipality for housing development in accordance with the National Housing Policy.

2.6 Property, plant and equipment

The municipality has fully adopted the standard subject to the provisions of directive 4.

Initial recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

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 a combination of monetary and non-monetary assets, the cost of the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset given up.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified as investment property.

When the use of a property changes from owner-occupied to investment property carried at fair value using the fair value model, the property is remeasured to fair value and reclassified as investment property. Any gain or loss arising on remeasurement is treated in the same way as a revaluation in terms of GRAP 17 as follows:

- any resulting decrease in the carrying amount of the property is recognised in surplus or deficit. However, to the extent that an amount is included in a revaluation surplus for that property, the decrease is charged against that revaluation surplus.
- any resulting increase in the carrying amount is treated as follows:
- to the extent that the increase reverses a previous impairment loss for that property, the increase is recognised in surplus or deficit. The amount recognised in surplus or deficit does not exceed the amount needed to restore the carrying amount to the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised.
- any remaining part of the increase is credited directly to the revaluation surplus in net assets. On subsequent disposal of the investment property, the revaluation surplus included in net assets may be transferred to accumulated surpluses or deficits. The transfer from revaluation surplus to accumulated surpluses or deficits is not made through surplus or deficit.

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

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

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

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

The revaluation surplus relating to a specific item of property, plant and equipment is transferred directly to accumulated surplus or deficit when the asset is derecognised.

Subsequent cost

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Accounting Policies for the year ended 30 June 2012

2.6 Property, plant and equipment (continued)

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits or service potential associated with the item will flow to the municipality and the cost or fair value of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

The costs of the day-to-day servicing of property, plant and equipment are recognised in surplus or deficit as incurred.

Depreciation

Depreciation is calculated over the depreciable amount using the straight line method.

Depreciation commences when an asset is available for use and ceases at the earlier of the date that the asset is derecognised or classified as held for sale in accordance with GRAP 100 *Non-current assets held for sale and discontinued operations*. A non-current asset or disposal group is not depreciated while it is classified as held for sale.

Depreciation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Heritage assets and land are not depreciated.

Rehabilitation costs capitalised to the cost of landfill sites are written off on a straight-line basis over the estimated useful lives of the sites.

Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the municipality will obtain ownership by the end of the lease term.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

The useful lives for the current and previous financial year are as follows:

Item	Estimated useful life
Buildings	
• Land and Buildings	30
Infrastructure assets	
• Electricity	20 - 30
• Roads	10 - 30
• Water	15 - 20
• Sewerage	15 - 20
Community assets	
• Buildings	30
• Recreational facilities	20
• Security measures	3 - 5
Other assets	
• Office equipment	3 - 7
• Furniture and fittings	7 - 10
• Motor vehicles	5 - 7
• Buildings	30
• Specialised vehicles	20
• Emergency equipment	5 - 15
• Plant and equipment	2 - 5
• Specialised plant and equipment	10 - 15

Depreciation methods, useful lives and residual values 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.

Spare parts

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

Derecognition

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Accounting Policies for the year ended 30 June 2012

2.6 Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised on disposal or when no future economic benefits or service potential is expected from its continued use or disposal.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other revenue in surplus or deficit.

Leased assets

Leases in terms of which the municipality assumes substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases. Upon initial recognition of assets leased under finance leases, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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

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

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

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

2.7 Impairment

Financial assets

A financial asset, not carried at fair value through profit or loss, is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the municipality on terms that the municipality would not consider otherwise and indications that a debtor or issuer will enter bankruptcy.

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.

The municipality considers evidence of impairment at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. A report on the various categories of customers is drafted to substantiate the impairment evaluation. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the municipality uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in surplus or deficit and reflected in an allowance account against receivables. If impaired financial assets are written off, the write off is made against the allowance account. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through surplus or deficit, subject to the restriction that the carrying amount of the financial instrument shall not exceed what the amortised cost would have been had the impairment not been recognised.

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Accounting Policies for the year ended 30 June 2012

2.7 Impairment (continued)

Impairment losses on available-for-sale financial assets are recognised by transferring the cumulative loss that has been recognised in net assets, and presented in the fair value reserve, to surplus or deficit. The cumulative loss that is removed from the fair value reserve and recognised in surplus or deficit is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in surplus or deficit. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in surplus or deficit, then the impairment loss is reversed, with the amount of the reversal recognised in surplus or deficit. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in net assets.

Impairment losses are not subsequently reversed for equity instruments which are carried at cost because fair value was not determinable.

Non-financial assets

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.

The carrying amounts of the municipality's cash generating non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated annually.

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. For the purpose of impairment testing, assets are therefore grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in surplus or deficit.

Impairment losses recognised in respect of cash-generating units are allocated on a pro rata basis to reduce the carrying amounts of the other assets in the unit. The allocation of impairment losses to assets in a cash generating unit may not reduce the carrying amount of such assets below the highest of its fair value less costs to sell, value in use and zero.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of its recoverable amount the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

2.8 Inventories

Cost

The cost of inventories comprises all costs of purchase, cost of conversion and other cost incurred in bringing the inventory to its present location and condition. Where inventories are acquired at no cost, or for nominal consideration, the cost is deemed to be the fair value as at the date of acquisition. Cost is generally determined using the weighted average method except where stated otherwise.

Subsequent measurement

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Accounting Policies for the year ended 30 June 2012

2.8 Inventories (continued)

Consumable stores, raw materials, work-in-progress and finished goods are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

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

Unsold properties are measured at the lower of cost and net realisable value on a weighted average cost basis.

Redundant and slow-moving inventories are identified and written down to net realisable value and sold by public auction.

The amount of any write-down of inventories to net realisable value 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, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Water inventory

Water inventory represents water housed in dams within the municipal area and is measured at the lower of cost, which is deemed to be fair value, and net realisable value.

Readings of water levels are taken at year-end, which is quantified at the above fair value.

1.1 Investments

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

2.9 Financial instruments

Classification

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

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less an allowance for impairment losses.

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the municipality's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Held-to-maturity investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity. Held-to-maturity investments are initially recognised at fair value plus direct transaction costs. At subsequent reporting dates, held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the municipality from classifying investment securities as held-to-maturity for the current and the following two financial years.

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Accounting Policies for the year ended 30 June 2012

2.9 Financial instruments (continued)

Financial guarantee contracts

Financial guarantees are contracts that require the municipality to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are recognised initially at fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee becomes probable. Financial guarantees are included in other liabilities.

The municipality does not account for financial guarantee contracts under IFRS 4 *Insurance Contracts*.

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.

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.

2.10 Tax

Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7 (1) (a) of the VAT Act in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

2.11 Revenue

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Accounting Policies for the year ended 30 June 2012

2.11 Revenue (continued)

Revenue from exchange transactions includes revenue from trading activities and other services provided while revenue from non-exchange transactions includes rates levied, fines, donations and grants from other spheres of government.

Revenue from exchange transactions

Revenue is generally recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits or service potential can be measured reliably, except when specifically stated otherwise. Revenue from the rendering of services is recognised in surplus or deficit in proportion to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable, net of value added tax, estimated returns, rebates and discounts.

Interest, royalties and dividends

Interest earned and rentals received is recognised as and when it accrues.

Rental income from operating leases is recognised when it accrues.

Dividends

Dividends are recognised on the date that the municipality's right to receive the dividend has been established.

Revenue from non-exchange transactions

Revenue from non-exchange transactions is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, the amount of the revenue can be measured reliably and, if applicable, there has been compliance with the relevant legal requirements or restrictions.

Rates and taxes

Revenue from rates, including collection charges and penalty interest, is recognised on a monthly basis when the taxes are levied as this is regarded to be the date when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and there has been compliance with the relevant legal requirements.

Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Revenue from the issuing of fines is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably.

Fines consist of spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

An estimate is made for revenue from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue is recognised when the public prosecutor pays the cash collected over to the municipality.

Receipt of community services in exchange for a fine is not recognised as revenue.

Donations and contributions

Revenue from donations is recognised when it is probable that the economic benefits or service potential will flow to the municipality, the amount of the revenue can be measured reliably and any restrictions associated with the donation have been met.

Revenue from donations is measured at the fair value of the consideration received or receivable which is the cash amount received or where the donation is in the form of property, plant and equipment, the fair value of the property, plant and equipment received or receivable.

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Accounting Policies for the year ended 30 June 2012

Revenue from non-exchange transactions (continued)

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

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

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the recognition criteria had been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

Revenue from conditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality the amount of the revenue can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

2.12 Provisions

A provision is recognised if, as a result of a past event, the municipality has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

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

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

2.13 Unauthorised expenditure

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

2.14 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000) and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the municipality's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the relevant authority, it is treated as a receivable until it is recovered or written off as irrecoverable.

2.15 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as a receivable in the statement of financial position until such expenditure is recovered or written off as irrecoverable.

2.16 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

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Accounting Policies for the year ended 30 June 2012

2.16 Leases (continued)

operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - municipality as 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.

Subsequent to initial recognition, the asset is account for in accordance with the accounting policy applicable to that asset.

Assets leased under operating leases, except for property interests held by the municipality as investment property, are not recognised in the statement of financial position.

Finance sale and leaseback

Operating sale and leaseback

2.17 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered.

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

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past service or performance and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

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

Defined benefit plans

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of all of the medical aid funds with which the municipality is associated, a member is entitled to remain a continued member of the medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. These medical aid funds are classified as defined benefit plans.

2.18 Donations and grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

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Accounting Policies for the year ended 30 June 2012

2.18 Donations and grants in aid (continued)

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised as expenses in surplus or deficit in the period that the events giving rise to the transfer occur.

2.19 Comparative figures

When the presentation or classification of items in the annual financial statements are amended, comparative amounts are reclassified. The nature and amounts of reclassifications as well as the reasons are disclosed in the relevant note.

2.20 Offsetting

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued property, plant and equipment are depreciated, through a transfer from the revaluation reserve to the accumulated surplus or deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus or deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

2.22 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalization of the borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalize borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	12 182	242 381
Bank balances	-	5 423
Short-term deposits	802 096	4 052 602
Bank overdraft	(15 096 863)	(31 241 798)
	(14 282 585)	(26 941 392)
Current assets	814 278	4 300 406
Current liabilities	(15 096 863)	(31 241 798)
	(14 282 585)	(26 941 392)
4. Trade and Other Receivables from Exchange Transactions		
Gross balances		
Rates	27 054 861	19 705 693
Electricity	39 341 277	28 718 156
Water	81 102 235	92 959 244
Sewerage	68 040 480	58 244 218
Refuse	94 694 215	80 926 665
Other (specify)	23 770 615	19 749 473
	334 003 683	300 303 449
Less: Provision for debt impairment		
Rates	(16 971 250)	(9 096 063)
Electricity	(11 211 429)	(8 757 858)
Water	(78 082 124)	(80 449 170)
Sewerage	(61 085 118)	(49 885 667)
Refuse	(85 398 599)	(70 620 247)
Other (specify)	(2 377 039)	(11 262 471)
	(255 125 559)	(230 071 476)
Net balance		
Rates	10 083 611	10 609 630
Electricity	28 129 848	19 960 298
Water	3 020 111	12 510 074
Sewerage	6 955 362	8 358 551
Refuse	9 295 616	10 306 418
Other (specify)	21 393 576	8 487 002
	78 878 124	70 231 973
Rates		
Current (0 -30 days)	2 583 090	894 049
31 - 60 days	2 342 290	494 856
61 - 90 days	1 788 509	457 788
91 - 120 days	1 042 816	13 977 259
121 - 365 days	19 298 156	3 881 517
Provision for bad debts	(16 971 250)	(9 095 839)
	10 083 611	10 609 630
Electricity		
Current (0 -30 days)	18 734 246	6 002 243
31 - 60 days	4 012 949	1 553 960
61 - 90 days	2 235 166	1 690 075
91 - 120 days	917 490	6 117 216

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
4. Trade and Other Receivables from Exchange Transactions (continued)		
121 - 365 days	13 441 426	7 212 846
Provision for bad debts	(11 211 429)	(8 757 858)
	28 129 848	19 960 298
Water		
Current (0 -30 days)	4 415 406	2 286 190
31 - 60 days	2 112 513	1 338 258
61 - 90 days	2 269 148	1 287 590
91 - 120 days	2 240 666	79 065 193
121 - 365 days	70 064 502	7 490 847
Provision for bad debts	(78 082 124)	(78 958 004)
	3 020 111	12 510 074
Sewerage		
Current (0 -30 days)	1 530 661	1 652 902
31 - 60 days	1 448 071	1 421 954
61 - 90 days	1 433 475	908 790
91 - 120 days	1 512 329	48 311 722
121 - 365 days	62 115 944	5 948 850
Provision for bad debts	(61 085 118)	(49 885 667)
	6 955 362	8 358 551
Refuse		
Current (0 -30 days)	1 967 618	1 955 445
31 - 60 days	1 815 527	1 141 475
61 - 90 days	1 864 262	1 117 422
91 - 120 days	1 960 621	68 574 869
121 - 365 days	87 086 187	8 137 448
Provision for bad debts	(85 398 599)	(70 620 241)
	9 295 616	10 306 418
Other (specify)		
Current (0 -30 days)	248 323	225 664
31 - 60 days	255 449	73 130
61 - 90 days	236 971	53 620
91 - 120 days	243 552	1 688 659
121 - 365 days	22 786 098	17 708 401
Provision for bad debts	(2 376 817)	(11 262 472)
	21 393 576	8 487 002
Summary of Trade and Other receivables by customer classification		
Consumers/Households		
Current (0 -30 days)	26 578 876	8 262 669
31 - 60 days	6 952 798	5 075 614
61 - 90 days	8 005 186	4 813 202
91 - 120 days	6 800 492	209 216 218
121 - 365 days	263 144 190	48 074 783
	311 481 542	275 442 486
Industrial / Commercial / Other		
Current (0 -30 days)	1 078 834	537 532
31 - 60 days	3 127 823	439 390
61 - 90 days	446 686	503 903
91 - 120 days	511 986	4 270 831
121 - 365 days	5 790 616	1 523 930
	10 956 945	6 275 586

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012 R	2011 R
4. Trade and Other Receivables from Exchange Transactions (continued)	10 955 945	7 275 586
National and provincial government		
Current (0 -30 days)	1 821 855	461 260
31 - 60 days	1 906 177	498 892
61 - 90 days	1 375 659	191 481
91 - 120 days	604 996	4 017 570
121 - 365 days	5 857 507	770 055
	11 566 194	5 939 258
Total		
Current (0 -30 days)	29 479 562	20 649 694
31 - 60 days	11 986 799	6 023 635
61 - 90 days	9 827 531	5 515 287
91 - 120 days	7 917 474	217 734 921
121 - 365 days	274 792 315	50 379 912
	334 003 681	300 303 449
Less: Provision for debt impairment	(255 125 560)	(230 071 476)
	78 878 121	70 231 973
Provision for debt impairment		
Total	(255 125 559)	(230 071 476)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(230 071 476)	(181 116 706)
Contributions to provision	(44 160 223)	(56 657 462)
Debt impairment written off against provision	19 106 140	7 702 692
	(255 125 559)	(230 071 476)
5. Other receivables from non-exchange transactions		
Government grants and subsidies	233 236	233 236
LED contributions and subsidies	1 284 602	1 284 602
District contributions and subsidies	18 759 507	18 602 805
Insurance claims	4 073 378	638 261
Prepayments (Various)	1 000 839	228 890
	25 351 562	20 987 794
6. Inventories		
Consumable stores	58 532	71 065
Maintenance materials	1 275 597	1 313 068
Water	371 322	360 243
	1 705 451	1 744 376
7. Investments		
At fair value through profit or loss - held for trading		
Listed shares	172 560	172 560
Sanlam Shares		
Unlisted shares	106 309	106 309
OVK / EFC Shares		
	278 869	278 869

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
7. Investments (continued)		
Held to maturity		
Investments	4 618 318	10 859 726
Fixed Deposits		
Non-current assets		
At fair value through profit or loss - held for trading	278 869	278 869
Held to maturity	888 844	852 845
	1 167 713	1 131 714
Current assets		
Held to maturity	3 729 474	10 006 881
	4 897 187	11 138 595

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land and Buildings	72 909 500	15 407	72 924 907	72 909 500	15 027	72 924 527
Leasehold property	15 358 668	(11 642 314)	3 716 354	15 358 668	(8 721 738)	6 636 930
Infrastructure	595 013 279	(419 764 287)	175 248 992	525 628 778	(406 518 025)	119 110 753
Community	12 093 294	-	12 093 294	5 459 350	-	5 459 350
Other property, plant and equipment	24 716 545	(18 695 350)	6 021 195	23 326 521	(16 944 527)	6 381 994
Total	720 091 286	(450 086 544)	270 004 742	642 682 817	(432 169 263)	210 513 554

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Transfers	Revaluations	Depreciation	Total
Land and Buildings	72 924 527	-	33 224	9 214	(42 058)	72 924 907
Leasehold property	6 636 930	-	-	-	(2 920 576)	3 716 354
Infrastructure	119 110 753	69 469 540	(88 497)	-	(13 242 804)	175 248 992
Community	5 459 350	6 633 944	265 357	-	(265 357)	12 093 294
Other property, plant and equipment	6 381 994	1 837 541	(700 517)	253 000	(1 750 823)	6 021 195
	210 513 554	77 941 025	(490 433)	262 214	(18 221 618)	270 004 742

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Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land and Buildings	42 472 595	-	30 451 932	-	-	-	72 924 527
Leasehold property	15 501 875	-	-	(13 188 655)	(2 953 616)	7 277 326	6 636 930
Infrastructure	261 061 189	62 086 756	-	18 161 184	(13 847 602)	(208 350 774)	119 110 753
Community	2 231 940	-	(1 965 430)	-	-	5 192 840	5 459 350
Other property, plant and equipment	1 886 417	4 524 130	-	9 733 701	(1 812 427)	(7 949 827)	6 381 994
	323 154 016	66 610 886	28 486 502	14 706 230	(18 613 645)	(203 830 435)	210 513 554

Assets subject to finance lease (Net carrying amount)

Leasehold property	3 716 354	6 636 930
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The Council obtain the services of a valuer to revalue the assets. Due to unforeseen circumstances the valuation could not be completed, and thus will the change of asset valuations being done once the outcome are made available during the audit process.

9. Trade and other payables from exchange transactions

Trade payables	218 402	741 620
Payments received in advance	11 699 680	6 141 816
Staff leave accrual	5 758 937	7 017 048
Bonus	2 091 547	2 074 198
Deposits received	2 000	3 200
Other payables	15 584 887	9 693 685
	35 355 453	25 671 567

10. Consumer deposits

Electricity	2 142 164	1 968 869
Other	26 034	28 182

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
10. Consumer deposits (continued)		
	<u>2 168 198</u>	<u>1 997 051</u>
Guarantees held in lieu of electricity and water deposits	-	-
11. VAT payable		
VAT payable	<u>33 486 651</u>	<u>22 512 143</u>
12. VAT receivable		
VAT receivable	<u>18 485 335</u>	<u>12 414 187</u>

VAT is payable on the receipts basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

13. Current Provisions

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Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

13. Current Provisions (continued)

Reconciliation of current provisions - 2012

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	2 412 070	739 566	(76 708)	3 074 928
Long service bonus	896 175	-	(402 532)	493 643
Employee benefit cost	1 545 564	-	-	1 545 564
	4 853 809	739 566	(479 240)	5 114 135

Reconciliation of current provisions - 2011

	Opening Balance	Additions - Increase due to unwinding of discount	Utilised during the year	Total
Environmental rehabilitation	1 755 494	739 566	(82 990)	2 412 070
Long service bonus	760 007	136 168	-	896 175
Employee benefit cost	1 600 804	-	(55 240)	1 545 564
	4 116 305	875 734	(138 230)	4 853 809

Management is of the opinion according their fair value calculation that the provision made in respect of Long service bonus and Employee benefit are sufficient, neither that there are any overstatements of the said provisions.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG Grant	14 298 070	28 062 562
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Movement during the year

Balance at the beginning of the year	28 062 562	52 092 951
Received during the year	62 963 000	54 301 000
Income recognition during the year	(76 727 492)	(78 331 389)

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012 R	2011 R
14. Unspent conditional grants and receipts (continued)		
	14 298 070	28 062 562
<p>The Council concluded with the National Treasury repay an amount of R 11 million of unspent conditional grants (MIG) to the National Revenue Fund which will be payable within a period of twelve months.</p>		
15. Current Portion of Finance lease Liability		
Minimum lease payments due		
- within one year	1 878 996	4 712 091
- in second to fifth year inclusive	744 149	2 812 819
	2 623 145	7 524 910
less: future finance charges (in the second to fifth year)	(256 295)	(832 625)
Present value of minimum lease payments	2 366 850	6 692 285
Present value of minimum lease payments due		
- within one year	1 729 946	4 255 768
- in second to fifth year inclusive	636 904	2 436 517
	2 366 850	6 692 285
<p>The assets which are held under finance leases are vehicles, computers, faxes, and photo copy machines.</p> <p>The average lease term is 3 to 5 years and the average effective borrowing rate was 11.08% (2011: 11.70%).</p>		
16. Property rates		
Rates received		
Residential / Commercial	12 124 119	14 807 432
State	16 353 868	8 906 753
Less: Income forgone	(18 323)	(34 504)
	28 459 664	23 679 681
17. Service charges		
Sale of electricity	44 180 835	42 262 616
Sale of water	9 950 636	22 360 537
Sewerage and sanitation charges	13 412 316	14 282 748
Refuse removal	15 387 900	16 355 977
Other service charges	287 234	165 392
	83 218 921	95 427 270
18. Rental of facilities and equipment		
Rental of facilities	150 809	435 891
19. Interest Earned - External Investment		
Banks		
Total Banks	1 577 540	2 344 364

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to Rxxx (PY: Rxxx).

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
20. Government grants and subsidies		
Equitable share	144 525 000	133 873 936
Other Government Grant and Subsidies	9 696 434	1 950 000
MIG grant	80 325 232	70 782 824
	234 546 666	206 606 760

Equitable Share

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

All registered indigents receive an average subsidy of R 179 (2011: R -) monthly, which is funded from the grant.

MIG Grant

Balance unspent at beginning of year	28 062 562	48 978 206
Current-year receipts	-	52 351 000
Conditions met - transferred to revenue	-	(73 268 644)
	14 298 070	28 062 562

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

21. Other income

Administration and management fees received - third party	1 634 064	1 466 897
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Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
22. Employee related costs		
Basic	58 050 981	52 995 506
Medical contributions	6 493 193	4 696 462
UIF contributions	702 877	630 179
SDL	825 078	710 161
Pension contributions	9 740 131	7 955 318
Travel, motor car, accommodation, subsistence and other allowances	5 258 504	6 555 298
Overtime payments	3 988 499	3 073 742
Housing benefits and allowances	-	201 009
Bonus	4 347 252	2 532 071
Casual wages	570 984	555 763
Group insurance	-	133 928
Other # 6	30 577	-
Cellphone allowance	239 700	1 702 285
Long-service awards	-	410 760
	90 247 776	82 152 482

Remuneration of municipal manager

Annual Remuneration	696 704	828 039
Contributions to UIF, Medical and Pension Funds	94 096	167 175
Travel, motor car, accommodation, subsistence and other allowances	121 200	68 471
	912 000	1 063 685

The Municipal Manager was appointed on 1 April 2012, while he was acting in the capacity from 1 November 2011 and during his term of acting he was remunerated by Cogta. Cost attributed to the previous Municipal Manager amounts to R 562 000.

Remuneration of Chief Finance Officer

Annual Remuneration	343 824	626 262
Contributions to UIF, Medical and Pension Funds	50 400	178 898
Travel, motor car, accommodation, subsistence and other allowances	276 941	164 416
	671 165	969 576

The position of the CFO was vacant for the year and thus being filled in an acting capacity by an employee of the municipality. The former CFO costs amounts to R 461 042.

Remuneration of Corporate Services Director

Annual Remuneration	477 507	664 304
Contributions to UIF, Medical and Pension Funds	96 239	204 682
Travel, motor car, accommodation, subsistence and other allowances	55 800	116 948
	629 546	985 934

The relevant Director was appointed as from 1 April 2012. Included are an amount of R451 796 in respect of the former Director.

Remuneration Community and Economic Services Director

Annual Remuneration	436 243	627 405
Contributions to UIF, Medical and Pension Funds	87 980	194 037
Travel, motor car, accommodation, subsistence and other allowances	68 400	151 503
	592 623	972 945

The relevant Director was appointed from 1 May 2012. Included are an amount of R 457 665 in respect of the former Director.

23. Remuneration of councillors

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
23. Remuneration of councillors (continued)		
Mayor	437 069	786 722
Speaker	349 652	-
Councillors	6 354 642	7 356 962
Executive Committee Members	1 081 740	-
	8 223 103	8 143 684
 In-kind benefits		
The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
24. Debt impairment		
Contributions to debt impairment provision	44 160 224	56 657 462
25. Depreciation and amortisation		
Property, plant and equipment	17 917 661	18 613 645
26. Interest Paid		
Bank	133 670	122 929
Current borrowings	1 740 920	2 727 193
	1 874 590	2 850 122
27. Bulk purchases		
Electricity	44 284 271	30 341 173
28. Grants and subsidies paid		
Other subsidies		
Distitutional help	7 894 262	8 605 529
Grants and donations	-	9 656
Free electricity - Eskom	-	4 769 744
	7 894 262	13 384 929

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
29. General expenses		
Advertising	422 165	398 661
Disaster management	67 856	93 683
Auditors remuneration	3 611 574	3 111 857
Bank charges	120 314	137 022
Billing charges	66 118	63 618
Chemicals	3 115 511	4 128 048
Cleaning	29 664	209 455
Town planning	44 622	385 273
Computer expenses	174 027	501 872
Conferences and delegations	16 000	74 034
Analysis	86 095	39 019
Consulting and professional fees	7 522 584	7 457 505
Consumables	16 901	142 299
Industrial council levy	-	31 976
Departmental administration cost	-	(1)
Departmental consumption	1 574 889	1 087 314
Entertainment	358 180	586 572
Ward committee expenses	3 543	400 466
Streetlight electricity consumption	1 418 740	4 856 411
Indigent and pauper burials	-	101 491
Fuel and oil	3 365 351	2 729 011
Skills development levy	612 995	758 060
Insurance	6 275 697	3 808 501
Lease rentals on operating lease	1 673 081	1 665 011
Levies paid	1 132	2 137 574
Youth expenditure	322 409	857 664
Casualty insurance	436 971	129 448
Other expenses	218 943	1 773 498
Postage and courier	999 918	999 228
Printing and stationery	1 207 102	1 095 928
Publicity	458 920	1 198 840
Protective clothing	43 154	80 455
License fees	967 236	817 340
Security (Guarding of municipal property)	64 285	55 933
Subscriptions and membership fees	11 401	10 695
Telephone and fax	4 233 050	1 162 192
Valuation costs	2 128	294 130
Training	584 502	1 678 752
Travel and subsistence	1 443 935	1 901 176
IDP establishment	296 571	174 606
	41 867 564	47 134 617
30. Cash generated from operations		
Surplus	104 841 164	72 044 857
Adjustments for:		
Depreciation and amortisation	17 917 661	18 613 645
Debt impairment	44 160 224	56 657 462
Movements in provisions	260 326	737 504
Other non-cash items	-	276 638
Changes in working capital:		
Inventories	38 925	(462 495)
Other receivables from non-exchange transactions	(4 363 768)	943 669
Consumer debtors	(58 948 191)	(70 959 158)
Trade and other payables from exchange transactions	15 825 699	4 928 009
VAT receivable / payable (Amend as appropriate)	(6 071 148)	(9 978 747)
Taxes and transfers payable (non exchange)	10 974 508	10 443 651
Unspent conditional grants and receipts	(13 764 492)	(24 030 389)
Consumer deposits	171 147	33 366
	111 042 055	59 248 012

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
31. Capital commitments		
31.1 Commitments in respect of capital expenditure		
Approved and contracted for		
• Infrastructure	64 196 602	74 244 587
• Community	8 382 398	-
• Other	3 800 000	-
	76 379 000	74 244 587
Approved but not yet contracted for		
• Infrastructure	-	4 380 940
	-	4 380 940
This expenditure will be financed from		
• Government grants	76 379 000	78 625 527
• Own resources	-	-
	76 379 000	78 625 527

32. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- entities that are directly or indirectly controlled by the municipality;
- associates;
- joint ventures and management;
- key management personnel, and close members of the family of key management personnel;
- entities in which a substantial ownership interest is held, directly or indirectly, by key management personnel or entities over which such a person is able to exercise significant influence.
- entities that control or exert significant influence over the municipality

The economic entity's key management personnel includes the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

In terms of the MFMA, the municipality may not grant loans to its councillors, management, staff and public with effect from 1 July 2004. Details of loans, together with the conditions thereof, granted prior to this date are disclosed below.

Related party transactions

Purchases from (sales to) related parties

E R B Marketing (Website design and maintenance)	180 000	180 000
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The I T Specialist have close family relations with the management of ERB Marketing who maintain the web site of council.

33. Comparative figures

Certain comparative figures have been reclassified.

Statement of financial position

Current Portion of Unspent conditional grants and receipts (District grant)	-	8 175 155
Other receivables from non-exchange transactions (LED grant)	-	1 100 387

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
34. Unauthorised expenditure		
Reconciliation of unauthorised expenditure		
Opening balance	21 181 328	74 834 259
Unauthorised expenditure - current year	3 737 914	21 141 328
Approval by Council or Condoned	-	(74 794 259)
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
	24 919 242	21 181 328

Details of Unauthorised expenditure:

Credit card paymeny without documentation - R 40 000

Employees costs, Bad debts, Collection costs expenditure 2010/2011 exceeded - R 21 141 328

Purchase of equipment and services during protest action - R 3 737 914

35. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	11 038 059	1 347 142
Fruitless and wasteful expenditure - current year	69 278	9 690 917
Condoned or written off by Council	-	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	11 107 337	11 038 059

Legal fees - Former Senekal TLC Councillors (2006/07 - R 610 424)

Payment made to W Vries (2009/10 - R 42 225)

Payment made to Vic Computers (2009/10 - R 60 840)

Payment to Biofresh personnel wages (2006 to 2011 - R 8 676 165)

Penalties and interest (2009 to 2011 - R 1 021 485)

VAT incorrectly claimed on PPE (2010/11 - R 626 920)

Penalties and interest (2011/12 - R 69 278)

36. Irregular expenditure

Opening balance	31 471 656	27 108 966
Irregular Expenditure - current year	15 347 351	4 362 690
Amounts condoned or written off by Council	-	-
Transfer to receivables for recovery - not condoned	-	-
Irregular expenditure awaiting condonement	-	-
	46 819 007	31 471 656

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R
36. Irregular expenditure (continued)		
Details of irregular expenditure - Current year		
Current year	-	2 000 000
Eskom payments	-	2 362 690
Intervention in Roads, Electricity, Sewer and Water maintenance	15 347 351	-
	15 347 351	4 362 690
Details of irregular expenditure - Prior years		
Councillors paid in excess of the upper limits 2007/08		687 587
Councillors paid in excess of the upper limits 2008/09		173 820
Unspent conditional grants in terms of DoRA 2007/08		13 502 314
Maxprof expences paid for the recovery of VAT 2008/09		1 319 322
Non availability of Tender Documents 2008/09		842 016
Long-term lease not approved by Council i.t.o MFMA 2008/09		5 139 560
Payments where SCM procedures were not followed 2009/10		2 709 761
Long-term lease not approved BY Council i.t.o MFMA 2009/10		2 734 586
Previous year 2010/11		2 000 000
Eskom payments 2010/11		2 362 690
		31 471 656
37. Auditors' remuneration		
Fees	3 611 574	3 111 857
38. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	435 185
Audit fees		
Current year subscription / fee	3 624 137	3 111 857
Amount paid - current year	(3 624 137)	(3 111 857)
	-	-
Additional text		
PAYE and UIF		
Current year subscription / fee	10 927 445	8 468 466
Amount paid - current year	(10 927 445)	(8 468 466)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	23 563 297	24 453 103
Amount paid - current year	(23 563 297)	(24 453 103)
	-	-
VAT		
VAT receivable	18 485 335	12 414 187

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R

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

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

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

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
Councillor M Mthimhulu	520	5 991	6 511
Councillor M Thamae	695	6 753	7 448
Councillor S Mohala	604	3 837	4 441
Councillor P Mavaleliso	724	4 100	4 824
Councillor T Muso	421	265	686
Councillor M Mahlangu	541	744	1 285
Councillor S Fuso	1 008	19 600	20 608
Councillor M Raboroko	740	11 146	11 886
Councillor S Setai	658	4 953	5 611
	5 911	57 389	63 300

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor T.B Jakobo	532	4 370	4 902
Councillor M. Malebo	482	1 401	1 883
Councillor M. Malebo	778	7 390	8 168
Councillor T.D Zim	374	1 035	1 409
Councillor T.D Zim	440	6 995	7 435
	2 606	21 191	23 797

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

30 June 2012	Highest outstanding amount	Aging (in days)
Councillor M Mthimhulu	6 511	1 116
Councillor M Thamae	7 448	919
Councillor S Mohala	4 441	669
Councillor P Mavaleliso	4 825	600
Councillor T Muso	687	150
Councillor M Mahlangu	1 286	180
Councillor S Fuso	20 608	1 839
Councillor M Raboroko	11 886	1 461
Councillor S Setai	5 611	775
	63 303	7 709

30 June 2011	Highest outstanding amount	Aging (in days)
Councillor T.B Jakobo	4 902	693
Councillor M. Malebo	1 883	244
Councillor M. Malebo	8 168	885
Councillor T.D Zim	1 409	230
Councillor T.D Zim	7 434	939
	23 796	2 991

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R

39. Deviation from supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulation, any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager (Accounting Officer). The expenses incurred below have been condoned by the Municipal Manager (Accounting Officer)

Incident	2012	2011
Deviations less than R 200,000	-	399 671
Deviations more than R 200,000	-	-
Total amount condoned	-	399 671

40. Revenue

Property rates	28 459 664	23 679 681
Service charges	83 218 921	95 427 270
Rental of facilities & equipment	131 818	435 891
Fines	386 664	296 925
Licences and permits	12 115	756
Government grants & subsidies	234 546 666	206 606 760
	346 755 848	326 447 283

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

Service charges	83 218 921	95 427 270
Rental of facilities & equipment	131 818	435 891
Licences and permits	12 115	756
	83 362 854	95 863 917

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

Property rates	28 459 664	23 679 681
Fines	386 664	296 925
Government grants & subsidies	234 546 666	206 606 760
	263 392 994	230 583 366

41. Other revenue

Sale of land	20 041	1 184 211
Other income	1 634 064	1 466 897
	1 654 105	2 651 108

42. Retirement Benefit Information

43.1 Defined Contribution Plan

The following are defined contribution plans; National Fund for Municipal Workers, SAMWU Provident Fund, Free State Provident Fund and SALA. The contributions have been expensed during the year.

An amount of R 7,529,091 (2010: R 7,529,091) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

43.2 Defined Benefit Plan

The following are defined benefit plans Free State Pension Fund; These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level detail.

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Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R

42. Retirement Benefit Information (continued)

An amount of R 426,228 (2010: R 426,228) was contributed by Council in respect of Councillors and Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

43. Contingent Liability

44. In-kind donations and assistance

The Municipality did not receive any in-kind donations and assistance during the financial year.

45. Events after the reporting date

No significant matters to report after reporting date.

46. Risk management

[Note: The disclosure below is illustrative and only an example. The municipality will need to update based on their policies.]

Maximum credit risk exposure

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

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

At 30 June 2012	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	916 958	-	689 680	9 636 167
Gross finance lease obligations	300 453	528 819	1 049 724	744 149
At 30 June 2011	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years
Borrowings	221 692	443 385	3 959 203	9 834 617
Gross finance lease obligations	405 542	811 083	3 495 466	2 812 819

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's revenue and cash operating cash flows are substantially independent of changes in market risk interest rates

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

	2012	2011
	R	R

46. Risk management (continued)

- Notice deposits
- Long term annuity
- Development Bank of South Africa loan
- FNB Overdraft

47. Going concern

1. Creditors turnover rate rate increased from an average 25 days to 38 days.

2. The consumer payment profile declined and as a result provision for bad debts was under provided with an average of R 18 million. The average turnover and total outstanding debt has increased from 438 days to 442 days.

3. Previously disadvantaged areas are charged a basic tariff on water as opposed to the consumption tariff, thus resulting in a possible loss of income for the municipality. The above challenges did not impair the municipality to deliver services to the community as mandated by the Constitution of the Republic of South Africa.

4. The municipality shall therefore continue to honour its financial obligations and strive to maintain its assets, and will therefore continue to exist within the foreseeable future, as a going concern.

48. Revaluation reserve

Opening balance	28 471 476	28 471 476
Change during the year	253 400	-
	28 724 876	28 471 476

[Additional note]

49. Prior period errors

Property, Plant, and Equipment was previously not componentized by the municipality and as a result carrying values were corrected during the asset register clear up exercise.

Statement of financial position

Property, plant and equipment	-	(189 315 032)
Opening Accumulated Surplus or Deficit	-	(189 315 032)

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

50. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance									
Property rates	23 746 985	23 746 985		23 746 985	28 459 664		(4 712 679)	120 %	120 %
Service charges	100 076 705	100 076 705		100 076 705	83 218 921		16 857 784	83 %	83 %
Investment revenue	1 480 000	1 480 000		1 480 000	1 577 540		(97 540)	107 %	107 %
Transfers recognised - operational	150 115 000	150 115 000		150 115 000	154 221 434		(4 106 434)	103 %	103 %
Other own revenue	24 605 090	24 605 090		24 605 090	29 465 108		(4 860 018)	120 %	120 %
Total revenue (excluding capital transfers and contributions)	300 023 780	300 023 780		300 023 780	296 942 667		3 081 113	99 %	99 %
Employee costs	(89 541 457)	(89 541 457)	-	(89 541 457)	(90 247 776)	-	706 319	101 %	101 %
Remuneration of councillors	(8 137 191)	(8 137 191)	-	(8 137 191)	(8 223 103)	-	85 912	101 %	101 %
Debt impairment	(45 790 852)	(45 790 852)		(45 790 852)	(44 160 224)		(1 630 628)	96 %	96 %
Depreciation and asset impairment	(24 334 576)	(24 334 576)		(24 334 576)	(17 917 661)		(6 416 915)	74 %	74 %
Finance charges	(3 562 905)	(3 562 905)	-	(3 562 905)	(1 874 590)	-	(1 688 315)	53 %	53 %
Materials and bulk purchases	(43 658 345)	(43 658 345)	-	(43 658 345)	(44 284 271)	-	625 926	101 %	101 %
Transfers and grants	(24 420 859)	(24 420 859)	-	(24 420 859)	(7 894 262)	-	(16 526 597)	32 %	32 %
Other expenditure	(60 611 508)	(60 611 508)	-	(60 611 508)	(57 824 848)	-	(2 786 660)	95 %	95 %
Total expenditure	300 057 693	300 057 693	-	300 057 693	272 426 735	-	(27 630 958)	91 %	91 %
Surplus/(Deficit)	(33 913)	(33 913)		(33 913)	24 515 932		(24 549 845)	(72 291)%	(72 291)%

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	75 605 000	75 605 000		75 605 000	80 325 232		(4 720 232)	106 %	106 %
Surplus (Deficit) after capital transfers and contributions	75 571 087	75 571 087		75 571 087	104 841 164		(29 270 077)	139 %	139 %
Surplus/(Deficit) for the year	75 571 087	75 571 087		75 571 087	104 841 164		(29 270 077)	139 %	139 %

Setsoto Local Municipality

Notes to the Annual Financial Statements for the year ended 30 June 2012

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Virement (i.t.o.council approved)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources									
Total capital expenditure	11 058 400	70 874 000	-	70 874 000	-	-	70 874 000	- %	- %
Sources of capital funds									
Public contributions and donations	70 874 000	70 874 000		70 874 000	-		70 874 000	- %	- %
Cash flows									
Net cash from (used) operating	-	-		-	111 042 055		111 042 055)	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-		-	(71 696 044)		71 696 044	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-		-	(6 809 157)		6 809 157	DIV/0 %	DIV/0 %
Cash/cash equivalents at the year end	-	-		-	32 536 854		(32 536 854)	DIV/0 %	DIV/0 %

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Appendix A: Schedule of external loans

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Appendix A

June 2012

Schedule of external loans as at 30 June 2011

Loan Number	Redeemable	Balance at 30 June 2011	Received during the period	Redeemed written off during the period	Balance at 30 June 2012	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
DBSA	100	2012/06/30	1 254 698	-	1 177 136	77 562	-
DBSA	101	2012/06/30	226 096	-	212 119	13 977	-
DBSA	200	2012/06/30	759 791	-	712 822	46 969	-
DBSA	301	2020/06/30	1 996 015	162 810	50 279	2 108 546	1 298 901
DBSA	404	2012/06/30	214 312	-	201 064	13 248	-
DBSA	525	2024/12/31	6 418 382	358 153	103 299	6 673 236	938 425
DBSA	526	2011/12/31	547 963	-	547 963	-	-
			11 417 257	520 963	3 004 682	8 933 538	2 237 326
Lease liability							
Wesbank	529	2010/08/31	1 877	-	-	1 877	-
Wesbank	530	2010/08/31	1 244	-	-	1 244	-
Wesbank	531	2010/08/31	2 164	-	-	2 164	-
Wesbank	535	2012/11/30	990 533	-	675 643	314 890	333 917
Wesbank	536	2012/11/30	1 954 215	-	1 332 970	621 245	388 730
Bankfin	537	2012/04/30	584 554	-	584 554	-	-
Bankfin	538	2014/04/30	2 135 172	-	672 309	1 462 863	1 222 426
Fintech	539	2012/03/31	588 651	-	656 119	(67 468)	-
Fintech	540	2012/07/31	433 870	-	403 837	30 033	671 171
			6 692 280	-	4 325 432	2 366 848	2 616 244
Annuity loans							
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-
			-	-	-	-	-

Setsoto Local Municipality
Supplementary Information

Appendix B: Analysis of property, plant and equipment

Setsoto Local Municipality
Setsoto Local Municipality
Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2011
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	42 473	-	-	-	30 437	-	72 910	-	-	-	-	-	-	72 910
Landfill Sites (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Quarries (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buildings (Separate for AFS purposes)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	42 473	-	-	-	30 437	-	72 910	-	-	-	-	-	-	72 910
Infrastructure														
Roads, Pavements & Bridges	88 698	12 512	-	-	-	(7 408)	93 802	(43 955)	-	(25 967)	(1 821)	-	(71 743)	22 059
Storm water	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Generation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transmission & Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Street lighting	24 649	420	-	-	-	(3 420)	21 649	(17 186)	-	7 126	(662)	-	(10 722)	10 927
Dams & Reservoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Water purification	92 613	36 489	-	-	-	33 591	162 693	(62 885)	-	(47 728)	(4 954)	-	(115 567)	47 126
Reticulation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sewerage purification	239 421	12 666	-	-	-	(4 601)	247 486	(60 294)	-	(141 782)	(6 411)	-	(208 487)	38 999
Transportation (Airports, Car Parks, Bus Terminals and Taxi Ranks)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other (fibre optic, WIFI infrastrucur)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other 1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	445 381	62 087	-	-	-	18 162	525 630	(184 320)	-	(208 351)	(13 848)	-	(406 519)	119 111
Community Assets														
Parks & gardens	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sportsfields and stadium	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Swimming pools	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community halls	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Libraries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Recreational facilities	3 356	-	-	-	503	-	3 859	(2 849)	-	2 849	-	-	-	3 859
Clinics	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Museums & art galleries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic buildings	4 068	-	-	-	(2 468)	-	1 600	(2 343)	-	2 343	-	-	-	1 600
Social rental housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cemeteries	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire, safety & emergency	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Security and policing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	7 424	-	-	-	(1 965)	-	5 459	(5 192)	-	5 192	-	-	-	5 459

Setsoto Local Municipality
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Appendix B

June 2012

Analysis of property, plant and equipment as at 30 June 2011
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles														
Refuse	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fire	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Conservancy	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ambulances	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Buses	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets														
General vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Plant & equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Computer Equipment	2 519	1 903	-	-	-	(1 245)	3 177	(2 295)	-	1 082	(430)	-	(1 643)	1 534
Computer Software (part of computer equipment)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Furniture & Fittings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Office Equipment	3 837	481	-	-	-	(3 837)	481	(2 014)	-	2 014	(96)	-	(96)	385
Office Equipment - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Abattoirs	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Markets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance lease assets	28 547	-	-	-	-	(13 189)	15 358	(13 045)	-	7 277	(2 954)	-	(8 722)	6 636
Security measures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Civic land and buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other buildings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other land	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bins and Containers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Work in progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	808	-	-	-	-	4 594	5 402	(332)	-	(4 571)	(188)	-	(5 091)	311
Other Assets - Leased	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Surplus Assets - (Investment or Inventory)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Vehicles	1 905	2 140	-	-	-	10 222	14 267	(2 541)	-	(6 474)	(1 099)	-	(10 114)	4 153
	37 616	4 524	-	-	-	(3 455)	38 685	(20 227)	-	(672)	(4 767)	-	(25 666)	13 019
Total property plant and equipment														
Land and buildings	42 473	-	-	-	30 437	-	72 910	-	-	-	-	-	-	72 910
Infrastructure	445 381	62 087	-	-	-	18 162	525 630	(184 320)	-	(208 351)	(13 848)	-	(406 519)	119 111
Community Assets	7 424	-	-	-	(1 965)	-	5 459	(5 192)	-	5 192	-	-	-	5 459
Heritage assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Specialised vehicles	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	37 616	4 524	-	-	-	(3 455)	38 685	(20 227)	-	(672)	(4 767)	-	(25 666)	13 019

Setsoto Local Municipality
Supplementary Information

Appendix C: Segmental Statement of Financial Performance

Setsoto Local Municipality
Supplementary Information

Appendix D: Actual versus Budget (Revenue and Expenditure)

Setsoto Local Municipality
Supplementary Information

Appendix F: Disclosure of grants and subsidies in terms of the Municipal Finance Management Act

Setsoto Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
MIG Grant	National	32 020	15 304	15 639	-	62 963	35 343	19 468	45 174	80 956	80 941	-	-	-	-	-	-	Yes	
FMG Grant	National	1 450	-	-	-	1 450	96	120	881	352	1 450	-	-	-	-	-	-	Yes	
MSIG Grant	National	-	790	-	-	790	-	-	238	552	790	-	-	-	-	-	-	Yes	
ACIP / DWA	National	-	-	5 719	1 500	7 219	-	-	5 719	1 500	7 219	-	-	-	-	-	-	Yes	
POLICE, ROADS & TRANSPORT	Provincial	-	2 650	1 076	-	3 726	-	2 650	1 076	-	3 726	-	-	-	-	-	-	Yes	
		33 470	18 744	22 434	1 500	76 148	35 439	22 238	53 088	83 360	94 126	-	-	-	-	-	-		

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