



TOKOLOGO MUNICIPALITY  
(Demarcation code FS182)  
Financial statements  
for the year ended 30 June 2013

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## General Information

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<b>Legal form of entity</b>	Tokologo is a Category B Local Municipality as defined by the Municipal Structures Act. (Act no 117 of 1998)
<b>Nature of business and principal activities</b>	Tokologo Municipality is a local municipality performing the functions as set out in the Constitution, (Act no 105 of 1996)
<b>Council</b>	
Executive Mayor	GK Mohkobo (Mayor / Speaker)
Councillors	AF Bartleman M M Lentsa GK Magomo DD Mongana MG Nyamani BW Seakge BE Seekoei
<b>Grading of local authority</b>	Low Capacity (Grade 2)
<b>Accounting Officer</b>	K J Motlhale
<b>Chief Finance Officer (CFO)</b>	M O Masisi
<b>Registered office</b>	Voortrekker Street Market Square Boshof 8340
<b>Business address</b>	Voortrekker Street Market Square Boshof 8340
<b>Postal address</b>	Private Bag X46 Boshof 8340
<b>Bankers</b>	First National Bank, Boshof
<b>Auditors</b>	The Auditor General of South Africa
<b>Attorneys</b>	Morobane Attorneys

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## General Information

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### Relevant Legislation

Municipal Finance Management Act (Act no 56 of 2003)  
Division of Revenue Act (Act No 5 of 2012)  
The Income Tax Act (Act No 28 of 1997)  
Value Added Tax Act (Act No 89 of 1991)  
Municipal Structures Act (Act no 117 of 1998)  
Municipal Systems Act (Act no32 of 2000)  
Municipal Planning and Performance Management Regulations  
Water Services Act (Act no 108 of 1997)  
Housing Act (Act no 107 of 1997)  
Municipal Property Rates Act (Act no 6 of 2004)  
Electricity Act (Act no 41 of 1987)  
Skills Development Levies Act (Act no 9 of 1999)  
Employment Equity Act (Act no 55 of 1998)  
Unemployment Insurance Act (Act no 30 of 1966)  
Basic Conditions of Employment Act (Act no 75 of 1997)  
Supply Chain Management Regulations, 2005  
Collective Agreements  
Infrastructure Grants  
SALBC Leave Regulations

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

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### Abbreviations

GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# **TOKOLOGO MUNICIPALITY**

Financial Statements for the year ended 30 June 2013

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 responsible for reporting on the fair presentation of the financial statements.

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

The financial statements are based upon appropriate accounting policies that are 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 places 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 loss 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 upon for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The accounting officer acknowledges that the salaries, allowances and benefits of political office-bearers and councillors of the municipality, whether financial or in kind, including a statement by the accounting officer whether or not those salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

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

The municipality is largely dependent on Government Grants for continued funding of operations. The financial statements are prepared on the basis that the municipality is a going concern and that there is no intention to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 6 to 56, which have been prepared on the going concern basis, were approved by the accounting officer on \_\_\_\_\_ and were signed by:

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**K J Motlhale (Municipal Manager)**

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**M Masisi (Chief Financial Officer)**

**Boshof**

## **Report of the Auditor General**

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**To the Provincial Legislature of TOKOLOGO MUNICIPALITY**

### **Report on the Financial Statements**

I have audited the accompanying financial statements of the TOKOLOGO MUNICIPALITY which comprise the statement of financial position as at 30 June 2013, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 6 to 56.

**The Auditor General of South Africa**

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# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Statement of Financial Position as at 30 June 2013

Figures in Rand	Note(s)	2013	2012 restated
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	3 221 213	3 368 708
Inventories	4	9 693	12 663
Receivables from non-exchange transactions	5	2 146 861	4 020 822
Receivables from exchange transactions	6	1 535 125	1 572 972
VAT receivable	7	11 968 382	1 806 142
		<b>18 881 274</b>	<b>10 781 307</b>
<b>Non-Current Assets</b>			
Biological assets	8	1 408 720	1 390 360
Investment property	9	30 911 400	30 131 400
Property, plant and equipment	10	465 683 726	415 489 531
Intangible assets	11	76 146	-
Investments	12	277 521	277 011
		<b>498 357 513</b>	<b>447 288 302</b>
<b>Total Assets</b>		<b>517 238 787</b>	<b>458 069 609</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	13	378 657	362 404
Current portion of finance lease obligation	14	183 285	393 317
Payables from exchange transactions	15	10 368 727	18 671 598
Provisions	16	2 295 698	2 028 250
Long Term Service Awards	50	1 136 000	1 055 000
		<b>14 362 367</b>	<b>22 510 569</b>
<b>Non-Current Liabilities</b>			
Non-current portion of finance lease obligation	14	260 211	284 612
Employee benefit obligations	17	3 444 000	3 104 000
		<b>3 704 211</b>	<b>3 388 612</b>
<b>Total Liabilities</b>		<b>18 066 578</b>	<b>25 899 181</b>
<b>Net Assets</b>		<b>499 172 209</b>	<b>432 170 428</b>
<b>Net Assets</b>			
Accumulated surplus		499 172 209	432 170 428

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note(s)	2013	2012 restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods in agricultural activities		171 710	56 750
Service charges	18	17 813 741	16 239 396
Rendering of services		185 709	82 452
Rental of facilities and equipment	19	862 540	503 765
Interest received	34	1 091 877	799 092
Dividends received		-	16 014
<b>Total revenue from exchange transactions</b>		<b>20 125 577</b>	<b>17 697 469</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	20	2 936 323	2 343 116
<b>Transfer revenue</b>			
Government grants & subsidies	33	123 997 194	107 150 344
Fines		106 255	174 410
<b>Total revenue from non-exchange transactions</b>		<b>127 039 772</b>	<b>109 667 870</b>
<b>Total revenue</b>	21	<b>147 165 349</b>	<b>127 365 339</b>
<b>Expenditure</b>			
Personnel	22	(20 394 491)	(20 714 083)
Remuneration of councillors	23	(1 889 300)	(1 896 124)
Depreciation and amortisation	24	(21 082 960)	(19 058 016)
Finance costs	25	(422 260)	(151 845)
Debt impairment	26	(6 872 970)	(19 118 409)
Repairs and maintenance		(2 825 267)	(3 967 501)
Bulk purchases	27	(13 548 017)	(11 894 519)
Contracted services	28	(3 333 886)	(4 828 244)
Grants and subsidies paid	29	(254 451)	(1 266 213)
General Expenses	30	(9 814 901)	(9 153 035)
<b>Total expenditure</b>		<b>(80 438 503)</b>	<b>(92 047 989)</b>
<b>Operating surplus</b>		<b>66 726 846</b>	<b>35 317 350</b>
Gain on disposal of assets and liabilities		(1 465 199)	-
Fair value adjustments	31	510	7 518
Gains or (losses) on biological assets and agricultural produce		18 360	(73 100)
		<b>(1 446 329)</b>	<b>(65 582)</b>
<b>Surplus for the year</b>		<b>65 280 517</b>	<b>35 251 768</b>



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	405 102 765	405 102 765
Adjustments		
Correction of prior period error	(8 184 105)	(8 184 105)
<b>Balance at 01 July 2011 as restated</b>	<b>396 918 660</b>	<b>396 918 660</b>
Changes in net assets		
Surplus for the period	35 251 768	35 251 768
Total changes	35 251 768	35 251 768
Opening balance as previously reported	431 956 422	431 956 422
Adjustments		
Correction of prior period error	1 935 270	1 935 270
<b>Balance at 01 July 2012 as restated</b>	<b>433 891 692</b>	<b>433 891 692</b>
Changes in net assets		
Surplus for the period	65 280 517	65 280 517
Total changes	65 280 517	65 280 517
<b>Balance at 30 June 2013</b>	<b>499 172 209</b>	<b>499 172 209</b>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand	Note(s)	2013	2012 restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		22 076 278	19 399 889
Grants		123 997 194	107 150 344
Interest income		1 091 877	799 092
Dividends received		-	16 014
		<u>147 165 349</u>	<u>127 365 339</u>
<b>Payments</b>			
Finance costs		(422 260)	(151 845)
Other payments		(73 546 814)	(58 108 016)
		<u>(73 969 074)</u>	<u>(58 259 861)</u>
<b>Net cash flows from operating activities</b>	35	<b><u>73 196 275</u></b>	<b><u>69 105 478</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(73 310 221)	(68 287 425)
Proceeds from sale of property, plant and equipment	10	641 877	-
Purchase of investment property	9	(780 000)	-
Purchase of other intangible assets	11	(132 459)	-
Purchases in biological assets	8	(212 180)	(289 060)
Proceeds from sale of biological assets	8	214 780	123 320
<b>Net cash flows from investing activities</b>		<b><u>(73 578 203)</u></b>	<b><u>(68 453 165)</u></b>
<b>Cash flows from financing activities</b>			
Decrease/(increase) in Finance lease obligation		234 433	369 755
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(147 495)</u></b>	<b><u>1 022 068</u></b>
Cash and cash equivalents at the beginning of the year		3 368 708	2 346 640
<b>Cash and cash equivalents at the end of the year</b>	3	<b><u>3 221 213</u></b>	<b><u>3 368 708</u></b>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Sale of game	360 000	-	360 000	171 710	(188 290)
Service charges	18 336 535	-	18 336 535	17 813 741	(522 794)
Rendering of services	74 135	-	74 135	185 709	111 574
Rental of facilities and equipment	250 537	-	250 537	862 540	612 003
Interest received - investment	523 000	-	523 000	1 091 877	568 877
Dividends received	3 000	-	3 000	-	(3 000)

<b>Total revenue from exchange transactions</b>	<b>19 547 207</b>	<b>-</b>	<b>19 547 207</b>	<b>20 125 577</b>	<b>578 370</b>
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##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	2 871 478	-	2 871 478	2 936 323	64 845
Government grants & subsidies	105 960 000	-	105 960 000	123 997 194	18 037 194

##### Transfer revenue

Fines	80 000	-	80 000	106 255	26 255
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<b>Total revenue from non-exchange transactions</b>	<b>108 911 478</b>	<b>-</b>	<b>108 911 478</b>	<b>127 039 772</b>	<b>18 128 294</b>
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<b>Total revenue</b>	<b>128 458 685</b>	<b>-</b>	<b>128 458 685</b>	<b>147 165 349</b>	<b>18 706 664</b>
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#### Expenditure

Personnel	(24 319 478)	-	(24 319 478)	(20 394 491)	3 924 987
Remuneration of councillors	(1 991 070)	-	(1 991 070)	(1 889 300)	101 770
Depreciation and amortisation	(1 389 311)	-	(1 389 311)	(21 082 960)	(19 693 649)
Impairment loss/ Reversal of impairments	(2 757 801)	-	(2 757 801)	-	2 757 801

Finance costs	-	-	-	(422 260)	(422 260)
Debt impairment	(2 827 506)	-	(2 827 506)	(6 872 970)	(4 045 464)
Repairs and maintenance	(4 061 682)	-	(4 061 682)	(2 825 267)	1 236 415
Bulk purchases	(12 901 177)	-	(12 901 177)	(13 548 017)	(646 840)
Contracted Services	(12 935 000)	-	(12 935 000)	(3 333 886)	9 601 114
Grants and subsidies paid	(942 244)	-	(942 244)	(254 451)	687 793
General Expenses	(6 258 533)	-	(6 258 533)	(9 814 901)	(3 556 368)

<b>Total expenditure</b>	<b>(70 383 802)</b>	<b>-</b>	<b>(70 383 802)</b>	<b>(80 438 503)</b>	<b>(10 054 701)</b>
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<b>Operating surplus</b>	<b>48 939 556</b>	<b>-</b>	<b>48 939 556</b>	<b>66 726 846</b>	<b>17 787 290</b>
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Loss on disposal of assets and liabilities	-	-	-	(1 465 199)	(1 465 199)
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Fair value adjustments	-	-	-	510	510
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Gain on biological assets and agricultural produce	-	-	-	18 360	18 360
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	-	-	-	(1 446 329)	(1 446 329)
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<b>Surplus before taxation</b>	<b>48 939 556</b>	<b>-</b>	<b>48 939 556</b>	<b>65 280 517</b>	<b>16 340 961</b>
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# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>48 939 556</b>	<b>-</b>	<b>48 939 556</b>	<b>65 280 517</b>	<b>16 340 961</b>	

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1. Presentation of Financial Statements

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

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

A summary of the significant accounting policies are disclosed below.

#### 1.1 Significant judgements and sources of estimation uncertainty

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

##### Provisions

Provisions were raised and management determined estimates based on information available. Additional disclosure of these estimates of provisions are included in Note 16 - Current Provisions.

##### Allowance for doubtful debts

An impairment loss on debtors is recognised in surplus and deficit when there is objective evidence that there is an impairment. An estimate is made for doubtful debtors based on a review of all outstanding amounts at year-end. Bad debts are written off with the approval of Council during the year in which they are identified. Additional disclosure of these estimates are included in note 6.

##### Trade receivables / Held to maturity investments and/or loans and receivables

The inventories assesses its trade receivables, held to maturity investments and loans and receivables for impairment at each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the inventories makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

##### Impairment testing

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

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

##### Useful lives of waste and water network and other assets

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

##### Post retirement benefits

## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

#### Effective interest rate

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

#### Numerical rounding

Numerical values were rounded by replacing it by another value that is approximately equal but has a shorter, simpler, or more explicit representation. Numerical values were rounded to the nearest Rand.

### 1.2 Biological assets

An entity shall recognise a biological asset or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits associated with the asset will flow to the entity; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are initially measured at their fair value less estimated point-of-sale costs where the cost is not available.

Thereafter game is measured at fair value of game which is determined based on market prices of game of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs is included in surplus or deficit for the period in which it arises.

Biological assets are derecognised on death or disposal.

### 1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.3 Intangible assets (continued)

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

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

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

Item	Useful life
Licenses and franchises	1 year

Intangible assets are derecognised:

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

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

### 1.4 Financial instruments

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.4 Financial instruments (continued)

A financial asset is:

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

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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

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

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

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

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

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

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.



## Accounting Policies

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### 1.4 Financial instruments (continued)

#### Initial measurement of financial assets and financial liabilities

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

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Derecognition

##### Financial assets

The entity derecognises a financial asset only when:

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

##### Financial liabilities

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

#### Presentation

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

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

## Accounting Policies

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### 1.5 Leases

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

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

#### Finance leases – lessee

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

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

The 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 on the remaining balance of the liability.

#### Operating leases - lessor

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

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

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

### 1.6 Inventories

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

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

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

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

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

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

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

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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

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

## Accounting Policies

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### 1.7 Employee benefits

#### Short-term employee benefits

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

#### Defined benefit plans

##### (a) Post Retirement Medical Obligations

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

##### (b) Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

##### (c) Provision for Staff Leave

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.

Accumulated leave is vesting.

##### (d) Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

##### (e) Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.8 Investments

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

### 1.9 Provisions and contingencies

Provisions are recognised when:

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

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

The discount rate (or rates) shall be a pre-tax (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

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

A constructive obligation is an obligation that derives from an entity's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity had indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A contingent liability is:

- (a) a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

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.

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

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when an entity:

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

## Accounting Policies

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### 1.9 Provisions and contingencies (continued)

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation. Contingent assets and contingent liabilities are not recognised.

Contingencies are disclosed in note 37.

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

- defaults or delinquencies in interest and capital repayments by the debtor;

### 1.10 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment purchased from 01 July 2008 forward has been initially measured at cost. Property, Plant and equipment purchased prior to this date has been measured at provisional amounts in terms of Directive 4 of the Accounting Standards Board issued in March 2009.

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

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

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

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

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

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

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

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 Property, plant and equipment (continued)

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for items of property, plant and equipment which was acquired prior to 01 July 2008, which are carried at provisional amounts.

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

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

Item	Average useful life
Land and buildings	
• Buildings	30 years
• Land	Indefinite
Furniture and fittings	
• Furniture and fittings	3 - 20 years
Motor vehicles	
• Other vehicles	5 years
• Specialised vehicles	5 - 10 years
Office Equipment	
• Office equipment	3 - 30 years
IT equipment	
• Computer equipment	2 - 3 years
Infrastructure	
• Roads and paving	16 - 20 years
• Water	1 - 10 years
• Sewerage	15-20 years
Community	
• Buildings	16 - 30 years
• Recreational facilities	20 - 30 years
• Security	10 years
Other property, plant and equipment	
• Watercraft	20 years
• Specialised plant and equipment	10 - 15 years
• Bins and containers	5 years

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

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

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

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

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

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.11 Investment property

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

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

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

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

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

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

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

#### Cost model

Investment property is carried at cost less any accumulated impairment losses.

Item	Useful life
Property - land	indefinite

### 1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered/goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. In instances where meter readings have not been performed, provisional estimates of consumption are made. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale, therefore on a cash basis.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

#### Measurement

## Accounting Policies

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### 1.12 Revenue from exchange transactions (continued)

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

### 1.13 Revenue from non-exchange transactions

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

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, due to the high uncertainty relating to the completeness of fines.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

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.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

### Recognition

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

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

### 1.14 Investment income

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

### 1.15 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements.

### 1.16 Unauthorised expenditure

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



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.17 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 expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.18 Irregular expenditure

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

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

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

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

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

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

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

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

### 1.19 Presentation of Currency

These financial statements are presented in South African Rand.

### 1.20 Offsetting

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

### 1.21 Conditional Grants and receipts

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.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.22 Budget information

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

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

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

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

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

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

### 1.23 Related parties

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

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

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

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

### 1.24 Commitments

Capital commitments are only disclosed in the notes to the financial statements and are not included as part of current liabilities as no service has been rendered or product sold to the municipality.

### 1.25 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

## Accounting Policies

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### 1.25 Impairment of cash-generating assets (continued)

Useful life is either:

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

#### Identification

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

### 1.26 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Accounting Policies

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

Useful life is either:

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

### Identification

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

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

### Value in use

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

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

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

##### **GRAP 23: Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

##### **GRAP 24: Presentation of Budget Information in the Financial Statements**

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality has adopted the standard for the first time in the 2013 financial statements.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 2. New standards and interpretations (continued)

The impact of the standard is set out in note Changes in Accounting Policy.

#### 2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 25: Employee benefits</li></ul>	01 March 2014	Medium

#### 2.3 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 105: Transfers of functions between entities under common control</li></ul>	-	Low
<ul style="list-style-type: none"><li>GRAP 106: Transfers of functions between entities not under common control</li></ul>	-	Low
<ul style="list-style-type: none"><li>GRAP 107: Mergers</li></ul>	-	Low
<ul style="list-style-type: none"><li>GRAP 20: Related parties</li></ul>	-	Low

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013      2012 restated

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	788 437	227 798
Short-term deposits	2 432 376	3 140 510
Cashier's Float	400	400
	<b>3 221 213</b>	<b>3 368 708</b>

Cash and cash equivalents comprises cash with banks, cashier's float and short-term deposits. 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. The carrying amounts therefore approximates their fair values.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
First National Bank - Current account - 62021285748	788 437	227 798	(3 636 547)	788 437	227 798	(4 484 472)
First National Bank - Current account - 62290902678	29 028	1 021 582	4 637 558	29 028	1 021 582	4 637 558
First National Bank - 7 Day Investment - 74368883317	66 227	-	-	66 227	-	-
First National Bank - 32 Day Deposit - 74037631683	124 061	119 836	115 228	124 061	119 836	115 228
First National Bank- Fixed Deposit- 71037990209	10 145	10 145	10 145	10 145	10 145	10 145
First National Bank - 32 Day Deposit -74037601777	52 076	50 623	49 142	52 076	50 623	49 142
Standard Bank - 32 Day Deposit - 048866393	2 022 162	1 909 320	1 827 060	2 022 162	1 909 320	1 827 060
Standard Bank - 32 Day Deposit- 048865303	-	29 004	28 146	-	29 004	28 146
First National Bank - Money Market 6238885376	128 678	-	-	128 678	-	-
<b>Total</b>	<b>3 220 814</b>	<b>3 368 308</b>	<b>3 030 732</b>	<b>3 220 814</b>	<b>3 368 308</b>	<b>2 182 807</b>

### 4. Inventories

Inventories	9 693	12 663
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Inventories comprise of water.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
<b>5. Receivables from non-exchange transactions</b>		
Other receivables	1 663 262	3 794 050
Property Rates	364 990	110 890
Sundry debtors	118 609	115 882
	<b>2 146 861</b>	<b>4 020 822</b>
Other receivables comprises of property rates, rental income owed to the municipality, debtors raised from payroll and sundry debtors owed to the municipality		
<b>6. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	5 117 783	5 210 292
Water	1 088 801	425 018
Sewerage	19 514 747	16 915 913
Refuse	12 987 478	11 168 519
	<b>38 708 809</b>	<b>33 719 742</b>
<b>Less: Allowance for impairment</b>		
Electricity	(3 969 846)	(3 939 625)
Water	(979 410)	(292 754)
Sewerage	(19 328 217)	(16 799 377)
Refuse	(12 896 211)	(11 115 014)
	<b>(37 173 684)</b>	<b>(32 146 770)</b>
<b>Net balance</b>		
Electricity	1 147 937	1 270 667
Water	109 391	132 264
Sewerage	186 530	116 536
Refuse	91 267	53 505
	<b>1 535 125</b>	<b>1 572 972</b>
<b>Electricity</b>		
Current (0 -30 days)	293 497	342 522
31 - 60 days	210 075	164 572
61 - 90 days	146 058	151 765
91 - 120 days	104 892	611 808
121 - 365 days	393 415	-
	<b>1 147 937</b>	<b>1 270 667</b>
<b>Water</b>		
Current (0 -30 days)	81 657	18 630
31 - 60 days	27 734	7 958
61 - 90 days	-	9 042
91 - 120 days	-	7 838
121 - 365 days	-	5 476
> 365 days	-	83 320
	<b>109 391</b>	<b>132 264</b>
<b>Sewerage</b>		
Current (0 -30 days)	186 530	116 536
<b>Refuse</b>		
Current (0 -30 days)	91 267	53 505



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
<b>6. Receivables from exchange transactions (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	231 741	779 088
31 - 60 days	51 972	553 281
61 - 90 days	3 362	552 430
91 - 120 days	54 879	503 090
121 - 365 days	903	3 473 397
> 365 days	37 166 025	25 990 925
	<hr/>	<hr/>
	37 508 882	31 852 211
Less: Allowance for impairment	(37 027 687)	(31 730 274)
	<hr/>	<hr/>
	<b>481 195</b>	<b>121 937</b>
	<hr/>	<hr/>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	318 408	90 552
31 - 60 days	74 052	50 673
61 - 90 days	16 126	40 549
91 - 120 days	22 235	36 676
121 - 365 days	159 229	965 991
	<hr/>	<hr/>
	590 050	1 184 441
Less: Allowance for impairment	(71 698)	(333 277)
	<hr/>	<hr/>
	<b>518 352</b>	<b>851 164</b>
	<hr/>	<hr/>
<b>National and provincial government</b>		
Current (0 -30 days)	102 902	14 876
31 - 60 days	118 587	7 415
61 - 90 days	126 571	9 012
91 - 120 days	27 777	8 035
121 - 365 days	80 602	76 412
> 365 days	153 438	567 340
	<hr/>	<hr/>
	609 877	683 090
Less: Allowance for impairment	(74 299)	(83 219)
	<hr/>	<hr/>
	<b>535 578</b>	<b>599 871</b>
	<hr/>	<hr/>
<b>Total</b>		
Current (0 -30 days)	653 051	884 516
31 - 60 days	244 611	611 369
61 - 90 days	146 059	601 991
91 - 120 days	104 891	547 801
121 - 365 days	240 734	4 515 800
> 365 days	37 319 463	26 558 265
	<hr/>	<hr/>
	38 708 809	33 719 742
Less: Allowance for impairment	(37 173 684)	(32 146 770)
	<hr/>	<hr/>
	<b>1 535 125</b>	<b>1 572 972</b>
	<hr/>	<hr/>
<b>Less: Provision for debt impairment</b>		
Provision based on the provisions of IAS 39	(37 173 684)	(32 146 770)
	<hr/>	<hr/>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(32 146 770)	(13 028 361)
Contributions to provision	(6 872 968)	(19 118 409)
	<hr/>	<hr/>
	<b>(39 019 738)</b>	<b>(32 146 770)</b>
	<hr/>	<hr/>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012 restated

### 7. Value Added Tax

VAT	11 968 382	1 806 142
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VAT owed by SARS amounts to R 17,667,054.

The carrying amount of VAT receivable approximates fair value due to its short-term nature.

VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors.

### 8. Biological assets

	2013		2012	
	Fair Value	Carrying value	Fair Value	Carrying value
Other bearer biological assets	1 408 720	- 1 408 720	1 390 360	- 1 390 360

#### Reconciliation of carrying valued of biological assets - 2013

	Opening balance	Additions	Disposals	Total
Other bearer biological assets	1 390 360	212 180	(193 820)	1 408 720

#### Reconciliation of carrying value of biological assets - 2012

	Opening balance	Additions	Disposals	Total
Other bearer biological assets	1 297 720	289 060	(196 420)	1 390 360

### Non – Financial information

#### Quantities of each biological asset (game)

Blesbuck	323	272
Burchell's Zebra	46	56
Red Hartebeest	131	148
Mountain Reedbuck	3	3
Ostrich	23	25
Eland	19	16
Gemsbok	58	54
Impala	90	118
Springbok	544	417
Giraffe	5	4
	<b>1 242</b>	<b>1 113</b>

#### Methods and assumptions used in determining fair value

Tokologo Municipality is engaged in game farming. The balance sheet valuation of biological assets is based on an actual count and the unit values on market prices.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 9. Investment property

	2013			2012		
	Provisional amount	Accumulated depreciation and accumulated impairment	Carrying value	Provisional amount	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	30 911 400	-	30 911 400	30 131 400	-	30 131 400

#### Reconciliation of carrying value of investment property - 2013

	Opening balance	Additions	Total
Investment property	30 131 400	780 000	30 911 400

#### Reconciliation of carrying value of investment property - 2012

	Opening balance	Total
Investment property	30 131 400	30 131 400

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

Subsequent to initial measurement investment property is measured at fair value.  
The fair value of investment property reflects market conditions at the reporting date.

Investment property comprises grazing fields commonly described as camp sites. Their main purpose is for renting out to livestock farmers for grazing.

The investment property is open stands and campsites and were not valued by an independent valuer.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand

2013

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### 10. Property, plant and equipment

	2013			2012		
	Cost / Provisional amount	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Provisional amount	Accumulated depreciation and accumulated impairment	Carrying value
Land	64 582 808	-	64 582 808	66 668 308	-	66 668 308
Infrastructure	374 988 623	(161 095 216)	213 893 407	362 600 871	(142 396 929)	220 203 942
Community	16 047 482	(1 576 589)	14 470 893	15 844 856	(1 205 388)	14 639 468
Finance lease assets	103 363	(53 903)	49 460	46 252	(11 967)	34 285
Capital work in progress	163 730 173	-	163 730 173	106 177 188	-	106 177 188
Other property, plant and equipment	19 511 003	(10 554 018)	8 956 985	16 423 031	(8 656 691)	7 766 340
<b>Total</b>	<b>638 963 452</b>	<b>(173 279 726)</b>	<b>465 683 726</b>	<b>567 760 506</b>	<b>(152 270 975)</b>	<b>415 489 531</b>

#### Reconciliation of carrying value of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	66 668 308	-	-	(2 085 500)	-	64 582 808
Infrastructure	220 203 942	-	-	12 387 752	(18 698 287)	213 893 407
Community	14 639 468	202 825	-	-	(371 201)	14 471 092
Finance lease assets	117 879	57 111	-	-	(125 530)	49 460
Capital work in progress	106 177 188	69 940 737	-	(12 387 752)	-	163 730 173
Other property, plant and equipment owned	7 766 340	3 109 548	(21 576)	-	(1 897 327)	8 956 985
	<b>415 573 125</b>	<b>73 310 221</b>	<b>(21 576)</b>	<b>(2 085 500)</b>	<b>(21 092 345)</b>	<b>465 683 925</b>

#### Reconciliation of carrying value of property, plant and equipment - 2012

	Opening balance	Additions	Transfer	Depreciation	Other changes, movements	Total
Land	66 668 308	-	-	-	-	66 668 308
Infrastructure	224 263 161	-	13 462 532	(17 521 751)	-	220 203 942
Community	12 963 271	2 028 250	-	(352 053)	-	14 639 468
Finance lease assets	-	46 252	-	(11 967)	-	34 285
Capital work in progress	53 665 042	65 974 678	(13 462 532)	-	-	106 177 188
Other property, plant and equipment owned	10 223 274	238 245	-	(1 172 245)	(1 522 934)	7 766 340
	<b>367 783 056</b>	<b>68 287 425</b>	<b>-</b>	<b>(19 058 016)</b>	<b>(1 522 934)</b>	<b>415 489 531</b>

#### Assets subject to finance lease (Net carrying amount)

Other property, plant and equipment	49 460	34 285
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# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012 restated

### 11. Intangible assets

	2013			2012		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Licenses and franchises	132 459	(56 313)	76 146	-	-	-

### Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Licenses and franchises	-	132 459	(56 313)	76 145

### 12. Investments

#### Designated at fair value

Listed shares	277 521	277 011
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#### Non-current assets

At fair value through surplus or deficit - designated	277 521	277 011
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### 13. Consumer deposits

Electricity	299 431	287 658
Water	79 226	74 746
	<b>378 657</b>	<b>362 404</b>

### 14. Non-current portion of finance lease obligation

#### Minimum lease payments due

- within one year	157 133	491 662
- in second to fifth year inclusive	233 423	331 995

less: future finance charges (within one year)	390 556	823 657
less: future finance charges (in second to fifth year inclusive)	(26 152)	(98 345)
	(26 788)	(47 383)

<b>Present value of minimum lease payments</b>	<b>337 616</b>	<b>677 929</b>
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#### Present value of minimum lease payments due

- within one year	130 981	393 317
- in second to fifth year inclusive	206 635	284 612

	<b>337 616</b>	<b>677 929</b>
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Non-current liabilities	260 211	284 612
Current liabilities	183 285	393 317

	<b>443 496</b>	<b>677 929</b>
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The average lease term is 3 years and the average effective borrowing rate is 8.5%. The Interest rates are fixed at the contract date. Some leases have fixed repayment terms and others escalate at 15% per annum. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased asset.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
<b>15. Payables from exchange transactions</b>		
Trade payables	3 197 268	5 588 454
Payments received in advanced	995 165	589 602
Accruals	3 988 069	10 463 017
Accrued leave pay	2 188 225	2 030 525
	<b>10 368 727</b>	<b>18 671 598</b>

The fair values approximate carrying amount.

### 16. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Additions	Total
Rehabitation of Landfill Sites	2 028 250	267 448	2 295 698

#### Reconciliation of provisions - 2012

	Opening Balance	Reversed during the year	Total
Rehabitation of Landfill Sites	2 859 405	(831 155)	2 028 250

#### Rehabilitation of Landfill Sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is based on professional estimates received and is expected to be incurred within the next twelve months.

Estimates from industry sources were utilised to calculate the provision. Reports and reading material from Department of Water Affairs and Forestry (Requirements for Waste Disposal by Landfill and Waste Management & Minimum Requirements) and Waste Management Legislation Act. Feasibility studies comprising preliminary geohydrological investigation, preliminary environmental impact assessment, concept design and operational strategy and Impact studies were performed to estimate the related costs to rehabilitate the sites.

Calculations were split into direct and indirect costs, and include a process of closure of 3 landfill sites for the Tokologo Local Municipality in terms of Section 20(b) of the National Environmental Management Waste Act, 2008 (Act no. 59 of 2008).

Only the cost of the closure of the existing landfill sites were included in the provision as it is the only costs expected to be incurred within the next twelve months with regards to landfill sites. The construction of the new landfill sites are only expected to start in the 2014/2015 financial year thus they are not included in the provision for the current year.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

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### 17. Employee benefit obligations

#### Defined benefit plan

##### Post retirement benefit plan

##### Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by finding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2013 by ZAQEN Actuaries (Pty) Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Hosmed
- Keyhealth

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(3 444 000)	(3 104 000)
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The Liability in respect of past service has been estimated as follows:

Continuation Members	(3 444 000)	(3 104 000)
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	3 104 000	2 629 000
Benefits paid	(172 875)	(177 000)
Net expense recognised in the statement of financial performance	512 875	652 000
	<b>3 444 000</b>	<b>3 104 000</b>

Net expense recognised in the statement of financial performance

Current service cost	26 000	20 000
Interest cost	240 000	220 000
Actuarial (gains) losses	246 875	412 000
	<b>512 875</b>	<b>652 000</b>

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	246 875	412 000
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#### Key assumptions used

Assumptions used at the reporting date:

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 17. Employee benefit obligations (continued)

Discount rates used	7.89 %	7.92 %
Consumer price inflation	6.14 %	5.74 %
Medical aid contribution inflation	7.14 %	6.74 %
Maximum subsidy increase rate	0.70 %	1.11 %

IAS19 defines the determination of the Discount rate assumption to be used as the rate that can "be determined by reference to market yields at the Statement of Financial Position date on high quality corporate bonds."

The Discount rate was therefore set as the yield of the R186 South African government bond as at the valuation date. The actual yield on the R186 bond was sourced from the RMB Global Markets website on the 28th of June 2013.

#### Other assumptions

Expected Retirement Age - Males and Females	63	-
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Amounts for the current and the previous year are as follows:

	2013	2012
Defined benefit obligation	3 444 000	3 104 000

### 18. Service charges

Sale of electricity	11 074 936	10 120 168
Sale of water	1 180 637	1 109 567
Sewerage and sanitation charges	3 382 456	3 042 017
Refuse removal	2 175 712	1 967 644
	<b>17 813 741</b>	<b>16 239 396</b>

### 19. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	381 672	214 956
Rental of equipment	-	4 679
Rental of camps	480 868	284 130
	<b>862 540</b>	<b>503 765</b>

### 20. Property Rates

#### Rates received

Residential	3 525 294	3 182 886
Less: Income forgone	(588 971)	(839 770)
	<b>2 936 323</b>	<b>2 343 116</b>

#### Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0,0037 (2011: 0,0035) is applied to property valuations to determine assessment rates. Rebates of 10% (2012: 10%) are granted to agricultural entities.

Rates are levied on an a monthly basis. Interest at prime plus 2% per annum (2012: 11%) is levied on rates outstanding.



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 21. Revenue

Sale of goods	171 710	56 750
Rendering of services	185 709	82 452
Service charges	17 813 741	16 239 396
Rental of facilities and equipment	862 540	503 765
Interest received - investment	1 091 877	799 092
Dividends received	-	16 014
Property rates	2 936 323	2 343 116
Government grants & subsidies	123 997 194	107 150 344
Fines	106 255	174 410
	<b>147 165 349</b>	<b>127 365 339</b>

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

Sale of goods	171 710	56 750
Service charges	17 813 741	16 239 396
Rendering of services	185 709	82 452
Rental of facilities and equipment	862 540	503 765
Interest received - investment	1 091 877	799 092
Dividends received	-	16 014
	<b>20 125 577</b>	<b>17 697 469</b>

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

##### Taxation revenue

Property rates	2 936 323	2 343 116
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##### Transfer revenue

Government grants & subsidies	123 997 194	107 150 344
Fines	106 255	174 410
	<b>127 039 772</b>	<b>109 667 870</b>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 22. Employee related costs

Salaries and wages	15 365 071	14 673 108
Performance and other bonus	870 313	848 208
Medical aid - company contributions	833 995	962 094
UIF	128 567	118 435
WCA	-	137 689
Leave pay provision charge	417 697	122 263
Pension	1 612 943	1 480 374
Transport allowance	511 248	664 912
Employee benefits	654 657	1 707 000
	<b>20 394 491</b>	<b>20 714 083</b>

#### Remuneration of Adv LMA Mofokeng (Municipal Manager)

Annual Remuneration	531 211	545 069
Contributions for SDL, Bargaining Council and Council Allowance	5 389	1 497
	<b>536 600</b>	<b>546 566</b>

Contract ended 29 February 2013.

#### Remuneration of M Masisi (Chief Finance Officer)

Annual Remuneration	422 333	384 000
Car Allowance	216 000	216 000
Contributions for SDL, Bargaining Council and Council Allowance	4 628	1 372
	<b>642 961</b>	<b>601 372</b>

#### Remuneration of OH Setlhare (Corporate and human resources)

Annual Remuneration	-	326 805
Car Allowance	-	96 356
Contributions for SDL, Bargaining Council and Council Allowance	-	1 372
Housing allowances	-	11 336
	<b>-</b>	<b>435 869</b>

#### Remuneration of MJ Chakane (Technical Manager)

Annual Remuneration	680 623	345 948
Car Allowance	90 000	90 000
Contributions for SDL, Bargaining Council and Council Allowance	4 862	1 497
Housing Allowance	24 000	24 000
Telephone Allowance	4 000	-
	<b>803 486</b>	<b>461 445</b>

#### Remuneration of KJ Motlhale (Municipal Manager)

Annual Remuneration	194 560	-
Contributions for SDL, Bargaining Council and Council Allowance	1 946	-
	<b>196 506</b>	<b>-</b>

Contract started 18 April 2013.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 22. Employee related costs (continued)

#### Remuneration of MG Maphobole (Corporate Services)

Annual Remuneration	138 333	-
Contributions for SDL, Bargaining Council and Council Allowance	1 383	-
	<b>139 716</b>	<b>-</b>

Contract started 2 May 2013.

### 23. Remuneration of Councillors

Mayor / Speaker	642 816	610 700
Councillors	1 246 484	1 285 424
	<b>1 889 300</b>	<b>1 896 124</b>

#### In-kind benefits

The Mayor is provided with an office with secretarial support and an official vehicle with a driver at the cost of the Council.

### 24. Depreciation and amortisation

Property, plant and equipment	21 026 647	19 058 016
Intangible assets	56 313	-
	<b>21 082 970</b>	<b>19 058 016</b>

### 25. Finance costs

Trade and other payables	160 502	26 741
Finance leases	261 758	124 505
Bank	-	599
	<b>422 260</b>	<b>151 845</b>

### 26. Debt impairment

Provision for bad debts	6 872 970	19 118 409
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### 27. Bulk purchases

Electricity	13 255 864	10 608 054
Water	292 153	1 286 465
	<b>13 548 017</b>	<b>11 894 519</b>

### 28. Contracted Services

Legal Fees	192 271	540 537
Specialist Services	3 141 615	4 287 707
	<b>3 333 886</b>	<b>4 828 244</b>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012 restated

### 29. Grants and subsidies paid

Free Basic Electricity	175 205	213 863
Free Basic Water	-	632 604
Indigents Refuse	28 023	134 226
Indigents Sanitation	1 745	47 877
Indigents Sewerage	39 011	182 472
Indigents Water	10 467	55 171
<b>Other subsidies</b>		
	<b>254 451</b>	<b>1 266 213</b>

### 30. General expenses

Accommodation	492 635	236 640
Advertising	336 395	222 553
Assets expensed	237 059	15 048
Audit committee	29 162	51 524
Auditors remuneration	2 129 674	2 322 511
Bank charges	198 548	246 000
Capacity building	158 865	171 624
Chemicals	26 287	-
Cleaning	233	714
Community development and training	86 197	25 704
Consumables	81	-
Contribution to landfill sites rehabilitation	268 239	245 636
Electricity	-	114 595
Employee Wellness Programme	-	174 560
Entertainment	44 569	104 762
Fuel and oil	650 682	660 610
IDP/LED	211 355	22 751
IT expenses	25 652	10 691
Lease rentals on operating lease	285 811	243 084
Miscellaneous office expenses	539 409	507 073
Motor vehicle expenses	-	204 722
Training	836 530	506 366
Penalties	28 471	119 771
Postage and courier	7 568	18 916
Printing and stationery	176 078	322 114
Protective clothing	238 243	181 314
Refuse	21 504	28 075
Staff welfare	8 030	3 990
Subscriptions and membership fees	499 617	54 433
Telephone and fax	667 297	1 025 679
Transport services rental expense	138 145	35 359
Travel - local	1 472 565	1 271 196
Water	-	1 720
Workmens' expenses	-	3 300
	<b>9 814 901</b>	<b>9 153 035</b>

### 31. Fair value adjustments

Other financial assets		
• Other financial assets (Designated as at FV through P&L)	510	7 518

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 32. Current unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Movement during the year

Additions during the year	83 928 142	69 151 840
Income recognition during the year	(83 928 142)	(69 151 840)
	-	-

See note 33 for reconciliation of grants from National/District Municipality.

### 33. Government grants and subsidies

#### Operating grants

LG SETA	132 898	51 284
CoGTA	1 200 000	-
Municipal Systems Improvements Grant	800 000	790 000
Financial Management Grant	1 500 000	1 450 000
Equitable Share	43 058 042	34 082 000
	46 690 940	36 373 284

#### Capital grants

Municipal Infrastructure Grant	21 658 000	17 855 000
Department of Water and Forestry (DWAF)	54 204 254	52 413 060
Expanded Public Works Programme Incentive Grant	1 444 000	509 000
	77 306 254	70 777 060
	123 997 194	107 150 344

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members as well as to subsidise the municipality's operations.

All registered indigents received a monthly subsidy from the Equitable Share Grant.

#### Municipal Infrastructure Grant

Current-year receipts	21 658 000	17 855 000
Conditions met - transferred to revenue	(21 658 000)	(17 855 000)
	-	-

Conditions met - transferred to revenue (see note 32&33)

#### LG SETA

Current-year receipts	132 898	51 284
Conditions met - transferred to revenue	(132 898)	(51 284)
	-	-

Conditions met - transferred to revenue (see note 13&20)

#### Municipal Systems Improvement Grant

Current-year receipts	800 000	790 000
Conditions met - transferred to revenue	(800 000)	(790 000)
	-	-

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 33. Government grants and subsidies (continued)

Conditions met - transferred to revenue (see note 32&33)

#### Financial Management Grant

Current-year receipts	1 500 000	1 450 000
Conditions met - transferred to revenue	(1 500 000)	(1 450 000)
	-	-

Conditions met - transferred to revenue (see note 32&33)

#### Expanded Public Works Programme Incentive Grant

Current-year receipts	1 444 000	509 000
Conditions met - transferred to revenue	(1 444 000)	(509 000)
	-	-

Conditions met - transferred to revenue (see note 32&33)

#### Department of Water and Forestry (BULK Water) Grant

Current-year receipts	57 560 474	49 056 840
Conditions met - transferred to revenue	(57 560 474)	(49 056 840)
	-	-

Conditions met - transferred to revenue (see note 32&33)

#### CoGTA

Current-year receipts	1 200 000	-
Conditions met - transferred to revenue	(1 200 000)	-
	-	-

Conditions met - transferred to revenue (see note 32&33)

#### Equitable Shares

Current-year receipts	43 058 042	34 082 000
Conditions met - transferred to revenue	(43 058 042)	(34 082 000)
	-	-

Conditions met - transferred to revenue (see note 32&33)

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012 restated

### 34. Interest and dividend earned

#### Dividend revenue

Listed financial assets - Local	-	16 014
Bank	285 881	198 115
Interest charged on trade and other receivables	805 996	600 977
	<b>1 091 877</b>	<b>799 092</b>
	<b>1 091 877</b>	<b>815 106</b>

The amount included in interest earned arising from exchange transactions amounted to R 805 996 (2012: R600 977).

### 35. Cash generated from operations

Surplus	65 280 517	35 251 768
<b>Adjustments for:</b>		
Depreciation and amortisation	21 082 960	19 058 016
Gain on sale of assets and liabilities	1 446 839	73 100
Fair value adjustments	(510)	(7 518)
Finance costs	422 260	151 845
Debt impairment	6 872 970	19 118 409
Increase/(decrease) in retirement benefit assets and liabilities	340 000	3 104 000
Increase/(decrease) in provisions	267 448	(831 155)
Increase/(decrease) in Long Service Awards	81 000	(1 055 000)
Other non-cash items - prior year adjustments	(5 987 435)	(33 666 350)
<b>Changes in working capital:</b>		
Inventories	2 970	1 339 442
Receivables from non-exchange transactions	1 873 961	3 793 287
Receivables from exchange transactions	(37 847)	11 530 379
Payables from exchange transactions	(8 302 871)	9 901 525
VAT receivable	(10 162 240)	1 302 081
Increase/(decrease) in Consumer deposits	16 253	41 649
	<b>73 196 275</b>	<b>69 105 478</b>

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted for</b>		
• Infrastructure	24 008 538	64 888 873
<b>Approved but not yet contracted for</b>		
• Infrastructure	14 339 237	15 000 138
<b>TOTAL</b>	<b>38 347 775</b>	<b>79 889 011</b>

This expenditure will be funded from Government Grants.

This committed expenditure for Infrastructure relates to the BULK projects and MIG projects of R7 606 506 and R16 402 032 respectively split as follows:

• Upgrading of Gravel Road at Boshof Seretse Phase 2	-	1,350,000
• Boshof Sanitation - Profession Fee	-	1,124,065
• Upgrading of Seretse Stadium	-	430 5291
• Upgrading of Seretse Stadium	-	6,893,253
• Roads, Storm water and community centre EPWP	-	478,868
• Upgrading of Dealesville Oxidation Ponds	-	678,504
• Upgrading of Dealesville Oxidation Ponds	-	5,446,811
• <b>TOTAL MIG</b>		<b><u>16,402,032</u></b>
• Hertzogville Bulk Water Pipeline (Ductile Iron 8.5km)	-	626,957
• Water treatment works at Hertzogville	-	1,171,477
• Water Treatment Works at Hertzogville	-	2,375,178
• Water Treatment Works at Hertzogville	-	864,431
• Abstraction Works at Christiana - Civil Works	-	1,179,190
• Mechanical and Electric Abstraction Works Christiana	-	824,742
• Hertzogville Bulk Water 10 km	-	564,531
• <b>TOTAL REGIONAL BULK INFRASTRUCTURE GRANT</b>		<b><u>7,606,506</u></b>
• <b>TOTAL COMMITMENTS</b>		<b>24,008,538</b>



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 37. Contingencies

The municipality has the following contingent liabilities:

A claim for services rendered was made by Big Bravo Construction CC amounting to R3 197 147.

A summons was issued by Boswa Bontle Trading amounting to R117 869 for goods sold and delivered.

A summons was issued by Thembinkosi Investment amounting to R1 550 100 for electrical services rendered.

Letter of demand issued by Daniel Batantse for the non-payment of salaries amounting to R7 500

Letter of demand issued by various Tokologo Farmers for payment of damages caused by veld fires, provisional assessment of damages amounting to R2 390 000.

The Trade Union, IMATU, contested the implementation of a wage curve agreement in the Labour Court and the court ruled in favour of IMATU. The Employers Organisation, SALGA, resolved to take the ruling of the Labour Court on review. In accordance with the wage curve agreement job evaluations were to be performed as per the TASK job evaluation system and the employees were entitled to be paid per the wage scales and rates per the agreement with 9 months retrospective increases with effect from 1 July 2010. Due to the fact that no evaluations were performed the extent of the possible remuneration to be paid could not be calculated

### Contingent assets

The municipality did not have any contingent assets noted for the year under review.

### 38. Related parties

#### Relationships

Accounting Officer

No related parties transactions noted except for remuneration as disclosed in note 24.

Close family member of key management

No related parties transactions noted

Joint venture of key management

No related parties transactions noted

Associate of close family member of key management

No related parties transactions noted

Post employment benefit plan for employees of entity and/or other related parties

No related parties transactions noted

Post employment benefit plan for employees of a related party of a close family member of key management

No related parties transactions noted

Compensation to councillors and other key management (refer to note 22 & 23)

### Key management information

Class	Remuneration	Number
Sec 57 Managers	Refer to note 22	3
Mayor	Refer to note 23	1
Councillors	Refer to note 23	7
Municipal Managers	Refer to note 22	1

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 39. Prior period errors

Payroll and other debtors amounting to R101 152 were written off as the revenue or refunds were recognised in the prior year.

Stale and RD cheques amounting to R89 119 were written back.

Employee benefit obligation for post-retired medical benefits was not accounted for and has to be accounted for retrospectively. The balance is R3 104 000.

Assets amounting to R755 162 should have been capitalised and was corrected.

Unidentified deposits older than three years have been written off as a creditor and recognised as income for prior years. Payroll creditors were written off as the expenditure occurred in the prior year. The total is R1 637 609.

Long services awards were not accounted for and have to be accounted for retrospectively. The balance is R1 135 000. Errors in the inventories calculation amounting to R228 189 were corrected.

Errors in the landfill site provision calculation and recognition amounting to R75 000 were corrected.

The revaluation reserve amounting to R18 175 was written off as it is not backed with funds.

Expenditure relating to prior year amounting to R1 141 107 was re-allocated to the correct year.

Grant income of R3 341 569 and pre-paid revenue of R252 093 relating to the prior year was recognised and a unidentified deposito amounting to R54 000 was receipted.

Due the newly found assets depreciation amounting to R1 865 961 had to be corrected.

An unexplained difference in between the confirmed VAT receivable from SARS and the accounting system from the prior year amounting to R5 906 211 was corrected

### Statement of financial position

Increase in trade receivable from exchange transactions	-	(353 245)
Decrease in cash and cash equivalents	-	89 119
Decrease in employee benefits	-	(3 104 000)
Decrease in assets	-	(244 120)
Decrease in VAT	-	(5 906 211)
Increase in trade and other payables from exchange transactions	-	1 637 609
Increase in provisions	-	(1 130 000)
Decrease in inventories	-	(228 189)
NET EFFECT ON STATEMENT OF FINANCIAL POSITION	-	(9 239 037)
Opening Accumulated Surplus	-	3 546 642

### Statement of Financial Performance

Creditors written off	-	(1 637 609)
Debtors written off	-	101 152
Stale cheques written back	-	(89 119)
Correct inventories	-	228 189
Revaluation reserve written off	-	18 175
Correct provision for landfill site	-	75 000
Allocation of revenue in correct year	-	(3 143 476)
Expenditure allocated	-	1 141 107
Employee Benefits	-	4 159 000
Assets previously expensed	-	755 162
FV adjustment	-	73 100
Depreciation on newly found assets	-	1 865 961

### 40. Risk management

#### Liquidity risk

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 40. Risk management (continued)

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Finance leases	-	157 133	233 423	-
Trade and other payables	10 368 727	-	-	-
At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Finance leases	-	491 662	331 995	-
Trade and other payables	18 671 595	-	-	-

### Risk from biological assets

The municipality is exposed to financial risks arising from changes in the market price of game. The municipality does not anticipate that game prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in game prices. The municipality reviews its outlook for game prices regularly in considering the need for active financial risk management. There is also the risk of diseases which at the moment is unmanageable.

### Interest rate risk

As the municipality has a couple of less significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Fixed deposits	- %	2 432 376	-	-	-	-

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 40. Risk management (continued)

#### Credit risk

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

Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

Financial assets exposed to credit risk at year end are shown in the relevant note for cash and cash equivalents and trade receivables.

Financial instrument	2013	2012
Bank	788 437	227 798
Receivables from exchange and non-exchange transactions	3 681 986	5 593 794

### 41. Going concern

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the municipality is very reliant on grants from Treasury. Funding will be received from National Treasury as long as the municipality submit their reports on time. The collection of outstanding consumer debtor accounts are also a priority for the next twelve months.

### 42. Events after the reporting date

There are no adjusting events after reporting date to report on, except for equitable share withheld but relating to the 2012/2013 financial year.

### 43. Unauthorised expenditure

Actual operational expenditure exceeded the budgeted operational expenditure	21 383 461	36 221 598
by		
Actual capital expenditure exceeded the budgeted capital expenditure	17 204 254	-
	<b>38 587 715</b>	<b>36 221 598</b>

Additional funds allocated to the municipality from DWAF resulted in additional work performed on capital projects. The budget for capital expenditure were not adjusted when the additional work on projects were planned.

All the matters noted above will be presented to Council during the 2013/2014 financial year end so that they could be speedily resolved and concluded. The amount for the year under review will be investigated to get the exact amount and this will be presented to council for further action.

### 44. Fruitless and wasteful expenditure

Interest paid for late payments	163 953	151 809
Other Fruitless Expenditure	86 891	9 999
Penalties	17 459	2 015
	<b>268 303</b>	<b>163 823</b>

Interest paid and penalties: The interest could not be avoided as the municipality had a cashflow problem at that stage, but will be tabled to council for further action.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 45. Irregular expenditure

Opening balance	39 031 781	33 633 905
Add: Irregular Expenditure - current year	8 551 128	5 397 876
	<b>47 582 909</b>	<b>39 031 781</b>

There are no amounts reflected as condoned, recoverable (not condoned) and not recoverable (not condoned) because Council has recommended an investigation after submissions have been presented to Council. Report on the investigation will be presented in the next Council meeting.

Subsequent to year end on 12 September 2013 Council did approve irregular expenditure to be written off amounting to R5 154 096.

Management is evaluating irregular expenditure on the whole population of errors identified.

#### Details of Irregular Expenditure – Current year

	STEPS TO BE TAKEN	
Procurement of goods and or services by obtaining only one or two quotations	Matters to be investigated and submitted to council	896 875
No proof of advertisements on entity's website	Matters to be investigated and submitted to council	1 439 847
Payments without applicable documentation	Matters to be investigated and submitted to council	538 143
Consultants appointed without following SCM procedures	Matters to be investigated and submitted to council	5 676 263
		<b>8 551 128</b>

A register and methodology for identifying, recording, investigating and subsequently tabling to Council will be prepared soon so that the matters can be captured and dealt with speedily and on a continual basis.

### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government (SALGA)

Current year subscription / fee	400 000	54 000
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#### Audit fees

Amount paid - current year	2 129 674	2 322 511
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#### UIF

Amount paid - current year	128 567	118 435
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#### VAT

VAT receivable	11 968 382	1 806 142
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VAT output payables and VAT input receivables are shown in note .

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

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

30 June 2013	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mongana	2 682	-	2 682
30 June 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mongana	246	5 620	5 866

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

#### Distribution Losses

In terms of section 65(2)(e) of the MFMA the accounting officer must take reasonable steps to ensure that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Contrary to this requirement, all money owing by the municipality was not paid within 30 days of receiving the relevant invoice or statement..

#### Distribution Losses (Electricity)

Units bought	13 851 000	16 767 000
Units sold	11 538 000	11 144 000
Units lost in distribution	2 313 000	5 623 000
Units lost in distribution as a percentage	17	34
Amount of unit losses	2 233 895	3 557 672
	-	-

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand 2013 2012 restated

### 47. Actual operating revenue and expenditure versus budgeted operating revenue and expenditure

Revenue	Current year budget	Current year actual	Variance	Variance %
Property rates	2 871 478	2 936 323	64 845	2
Service charges	18 336 535	17 813 741	(522 794)	(3)
Rental of facilities	250 537	862 560	611 823	244
Interest earned- external investments	523 000	1 091 877	568 877	109
Dividends	3 000	-	(3 000)	(100)
Fines	80 000	106 255	26 255	33
Grants and subsidies	105 960 000	123 997 194	18 037 194	17
Rendering of services	74 135	185 709	111 574	151
Sale of Game	360 000	171 710	(188 290)	(52)
	<b>128 458 685</b>	<b>147 165 369</b>	<b>18 706 484</b>	<b>401</b>

Expenditure	Current year budget	Current year actual	Variance	Variance %
Personnel	(24 319 478)	(20 394 491)	3 924 987	16
Remuneration of councillors	(1 991 070)	(1 889 300)	101 770	5
Impairment loss	(2 757 801)	-	(2 757 801)	100
Depreciation	(1 389 311)	(21 082 960)	(19 693 649)	(1 418)
Repairs and maintenance	(4 061 682)	(2 825 267)	1 236 415	30
Finance cost	-	(422 260)	(422 260)	(100)
Bulk purchases	(12 901 177)	(13 548 017)	(646 840)	5
Contracted services	(12 935 000)	(3 333 886)	9 601 114	(74)
Grants and subsidies paid	(942 244)	(254 451)	687 793	(73)
General expenses	(6 258 533)	(9 675 542)	(3 417 009)	(55)
Debt Impairment	(2 827 506)	(6 872 970)	(4 045 464)	(143)
	<b>(70 383 802)</b>	<b>(80 299 144)</b>	<b>(15 430 944)</b>	<b>(1 707)</b>

### Reasons for significant variances between the approved budget and actual figures:

#### REVENUE

- Sale of game - Due to drought, less game was allocated for culling.
- Rendering of services - Locals utilised the municipality's services more than in the past and there were annual price increases.
- Rental of facilities and equipment - Locals utilised the municipality's services more than in the past and there were annual price increases.
- Interest received - Due to an increase in investments and consumer debtors.
- Dividends received - Dividends were not declared.
- Government grants and subsidies - DWAF allocated more funds than gazetted
- Fines - Can be budgeted precisely as it relates to offences by public.

#### EXPENDITURE

- Personnel - The amount budgeted was for vacant positions which were not filled.
- Remuneration of councillors - The councillor of the party COPE passed away during the year under review.
- Depreciation and amortisation - Due to newly found assets, depreciation increased.
- Impairment loss - Assets did not deteriorate as anticipated.
- Finance costs - Capitalisation of leases contracts resulted in the recognition of interest.
- Debt impairment - Impairment was based on the circumstances of debtor in the current year and the recoverability of debt was less than anticipated.
- Repairs and maintenance - Maintenance on assets were done in the prior year which resulted in less assets needing to be repaired in the current year..
- Bulk purchases - Due to increased consumption and annual price increase.
- Contracted services - Internal capacity built, therefore less use of consultants.
- Grants and subsidies paid - Less applications were received from indigents and less consumption..
- General expenses - Certain expenditure was not anticipated with the compilation of the budget. However the expenditure is in line with the actual expenditure in the prior year.

# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the financial statements.

### 49. Financial assets by category

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

#### 2013

	Loans and receivables	Total
Receivables from exchange transactions	1 535 125	1 535 125
Receivables from non-exchange transactions	2 146 861	2 146 861
Cash and cash equivalents	3 221 213	3 221 213
VAT Receivable	11 968 382	11 968 382
	<b>18 871 581</b>	<b>18 871 581</b>

#### 2012

	mmmmmmm	Total
Receivables from exchange transactions	1 572 972	1 572 972
Receivables from non-exchange transactions	4 020 822	4 020 822
Cash and cash equivalents	3 368 708	3 368 708
VAT Receivable	1 806 142	1 806 142
	<b>10 768 644</b>	<b>10 768 644</b>

### 50. Long Term Service Awards

#### Reconcilliation - 2013

	Opening Balance	Additions	Total
Long Term Service Awards	1 055 000	81 000	1 136 000

#### Reconcilliation - 2012

	Opening Balance	Additions	Total
Long Term Service Awards	-	1 055 000	1 055 000

The municipality operates as unfunded deficit benefit plan for all its employees. Under the plan, a Long-Service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

This is the present value of the total Long-Term Service Awards expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected Long-Term Service Awards for current employees.

The most recent actuarial valuations on the Long-Term Service Awards were carried out at 30 June 2013 by ZAQEN Actuaries (Pty) Ltd



# TOKOLOGO MUNICIPALITY

Financial Statements for the year ended 30 June 2013

## Notes to the Financial Statements

Figures in Rand	2013	2012 restated
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### 51. Financial liabilities by category

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

#### 2013

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	7 185 337	7 185 337

#### 2012

	Financial liabilities at amortised cost	Total
Payables from exchange transactions	16 051 471	16 051 471

### 52. Operating lease Income

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Camp Rentals	481 842	706 181	27 488	3 289
At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Camp Rentals	477 132	966 974	238 669	13 158

Camp Property are leased out for between R30 - R200 per hectare. Contracts are signed for 5 years with lessee. There is no escalation in the price over the rental period.

### 53. Comparative figures

Audit Fees previously disclosed as Contracted Services in 2012 and 2013, now reclassified as External Audit fees.

Payables from non-exchange transaction for the prior year were re-classified as Receivables from non-exchange transactions for improvement..

TOKOLOGO MUNICIPALITY  
TOKOLOGO MUNICIPALITY  
**APPENDIX A**

GOVERNMENT TEMPLATE: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2013									
Yearly					Yearly				
Loan Number	Redeemable	Balance at 30 June 2012	Received during the period	Redeemed written off during the period	Balance at 30 June 2013	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand	Rand	Rand
		Rand	Rand	Rand	Rand				
		-	-	-	-	-	-	-	-

**TOKOLOGO MUNICIPALITY**

APPENDIX B for the period ended 30 June 2013

The following information is unaudited and therefore no opinion is expressed

		ANALYSIS OF PROPERTY F			
		Cost/Revaluation			
	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand
<b>Land/ Buildings</b>					
Erven	62 567 353	-	-	-	62 567 353
Farms	4 100 955	-	-	-	4 100 955
	<b>66 668 308</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>66 668 308</b>
<b>Community Assets</b>					
Buildings	7 217 000	-	-	-	7 217 000
Land	5 283 257	-	-	-	5 283 257
Recreation facilities	1 316 350	-	-	-	1 316 350
	<b>13 816 607</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13 816 607</b>
<b>Leased Assets</b>					
Office equipment	464 219	57 111	-	417 967	103 363
	<b>464 219</b>	<b>57 111</b>	<b>-</b>	<b>417 967</b>	<b>103 363</b>
<b>Infrastructure</b>					
Electricity	9 350 153	-	-	-	9 350 153
Roads	246 154 567	-	-	-	246 154 567
Sewerage	30 763 270	54 802	-	-	30 818 072
Water	68 841 339	-	-	-	68 841 339
Capital work in progress	106 177 188	70 202 366	(54 802)	-	176 324 752
	<b>461 286 517</b>	<b>70 257 168</b>	<b>(54 802)</b>	<b>-</b>	<b>531 488 883</b>

**TOKOLOGO MUNICIPALITY**

APPENDIX B for the period ended 30 June 2013

The following information is unaudited and therefore no opinion is expressed

	ANALYSIS OF PROPERTY F				
	Cost/Revaluation				
	Opening Balance Rand	Additions Rand	Under Construction Rand	Disposals Rand	Closing Balance Rand
Other assets					
Furniture and fittings	2 031 201	3 109 548	-	21 578	5 119 171
Motor vehicles	8 599 908	-	-	-	8 599 908
Office equipment	542 814	-	-	-	542 814
Computer equipment	637 637	-	-	-	637 637
Plant and machinery	741 924	-	-	-	741 924
Specialised vehicles	3 869 547	-	-	-	3 869 547
	16 423 031	3 109 548	-	21 578	19 511 001
Total					
Land/ Buildings	66 668 308	-	-	-	66 668 308
CommunityAssets	13 816 607	-	-	-	13 816 607
Leased Assets	464 219	57 111	-	417 967	103 363
Infrastructure	461 286 517	70 257 168	(54 802)	-	531 488 883
Furniture and fixtures	-	-	-	-	-
Other assets	16 423 031	3 109 548	-	21 578	19 511 001
	558 658 682	73 423 827	(54 802)	439 545	631 588 162

**TOKOLOGO MUNICIPALITY**

APPENDIX C for the period ended 30 June 2013

The following information is unaudited and therefore no opinion is expressed

**SEGMENTAL ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2013**  
**Cost/Revaluation** **Accumulated Depreciation**

	<b>Opening Balance Rand</b>	<b>Additions Rand</b>	<b>Under Construction Rand</b>	<b>Disposals Rand</b>	<b>Closing Balance Rand</b>	<b>Opening Balance Rand</b>	<b>Depreciation Rand</b>	<b>Disposals Rand</b>	<b>Closing Balance Rand</b>	<b>Carrying Value Rand</b>
Office of the Munipal Manager	1 969 313	-	-	-	<b>1 969 313</b>	67 536	-	-	<b>67 536</b>	<b>1 901 777</b>
Council	420 468	-	-	-	<b>420 468</b>	84 378	-	-	<b>84 378</b>	<b>336 090</b>
Finance Service	1 085 078	3 166 659	-	417 967	<b>3 833 770</b>	569 685	429 123	417 967	<b>580 841</b>	<b>3 252 929</b>
Cooperate Services	60 379 147	-	-	-	<b>60 379 147</b>	99 806	-	-	<b>99 806</b>	<b>60 279 341</b>
Libraries	85 367	-	-	-	<b>85 367</b>	29 259	-	-	<b>29 259</b>	<b>56 108</b>
Halls and Facilities	84 457 131	-	-	21 579	<b>84 435 552</b>	11 636 879	1 897 327	-	<b>13 534 206</b>	<b>70 901 346</b>
Public Works	228 103 997	54 802	-	-	<b>228 158 799</b>	116 097 495	14 010 362	-	<b>130 107 857</b>	<b>98 050 942</b>
Traffic	47 749	-	-	-	<b>47 749</b>	15 082	-	-	<b>15 082</b>	<b>32 667</b>
Electricity	21 510 233	-	-	-	<b>21 510 233</b>	4 472 375	3 520 191	-	<b>7 992 566</b>	<b>13 517 667</b>
Water	54 423 012	-	-	-	<b>54 423 012</b>	15 231 849	-	-	<b>15 231 849</b>	<b>39 191 163</b>
Water (WIP)	106 177 188	70 202 366	(54 802)	-	<b>176 324 752</b>	-	-	-	<b>-</b>	<b>176 324 752</b>
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-
	<b>558 658 683</b>	<b>73 423 827</b>	<b>(54 802)</b>	<b>439 546</b>	<b>631 588 162</b>	<b>148 304 344</b>	<b>19 857 003</b>	<b>417 967</b>	<b>167 743 380</b>	<b>463 844 782</b>

**TOKOLOGO MUNICIPALITY**

**TOKOLOGO MUNICIPALITY**

APPENDIX F for the ended 30 June 2013

**DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

The following information is unaudited and therefore no opinion is expressed

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Yes/ No
Municipal infrastructure grant (MIG)	National	7 260 000	5 724 000	8 674 000	-	9 264 892	4 332 072	2 897 554	5 163 482	Yes
Financial Management Grant (PMG)	National	1 500 000	-	-	-	477 102	673 230	169 145	180 523	Yes
Municipal systems improvements grant (MSIG)	National	800 000	-	-	-	-	498 072	82 915	219 013	Yes
		-	-	-	-	-	-	-	-	
		-	-	-	-	-	-	-	-	
		9 560 000	5 724 000	8 674 000	-	9 741 994	5 503 374	3 149 614	5 563 018	

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