EKURHULENI METROPOLITAN MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

General Information

LEGAL FORM OF ENTITY	Municipality
LEGISLATION GOVERNING THE MUNICIPALITY'S OPERATIONS	Municipal Finance Management Act (Act No. 56 of 2003)
MAYORAL COMMITTEE	
Executive Mayor	Clr M Gungubele
Councillors	Speaker: Clr P Kumalo
	Chief Whip: Clr R Mashego
	MMC SRAC: Clr Z Tshongweni
	MMC Finance: Clr M Makwakwa
	MMC Roads & Stormwater: Clr P Nkunjana
	MMC Human Settlements: Clr Q Duba
	MMC Health & Social Development: Clr M Maluleke
	MMC Public Transport, Planning & Provision: Clr T Mahlangu
	MMC City Planning & Economic Development: Clr B Nikani
	MMC Environmental Development: Clr T V Mabena
	MMC Community Safety: Clr M Siboza
	MMC Water ad Energy: Clr A Nxumalo
GRADING OF LOCAL AUTHORITY	The municipality is a category A grade 6 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998.
ACCOUNTING OFFICER	K Ngema 011 999 0481
CHIEF FINANCIAL OFFICER (CFO)	Z G Myeza 011 999 6514
REGISTERED OFFICE	Corner Roses and Cross Streets Germiston 1400
BUSINESS ADDRESS	Corner Roses and Cross Streets Germiston 1400
POSTAL ADDRESS	Private Bag X69 Germiston 1400
BANKERS	ABSA Bank
AUDITORS	Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the Municipal Council:

ABBREVIATIONS

COID	Compensation for Occupational Injuries and Diseases
WCA	Workmen's Compensation
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act (No. 56 of 2003)
GMRF	Germiston Municipal Retirement Fund
USDG	Urban Settlement Development Grant

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

Accounting Officer **K Ngema**	**Acting Chief Financial Officer** **A L van Schalkwyk**

Germiston

31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
ASSETS			
Current Assets			
Inventories	11	145,045,948	132,472,519
Other Investments	8	21,285,000	20,000,000
Other receivables from exchange transactions	12	139,641,036	279,972,232
Other receivables from non-exchange transactions	13	29,540,450	130,187,427
Consumer debtors	14	2,822,359,047	2,447,472,950
Cash and cash equivalents	15	2,838,424,089	1,338,863,442
		5,996,295,570	**4,348,968,570**
Non-Current Assets			
Investment property	4	110,246,592	126,279,203
Property, plant and equipment	5	42,575,917,113	42,625,347,411
Intangible assets	6	66,506,608	31,396,293
Investments in controlled entities	7	306	306
Other Investments	8	472,185,461	230,895,311
Long-term receivables		2,519,835	2,332,670
		43,227,375,915	**43,016,251,194**
Total Assets		**49,223,671,485**	**47,365,219,764**
LIABILITIES			
Current Liabilities			
Trade and other payables from exchange transactions	19	2,685,831,150	2,463,874,077
Deposits	20	532,611,189	487,038,111
Unspent conditional grants and receipts	17	99,675,581	133,880,895
Provisions	18	259,426,470	232,612,266
Current portion of long-term liabilities	16	182,305,105	175,354,221
		3,759,849,495	**3,492,759,570**
Non-Current Liabilities			
Long-term liabilities	16	4,333,206,439	3,715,713,955
Retirement benefit obligation	10	1,502,270,877	1,378,112,990
Provisions	18	649,199,245	503,152,405
		6,484,676,561	**5,596,979,350**
Total Liabilities		**10,244,526,056**	**9,089,738,920**
Net Assets		**38,979,145,429**	**38,275,480,844**
NET ASSETS			
Net Assets Attributable to Owners of Controlling Entity			
Accumulated surplus		38,979,145,429	38,275,480,844

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	23	2,590,399,280	2,431,046,779
Property rates - penalties and collection charges		53,770,449	62,530,966
Service charges	24	12,640,496,148	10,121,905,960
Rental of facilities and equipment		49,227,077	49,063,908
Interest earned - outstanding debtors		199,886,549	212,198,108
Fines		210,363,750	135,348,768
Licences and permits		33,960,666	30,049,466
Income from agency services		208,920,868	186,876,573
Government grants & subsidies	25	4,557,540,172	3,397,688,308
Other income	26	105,666,528	69,723,591
Interest revenue	31	153,736,169	119,552,608
Total Revenue		**20,803,967,656**	**16,815,985,035**
Expenditure			
Employee related costs	28	(4,109,531,899)	(3,800,446,140)
Remuneration of councillors	29	(79,406,240)	(66,908,485)
Depreciation and amortisation	32	(2,029,143,565)	(2,068,788,607)
Impairment of assets	33	-	101,698
Finance costs	34	(453,417,828)	(382,613,438)
Debt impairment	30	(1,432,511,739)	(1,445,304,490)
Collection costs		(131,932,643)	(112,614,930)
Repairs and maintenance		(1,737,189,295)	(1,781,722,084)
Bulk purchases	39	(7,930,516,453)	(6,435,216,842)
Contracted services	37	(684,662,723)	(614,833,794)
Grants and subsidies paid	38	(426,284,961)	(123,792,034)
General Expenses	27	(1,065,442,603)	(1,036,871,166)
Total Expenditure		**(20,080,039,949)**	**(17,869,010,312)**
Gain on disposal of assets		776,424	4,871,992
Loss on disposal of assets		(21,039,546)	(24,773,397)
Surplus (deficit) for the year		**703,664,585**	**(1,072,926,682)**
Attributable to:			
Owners of the controlling entity		703,664,585	(1,072,926,682)
Minority interest		-	-

Statement of Changes in Net Assets

Figures in Rand	Share premium	Fair value adjustment assets-available-for-sale reserve	Accumulated surplus	Minority interest	Total net assets
Opening balance as previously reported	-	-	41,836,063,999	-	41,836,063,999
Adjustments					
Prior period error	-	-	(2,487,656,473)	-	(2,487,656,473)
Balance at 01 July 2010 as restated	**-**	**-**	**39,348,407,526**	**-**	**39,348,407,526**
Changes in net assets					
Surplus/(Deficit) for the year	-	-	(1,072,926,682)	-	(1,072,926,682)
Total changes	-	-	(1,072,926,682)	-	(1,072,926,682)
Balance at 01 July 2011 as restated	**-**	**-**	**38,275,480,844**	**-**	**38,275,480,844**
Changes in net assets					
Surplus for the year	-	-	703,664,585	-	703,664,585
Total changes	-	-	703,664,585	-	703,664,585
Balance at 30 June 2012	**-**	**-**	**38,979,145,429**	**-**	**38,979,145,429**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Property rates		1,839,046,466	2,087,390,031
Sale of goods and services		11,843,870,845	8,998,588,063
Grants		4,523,334,857	3,331,083,728
Interest income		353,622,718	331,750,716
Other receipts		606,654,348	533,593,269
		19,166,529,234	15,282,405,807
Payments			
Employee costs		(4,109,531,900)	(3,800,446,138)
Suppliers		(10,131,175,841)	(8,078,135,283)
Finance costs		(453,417,828)	(382,613,438)
Other payments		(1,400,728,899)	(1,779,329,263)
Taxes on surpluses		-	-
		(16,094,854,468)	(14,040,524,122)
Net cash flows from operating activities	40	**3,071,674,766**	**1,241,881,685**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment (PPE)	5	(1,961,164,335)	(1,913,683,900)
Proceeds from the sale of property, plant and equipment	5	811,993	4,499,472
Proceeds from sale of investment property	4	834,200	54,000
Purchase of intangible assets	6	(39,850,108)	(12,369,099)
Proceeds from sale of financial assets		(242,575,150)	80,081,031
Net movement in long term receivables - non-current		(187,165)	25,501,674
Net cash flows from investing activities		**(2,242,130,565)**	**(1,815,916,822)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Movement in long term liabilities		617,492,484	1,439,645,601
Movement in deposits		45,573,078	70,010,852
Movement in other long term liabilities		6,950,884	(261,383,283)
Net cash flows from financing activities		**670,016,446**	**1,248,273,170**
Net increase/ (decrease) in cash and cash equivalents		**1,499,560,647**	**674,238,033**
Cash and cash equivalents at the beginning of the year		1,338,863,442	664,625,409
Cash and cash equivalents at the end of the year	15	**2,838,424,089**	**1,338,863,442**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements are prepared on an accrual basis of accounting and are in accordance with historical cost convention.

These economic entity annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. When any significant judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

1.2 Property, plant and equipment (PPE)

Property, plant and equipment (PPE) 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.

1.2 Property, plant and equipment (PPE) (continued)

Property, plant and equipment, is stated at cost less accumulated depreciation and accumulated impairment. Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful lives. Similarly, land is not depreciated as it is deemed to have an infinite life.

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. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure is capitalised when the recognition and measurement criteria of an asset are met.

The economic entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The estimated useful lives are as follows:

Item	Average useful life
Land	Indefinite
Motor vehicles	
• Specialised vehicles	5 - 15 years
• Other vehicles	4 - 25 years
Infrastructure	
• Roads and stormwater	1 – 120 years
• Pedestrian malls	30 years
• Electricity	5 – 60 years
• Water	3 – 200 years
• Sewer	3 – 120 years
• Housing	50 years
• Solid Waste	5 – 60 years
• Servitudes	Indefinite
Community	
• Buildings	30 years
• Recreational facilities	20 – 30 years
• Security	11 – years
• Landfill sites	15 years
Other property, plant and equipment	
• Furniture and fittings	3 - 33 years
• Water craft	15 years
• Office equipment	3 – 33 years
• Specialised plant and equipment	10 – 26 years
• Other items of plant and equipment	2 – 26 years

The asset management policy contains the details of the components and their specific useful life estimates.

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that it may be impaired. An impairment exists when an assets carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the assets' recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

The economic entity depreciates separately each part of an item of property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised.

1.3 Investments in controlled entities

Municipal controlled entities are those entities which the Municipality owns or over whose financial and operating policies it has the power to exercise beneficial control.

In the municipality's Separate Financial Statements, investments in controlled entities are accounted for at cost less any accumulated impairment.

1.4 Financial instruments

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Held to maturity

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

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

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

1.4 Financial instruments (continued)

Classification

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

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

Recognition

Financial assets and financial liabilities are initially recognised on the statement of financial position when the economic entity becomes party to the contractual provisions of the instrument.

Measurement

When a financial asset or financial liability is recognised initially, the economic entity measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the economic entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the economic entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the economic entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

The economic entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. If any such evidence exists, the economic entity applies the following to determine the amount of any impairment loss:

Financial assets carried at amortised cost: If there is objective evidence that an impairment loss on loans and receivables or held-to maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in surplus or deficit.

Financial assets carried at cost: If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Available-for-sale financial assets: When a decline in the fair value of an available-for-sale financial asset has been recognised in accumulated surplus or deficit and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised in accumulated surplus or deficit is reclassified from accumulated surplus or deficit to surplus or deficit as a reclassification adjustment even though the financial asset has not been derecognised.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that the economic entity has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortised cost using the effective interest method.

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

1.4 Financial instruments (continued)

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, the economic entity estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the economic entity uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are subsequently measured at amortised cost using the effective interest method.

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, the economic entity estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the economic entity uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are subsequently measured at fair value with changes in fair value recognised in accumulated surplus.

Impairment losses, interest income and dividend income are reported in surplus or deficit.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

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, the economic entity estimates cash flows considering all contractual terms of the financial instrument but does 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, transaction costs, and all other premiums or discounts. In those rare cases when it is not possible to estimate reliably the cash flows or the expected life of a financial instrument (or group of financial instruments) the economic entity uses the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

De-recognition

Financial assets

A financial asset is de-recognized where the contractual rights to receive cash flow from the asset have expired, or the economic entity has transferred the asset and the transfer qualifies for de-recognition. A transfer qualifying for de-recognition occurs when the economic entity transfers the contractual rights to receive the cash flows of the financial asset. Where the economic entity has transferred its rights to the cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the economic entity's continuing involvement in the asset.

Financial liabilities

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Categorisation

The economic entity has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.
A financial asset is any asset that is:
- cash;
- a contractual right to receive cash or to receive another financial asset from another entity;
- a contractual right to exchange financial instruments on potentially favourable terms;

1.4 Financial instruments (continued)

- an equity instrument of another entity;
- a contract that may or will be settled in the entity's own equity instruments (subject to certain conditions).

The economic entity has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:
• Investments
• Long term receivables
• Consumer debtors
• Other receivables
• Cash and cash equivalents
• Unlisted shares

In accordance with IAS 39.09 the financial assets of the economic entity are classified as follows into one of the four categories allowed by this standard:

Type of financial asset	Classification in terms of IAS 39.09
Investments	Held to maturity
Long term receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other receivables	Loans and receivables
Bank balances and cash	Available for sale
Unlisted shares	Available for sale

A financial liability is any liability that is:
- a contractual obligation to deliver cash or to deliver another financial asset;
- a contractual obligation to exchange financial instruments on potentially unfavourable terms;

The economic entity has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:
• Long term liabilities
• Trade and other payables
• Consumer deposits
• Unspent conditional grants and receipts

There are two main categories of financial liabilities, classified based on how they are measured.

Any other financial liabilities are classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the financial liabilities of the economic entity are classified only as financial liabilities that are not measured at fair value through profit or loss because none of the following instruments are held for trading.

Type of financial liability	Classification in terms of IAS 39.09
Long term liabilities	Financial liability that is not measured at fair value through profit or loss
Consumer deposits	Financial liability that is not measured at fair value through profit or loss
Trade and other payables	Financial liability that is not measured at fair value through profit or loss
Unspent conditional grants and receipts	Financial liability that is not measured at fair value through profit or loss

Impairment of financial assets

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for bad debts. The provision is made on an individual basis or group, based on expected cash flows.

At each reporting date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is evidence then the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39 as an expense in the Statement of Financial Performance.

Separate classes of loans and receivables were assessed for impairment using the following methodologies:

Sundry Deposits:
Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

Sundry Debtors:
Sundry Debtors are those Suspense Control Accounts classified as financial instruments with debit balances as at year-end. Sundry Debtors are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Capital Projects:
Capital Projects are conditional grant accounts with debit balances as at year-end, carrying a debit balance as at year-end. Capital Projects are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Insurance Claims:

1.4 Financial instruments (continued)

Insurance Claims are respect of expenditure incurred for assets replaced by the economic entity and the settlement from the insurers is awaited. These happened before GRAP was implemented and are assessed individually for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Government Subsidy Claims:
Government subsidy claims are individually assessed for impairment to ensure that no objective evidence exists that these debtors are irrecoverable.

Investments
Other investments includes unlisted shares in Rand Airport (available-for-sale) as well as held to maturity investments

Other receivables
Other receivables consist of receivables from exchange and non-exhange transactions classified as loans and receivables.

Long-term receivables
Consist of housing debtors and is classified as loans and receivables.

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 - lessor

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

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

Operating leases - lessee

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

1.6 Inventories

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the economic entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Inventories identified for write down/write off, but for which a council resolution, to authorise the write down/write off, has not yet been obtained, is provided for as a provision for obsolete stock. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The first-in-first-out method is the basis of allocating costs to inventories.

Unsold properties are valued at cost. Direct costs are accumulated for each separately identifiable development.

1.7 Employee benefits

Benefits

Retirement Funds

The economic entity contributes to defined contribution and defined benefit funds. These funds are multi employer funds.

Defined contribution plans

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

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

Where an employee has rendered services to the economic entity during the year, the economic entity recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

The economic entity provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.

Defined benefit plans

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

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

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

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

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

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

1.7 Employee benefits (continued)

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

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

The economic entity does not apply “defined benefit accounting” to the defined benefit funds to which it is a member where these funds as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the economic entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

Medical Aid: Continued Members

The economic entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the economic entity is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the economic entity for the remaining portion.

1.8 Provisions and contingencies

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

1.8 Provisions and contingencies (continued)

A provision is recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) 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 amount of the obligation.

The economic entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities.

a) Leave Provision

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

b) COID Provision

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 6.5% (2011 - 6.10%) per annum over member’s expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate of 11.00% (2011 - 11.50%).

c) Landfill Rehabilitation Provision
The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 11.00% (2011 - 11.50%).

The economic entity has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a economic entity incurs as a consequence of having used the property during a particular period for landfill purposes. The economic entity estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:
(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

d) Workmen's compensation provision

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

e) Long service awards provision

The economic entity offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

f) GMRF provision

The provision is for the economic entity's obligation to the Germiston Municipal Retirement Fund due to the economic entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

g) Bonus provision

The provision is to provide for performance bonusses of the economic entity's section 57 employees and, where applicable, independant contractors.

1.9 Revenue from exchange transactions

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

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

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

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:
• The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
• A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

Service charges relating to electricity and water are based on consumption. Meters are read on a periodic basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period. There are areas within the economic entity were an un-metered water tariff is applied based on estimated consumption as per promulgated tariffs. Revenue for these is recognised when invoiced.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property. Tariffs are determined per category of property size, and are levied monthly.

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.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Dividends are recognised when the economic entity’s right to receive payment is established.

Revenue from the sale of goods is recognised when the following conditions have been satisfied:
- The economic entity has transferred to the buyer the significant risks and rewards of ownership.
- The economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.14 and 1.15. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

1.10 Borrowing costs (continued)

Extended periods is periods that exceeds 3 months.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.11 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

1.12 Investment property

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the economic entity measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Cost model

Investment property is subsequently measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Depreciation is provided to write down the cost by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 - 60 years

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

1.13 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. Intangible assets are identifiable resources controlled by the economic entity from which the economic entity expects to derive future economic benefits or service potential.

Intangible assets are identifiable when they can be separated from the economic entity, i.e. is capable of being separated or divided from the economic entity and sold, exchanged, licensed or, when they arise as a result of a contractual or other legal right, excluding those legal rights that arise from statute.

The economic entity recognises an intangible asset in its statement of financial position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the economic entity; and the economic entity can measure the cost or fair value of the asset reliably.

An intangible asset is measured initially at cost.

Where the economic entity acquires intangible assets, it recognises them as assets in the statement of financial position at cost.

Where the economic entity generates its own intangible assets through research and development or the acquisition of another entity, recognition is based on whether or not it is probable that the intangible assets will generate future economic benefits or service potential. Expenditure on research is not recognised as an asset.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, the economic entity can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- its intention to complete the intangible asset and use or sell it.
- its ability to use or sell the intangible asset.
- how the intangible asset will generate probable future economic benefits or service potential. Among other things, the economic entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- its ability to measure reliably the expenditure attributable to the intangible asset during its development.

The economic entity does not recognise internally generated goodwill as an intangible asset. It also does not recognise internally generated brands, mastheads, publishing titles, customer lists and items similar in substance, as intangible assets.
The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria.

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

The economic entity assesses whether the useful life or service potential of an intangible asset is finite or indefinite. The economic entity regards an intangible asset as having an indefinite useful life when there is no foreseeable limit to the period over which the entity expects the asset to generate net cash inflows or service potential for the entity. Intangible assets with indefinite useful lives are not amortised.

The economic entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

The useful life of an intangible asset that arises from contractual or legal rights does not exceed the period of the contractual or legal rights, but may be shorter depending on the period over which the economic entity expects to use the asset.

The economic entity reviews the amortisation method, useful lives and residual values of intangible assets annually.

The estimated useful lives are as follows:

Item	**Useful life**
Computer software	3 - 10 years (Change: 2011 was 3 - 14 years)

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.14 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.

1.14 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

Estimates of future cash flows include:
- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

1.14 Impairment of cash-generating assets (continued)

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

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

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

1.14 Impairment of cash-generating assets (continued)

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.15 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.

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

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

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

Identification

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

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

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

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

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

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

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

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

Redesignation

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

1.16 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the economic entity 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.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

A rating system charging one tariff is employed. Rebates and remissions are granted to certain categories of ratepayers and are recognised net of revenue.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of fines that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognized 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 economic entity. Where public contributions have been received but the economic entity has not met the related conditions, a deferred income (liability) is recognized.

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 economic entity.

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.

1.17 Comparative figures

Budget information has been provided in a note to these financial statements, called Statement of Comparative and Actual information.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. 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.

1.18 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, economic entity 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.

1.19 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.

1.20 Irregular expenditure

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

Accounting Policies

1.21 Use of estimates

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

1.22 Internal Reserves

Asset Fair Value Adjustment Reserve

On the implementation of GRAP 17, certain assets were adjusted to reflect the fair values of the assets, where insufficient cost were previously capitalized. This fair value adjustment have been transferred to the Asset Fair Value Adjustment Reserve via the accumulated surplus account.

The Asset Fair Value Adjustment Reserve is transferred to accumulated surplus on a basis that is appropriate as to realise this reserve on a straight-line basis over a pre-determined period, which is in line with service delivery objectives of the economic entity.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the economic entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.24 Segmental information

The principal segments have been identified on a primary basis by service operation and on a secondary basis by the classification of income and expenditure. The primary basis is representative of the internal structure for both budgeting and management purposes.

Refer to note on statement of comparatives and actual information.

1.25 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.

1.26 Going concern

These annual financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICY

Details

2012
None

2011
During the year, the municipality changed its accounting policy with respect to the treatment of post retirement benefits. To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2012 is as follows:

Statement of financial position

	2012	2011
Retirement benefit obligation		
Adjustment	-	99,244,675
Opening accumulated surplus		
Adjustment	-	(83,741,340)

3. NEW STANDARDS AND INTERPRETATIONS

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

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.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the stadard has not yet been set.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

3. NEW STANDARDS AND INTERPRETATIONS (continued)

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 municipality.

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 July 2012.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

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 municipality 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 annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual 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 annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual 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 July 2012.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 103: Heritage Assets

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset’s heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset’s deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

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

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

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

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

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

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

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

An 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, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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 July 2012.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an 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.

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

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

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

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

3. NEW STANDARDS AND INTERPRETATIONS (continued)

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

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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 July 2012.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

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 July 2013.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality to a portion of another municipality’s net assets in the event of liquidation and, to dividends or similar distributions paid at management’s discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality considers the substance of the contract and not just the legal form.

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

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 July 2012.

The municipalty does not envisage adopting the standard before the standard becomes effective.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the stadard has not yet been set.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the stadard has not yet been set.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

IIt is unlikely that the standard will have a material impact on the municipality's interim financial statements.

GRAP 107: Mergers

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

3. NEW STANDARDS AND INTERPRETATIONS (continued)

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the stadard has not yet been set.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

IIt is unlikely that the standard will have a material impact on the municipality's interim financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

The standard sets out the requirements, inter alia, for the disclosure of:
- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the stadard has not yet been set.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP 11: Consolidation – Special purpose entities

An entity may be created to accomplish a narrow and well-defined objective (e.g. to effect a lease, research and development activities or a securitisation of financial assets). Such a special purpose entity (‘SPE’) may take the form of a corporation, trust, partnership or unincorporated entity. SPEs often are created with legal arrangements that impose strict and sometimes permanent limits on the decision-making powers of their management over the operations of the SPE. Frequently, these provisions specify that the policy guiding the ongoing activities of the SPE cannot be modified, other than perhaps by its creator or sponsor (ie they operate on so-called ‘autopilot’). The sponsor (or entity on whose behalf the SPE was created) frequently transfers assets to the SPE, obtains the right to use assets held by the SPE or performs services for the SPE, while other parties (‘capital providers’) may provide the funding to the SPE. An entity that engages in transactions with an SPE (frequently the creator or sponsor) may in substance control the SPE. A beneficial interest in an SPE may, for example, take the form of a debt instrument, an equity instrument, a participation right, a residual interest or a lease. Some beneficial interests may simply provide the holder with a fixed or stated rate of return, while others give the holder rights or access to other future economic benefits or service potential of the SPE’s activities. In most cases, the creator or sponsor (or the entity on whose behalf the SPE was created) retains a significant beneficial interest in the SPE’s activities, even though it may own little or none of the SPE’s net assets.

The Standard of GRAP on Consolidated and Separate Financial Statements requires the consolidation of entities that are controlled by the reporting entity. However, the Standard of GRAP does not provide explicit guidance on the consolidation of SPEs. The issue is under what circumstances an entity should consolidate an SPE. This interpretation of the Standards of GRAP does not apply to post-employment benefit plans or other long-term employee benefit plans to which the Standard of GRAP on Employee Benefits applies.

A transfer of assets from an entity to an SPE may qualify as a sale by that entity. Even if the transfer does qualify as a sale, the provisions of the Standard of GRAP on Consolidated and Separate Financial Statements and this Interpretation of the Standards of GRAP may mean that the entity should consolidate the SPE. This Interpretation of the Standards of GRAP does not address the circumstances in which sale treatment should apply for the entity or the elimination of the consequences of such a sale upon consolidation.

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures

Paragraph .54 in the Standard of GRAP on Interests in Joint Ventures refers to both contributions and sales between a venturer and a joint venture as follows: ‘When a venturer contributes or sells assets to a joint venture, recognition of any portion of a gain or loss from the transaction shall reflect the substance of the transaction’. In addition, paragraph 31 in the Standard of GRAP on Interests in Joint Ventures says that ‘a jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest’. There is no explicit guidance on the recognition of gains and losses resulting from contributions of non-monetary assets to jointly controlled entities (‘JCEs’).

Contributions to a JCE are transfers of assets by venturers in exchange for an interest in the net asset in the JCE. Such contributions may take various forms. Contributions may be made simultaneously by the venturers either upon establishing the JCE or subsequently. The consideration received by the venturer(s) in exchange for assets contributed to the JCE may also include cash or other consideration that does not depend on future cash flows of the JCE (‘additional consideration’).

The issues are:
- when the appropriate portion of gains or losses resulting from a contribution of a non-monetary asset to a JCE in exchange for an interest in the net assets in the JCE should be recognised by the venturer in surplus or deficit;
- how additional consideration should be accounted for by the venturer; and
- how any unrealised gain or loss should be presented in the consolidated

This Interpretation of the Standards of GRAP deals with the venturer’s accounting for non-monetary contributions to a JCE in exchange for an interest in the net assets in the JCE that is accounted for using either the equity method or proportionate consolidation.

3. NEW STANDARDS AND INTERPRETATIONS (continued)

The effective date of this interpretation is dependent on/in conjunction with the effective date of GRAP105, 106 and 107.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements

The definition of ‘minority interest’ has been amended to ‘non-controlling interest’, and paragraph .60 was added by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

Paragraph .59 was amended by Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107] from the date at which it first applied the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .03, .39, .47 to .50 and added paragraphs .51 to .58 and .61 to .62. An entity shall apply these amendments when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. An entity shall apply these amendments prospectively for annual financial periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107]. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

3. NEW STANDARDS AND INTERPRETATIONS (continued)

An entity shall apply this amendment for annual financial statements covering periods beginning on or after the effective date [in conjunction with the effective date to be determined by the Minister of Finance for GRAP 105, 106 and 107].

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment's is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 7 (as revised 2012): Investments in Associates

Paragraph .17 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 12 (as revised 2012): Inventories

3. NEW STANDARDS AND INTERPRETATIONS (continued)

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 27 (as revised 2012): Agriculture (Replaces GRAP 101)

Paragraphs .07, .08, .19, .22, .23, .37, .38, .40, .45 and .46 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Recognition and measurement and Disclosure.

All amendments to be applied prospectively.

3. NEW STANDARDS AND INTERPRETATIONS (continued)

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity’s own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity’s information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website’s development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website’s development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity’s own website for internal or external access, the issues are:
- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity’s website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

Notes to the Annual Financial Statements

3. NEW STANDARDS AND INTERPRETATIONS (continued)

The effective date of the amendment is for years beginning on or after 01 July 2013.

The municipalty does not envisage adopting the standard/interpretation before it becomes effective and applicable to its operations.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

4. INVESTMENT PROPERTY

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	111,434,056	(1,187,464)	110,246,592	126,872,935	(593,732)	126,279,203

Reconciliation of investment property - 2012

	Opening balance	Disposals	Transfers	Depreciation	Total
Investment property	126,279,203	(834,200)	(14,604,679)	(593,732)	110,246,592

Reconciliation of investment property - 2011

	Opening balance	Disposals	Transfers	Depreciation	Total
Investment property	106,717,857	(54,000)	20,209,078	(593,732)	126,279,203

Other disclosures

Total rental income received on investment property	2,548,804	2,958,758

Details of property

Investment property reduced substantially from the previous year due to vacant land identified as being held for social benefit and therefore transferred to Property, Plant and Equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality and its controlled entities.

Notes to the Annual Financial Statements

Figures in Rand

5. PROPERTY, PLANT AND EQUIPMENT (PPE)

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1,030,025,867	-	1,030,025,867	996,757,295	-	996,757,295
Infrastructure	42,038,724,191	(6,608,283,625)	35,430,440,566	40,929,638,042	(5,009,386,469)	35,920,251,573
Community	4,391,253,733	(737,809,085)	3,653,444,648	3,792,702,001	(539,482,550)	3,253,219,451
Other property, plant and equipment	3,547,083,646	(1,163,472,799)	2,383,610,847	3,332,624,374	(955,900,467)	2,376,723,907
Heritage	78,395,185	-	78,395,185	78,395,185	-	78,395,185
Total	**51,085,482,622**	**(8,509,565,509)**	**42,575,917,113**	**49,130,116,897**	**(6,504,769,486)**	**42,625,347,411**

Reconciliation of property, plant and equipment (ppe) - 2012

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	996,757,295	32,522,468	(15,213,300)	15,959,404	-	-	1,030,025,867
Infrastructure	35,920,251,573	1,211,493,795	-	(101,517,071)	-	(1,599,787,731)	35,430,440,566
Community	3,253,219,451	371,555,599	-	197,072,187	30,010,287	(198,412,876)	3,653,444,648
Other property, plant and equipment	2,376,723,907	345,592,473	(5,861,814)	(107,234,286)	-	(225,609,433)	2,383,610,847
Heritage	78,395,185	-	-	-	-	-	78,395,185
	42,625,347,411	**1,961,164,335**	**(21,075,114)**	**4,280,234**	**30,010,287**	**(2,023,810,040)**	**42,575,917,113**

Reconciliation of property, plant and equipment (ppe) - 2011

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Impairment reversal	Total
Land	991,293,396	14,907,399	(1,970,500)	(7,473,000)	-	-	-	996,757,295
Infrastructure	36,450,359,267	1,121,288,362	-	27,043,843	(320,202)	(1,678,221,395)	101,698	35,920,251,573
Community	3,087,464,074	353,815,551	-	9,021,659	(15,451,982)	(181,629,851)	-	3,253,219,451
Other property, plant and equipment	2,328,291,525	283,823,053	(22,430,377)	(9,610,243)	(296,073)	(203,053,978)	-	2,376,723,907
Heritage	78,395,185	-	-	-	-	-	-	78,395,185
	42,935,803,447	**1,773,834,365**	**(24,400,877)**	**18,982,259**	**(16,068,257)**	**(2,062,905,224)**	**101,698**	**42,625,347,411**

Figures in Rand	2012	2011

5. PROPERTY, PLANT AND EQUIPMENT (PPE) (continued)

Borrowing costs capitalised

	2012	2011
Infrastructure	18,217,967	44,342,373
Community	9,799,326	9,383,669
Other property, plant and equipment	2,107,883	3,969,028
	30,125,176	**57,695,070**

Capitalisation rates used during the year were 10.05%, 10.68%, 10.56% 10.72% respectively (2011 - 10.68%, 10.56%, 10.72%), depending on the finance source or external loan facility.

Capitalised expenditure(excluding borrowing costs)

Work-in-progress reconciliation of the controlling entity

Included in the cost price is the following work-in-progress projects:

Work-in-progress	2012	2011
Opening balance	1,964,263,040	1,723,367,678
Capital expenditure towards work-in-progress	1,315,406,839	1,163,580,134
Transferred to completed projects	(1,817,837,750)	(922,684,772)
	1,461,832,129	**1,964,263,040**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality and its controlled entities.

Deemed cost

Included in the additions for the year is public contributed assets with deemed cost amountS to R13,450,224.

6. INTANGIBLE ASSETS

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software (other)	80,083,819	(13,577,211)	66,506,608	40,233,712	(8,837,419)	31,396,293

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software (other)	31,396,293	39,850,108	(4,739,793)	66,506,608

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software (other)	24,316,844	12,369,099	(5,289,650)	31,396,293

Work-in-progress

Reconciliation of work-in-progress of the controlling entity

Included in additions is the following amounts relating to software still in development:

Figures in Rand	2012	2011

6. INTANGIBLE ASSETS (continued)

Work-in-progress	2012	2011
Opening balance	10,898,875	18,471,873
Software development incurred during the year	38,800,411	9,572,314
Work in progress cleared during the year	-	(17,145,312)
	49,699,286	**10,898,875**

7. INVESTMENTS IN CONTROLLED ENTITIES

Name of company	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011
Brakpan Bus Company SOC (Pty) Ltd	100.00 %	100.00 %	6	6
Ekurhuleni Development Company SOC (Pty) Ltd	100.00 %	100.00 %	100	100
East Rand Water Care Company SOC, NPC	97.00 %	97.00 %	-	-
Pharoe Park Housing Company SOC (Pty) Ltd	93.46 %	93.46 %	100	100
Germiston Phase II Housing Company SOC (Pty) Ltd	92.59 %	92.59 %	100	100
Lethabong Housing Institute SOC, NPC	100.00 %	100.00 %	-	-
			306	**306**

8. OTHER INVESTMENTS

	2012	2011
Available-for-sale		
Unlisted shares	4,000,000	4,000,000
Held to maturity		
Investments	489,470,461	246,895,311
These investments have varying interest rates which range between 9% and 15%. The maturity dates also vary between 2014 and 2021.		
Total other financial assets	**493,470,461**	**250,895,311**

Non-current assets	2012	2011
Available-for-sale	4,000,000	4,000,000
Held to maturity	468,185,461	226,895,311
	472,185,461	**230,895,311**

Current assets	2012	2011
Held to maturity	21,285,000	20,000,000
	493,470,461	**250,895,311**

Available-for-sale equity investments not at fair value

Fair value information has not been provided for equity instruments that do not have a quoted market price and for which a fair value cannot be measured reliably.

The carrying amount of these financial instruments is as follows:

	2012	2011
Rand Airport 20% interest in ordinary shares	4,000,000	4,000,000

The Company's Equity amounted to R536,018,180 (2011: R535,728,513) represented by Share Capital of R5,201,000 (2011: R5,201,000), Reserves of R165,755,503 (2011: R165,755,503) as well as Retained Income of R365,061,677 (2011: R364,772,010) as at 28 February 2012.

Figures in Rand	2012	2011

8. OTHER INVESTMENTS (continued)

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

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

The municipality became aware of an investment not previously accounted for, to the amount of R1,612,382 as at 30 June 2012, which is currently under investigation. Once the origin and background of the investment has been determined, the appropriate adjustments will be made as an event after the reporting date.

Investments with a carrying value of R464,610,451 (2011: R224,185,159) are encumbered in respect of long term liabilities with a carrying value of R2,847,620,000 (2011: R2,268,364,605) as disclosed in the Long-term liabilities note (note 16).

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

9. FINANCIAL ASSETS BY CATEGORY

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

	2012	2011
Loans and receivables		
Consumer debtors	2,822,359,047	2,447,472,950
Long term receivables	2,519,835	2,332,670
Other receivables	144,473,485	387,239,496
Held to maturity investments		
Other investments	489,470,461	246,895,311
Available-for-sale		
Cash and cash equivalents	2,838,424,089	1,338,863,442
Unlisted shares	4,000,000	4,000,000
	6,301,246,917	**4,426,803,869**

10. EMPLOYEE BENEFIT OBLIGATIONS

1. Retirement Funds
The economic entity provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.
The economic entity contributes to defined contribution and defined benefit funds. These funds are multi employer funds.

The council took a resolution in terms of an ageement with SALGA that the contribution rate to pension funds will be capped at 18% of salaries for new members joining pension funds after 1 July 2012 and also that the deducted contribtion will only be transferred to Defined Contribution pension funds.

Defined Contribution Funds
Where an employee has rendered services to the economic entity during the year, the economic entity recognises the contribution payable to a defined contribution plan in exchange for that service immediately as an expense.

Defined Benefit Plans
The economic entity does not apply “defined benefit accounting” to the defined benefit funds to which it is a member where these funds are classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved. Information necessary to apply “defined benefit accounting” was requested from the various funds, but information received from these funds were insufficient and in some instances no information could be obtained from these funds. This issue will be addressed in future to ensure that these benefit plans could be accounted for as “defined benefit accounting”. As a result, paragraph 30 of IAS 19 is applied and such funds are accounted for as defined contribution funds. The following funds have been treated as definded contribution plans although they are defined benefit funds:
1. Joint Municipal Pension Fund
2. Municipal Employees Pension Fund
3. South African Local Authorities Pension Fund

Germiston Municipal Retirement Fund (GMRF) is a defined contribution fund for active contributing members but a defined benefit fund for certain pensioners under old rules taken uo in the rules of the fund. During 2005 GMRF outsources the full administration of the pesioners component which relates to old rules of a defined benefit fund.

To the extent that a surplus or deficit is in place, based on available information, this may affect the amount of future contributions once these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the economic entity will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

2. Accrued Leave Pay
Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end. Refer to Provisions note (note 18) for leave pay provision.

Retirement benefit obligation (medical aid plan)

The economic entity provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the economic entity is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the economic entity for the remaining portion.

An actuarial valuation was performed by IAC Actuarial Consulting at 30 June 2012.

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

Present value of the defined benefit obligation-wholly unfunded	(1,605,262,580)	(1,471,976,148)
Net actuarial gains or losses not recognised	102,991,703	93,863,158
	(1,502,270,877)	**(1,378,112,990)**

Movements for the year

Opening balance	(1,378,112,990)	(1,281,182,918)
Benefits paid	57,376,230	45,056,688
Net expense recognised in the statement of financial performance	(181,534,117)	(141,986,760)
	(1,502,270,877)	**(1,378,112,990)**

Net expense recognised in the statement of financial performance

Figures in Rand	2012	2011

10. EMPLOYEE BENEFIT OBLIGATIONS (continued)

Current service cost	(56,815,006)	(43,519,609)
Interest cost	(124,719,111)	(101,013,071)
Actuarial gains (losses)	-	2,545,920
	(181,534,117)	**(141,986,760)**

Key assumptions used

Assumptions used on last valuation on 30 June 2012.

Discount rates used	8.10 %	8.63 %
Health care cost inflation rate	6.90 %	7.29 %

Other assumptions:

Key Demographic Assumptions

Assumption	**Value**
Average retirement age	63
Continuation of membership at retirement	90%
Proportion assumed married at retirement	80%
Proportion of eligible non-member employees joining the scheme by retirement	20%
Mortality during employment	SA 85-90
Mortality post-retirement	PA90-1

Withdrawal from service (sample annual rates)	**Age**	**Females**	**Males**
	20	16%	16%
	30	10%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

11. INVENTORIES

Electrical	105,657,621	95,418,369
Sewerage	44,191	24,557
Cleansing	26,272	15,967
Consumable stores	3,841,774	3,430,682
Maintenance materials	4,255,188	3,765,941
Water	10,043,115	7,730,509
Unsold Properties Held for Resale	12,128,900	12,378,300
Food and Beverage	15,048	24,178
Fleet and Transport	1,926,940	2,772,248
Fuel (Diesel, Petrol)	7,338,705	7,189,527
	145,277,754	132,750,278
Provision for obsolete Inventories	(231,806)	(277,759)
	145,045,948	**132,472,519**

Land inventory sold during the year and recognised as an expense	249,400	710,400
Inventory written down due to redundancy/obsolescence	277,759	2,169,126

12. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Other receivable	163,747,648	251,343,797
Debtor for interest on investments	-	2,752,911
VAT debtor	24,708,001	22,920,163
Lease rental receipts asset	16,790,042	16,790,042
Provision for debt impairment	(65,604,655)	(13,834,681)
	139,641,036	**279,972,232**

Credit quality of trade and other receivables

Figures in Rand	2012	2011

12. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS (continued)

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate.

13. OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Current	29,540,450	130,187,427

Made up as follows:		
Traffic fine debtors	6,753,349	3,787,226
Grant debtors	22,787,101	126,400,201
	29,540,450	**130,187,427**

14. CONSUMER DEBTORS

Gross balances		
Rates	1,852,303,261	1,721,579,539
Electricity	2,358,560,882	1,952,700,774
Water	2,747,299,658	2,255,149,517
Waste water	818,749,550	639,764,345
Refuse	883,988,247	715,176,525
Housing rental	44,336,268	36,508,601
Other	2,274,574,041	2,314,176,211
	10,979,811,907	**9,635,055,512**

Less: Provision for debt impairment		
Rates	(1,450,780,581)	(1,429,410,883)
Electricity	(1,292,711,761)	(1,188,669,860)
Water	(2,110,135,822)	(1,890,019,366)
Waste water	(624,332,989)	(546,370,753)
Refuse	(712,585,131)	(611,327,852)
Housing rental	(44,335,736)	(36,508,601)
Other	(1,922,570,840)	(1,485,275,247)
	(8,157,452,860)	**(7,187,582,562)**

Net balance		
Rates	401,522,680	292,168,656
Electricity	1,065,849,121	764,030,914
Water	637,163,836	365,130,151
Waste water	194,416,561	93,393,592
Refuse	171,403,116	103,848,673
Housing rental	532	-
Other	352,003,201	828,900,964
	2,822,359,047	**2,447,472,950**

Rates		
Current (0 -30 days)	241,246,949	242,674,240
31 - 60 days	67,071,047	72,242,561
61 - 90 days	48,139,977	48,820,505
91 - 120+ days	1,495,845,288	1,357,842,233
	1,852,303,261	**1,721,579,539**

Electricity		
Current (0 -30 days)	1,308,435,984	1,132,835,266
31 - 60 days	100,823,100	113,260,766
61 - 90 days	56,185,570	74,527,515
91 - 120+ days	893,116,228	632,077,227
	2,358,560,882	**1,952,700,774**

Figures in Rand	2012	2011

14. CONSUMER DEBTORS (continued)

Water		
Current (0 -30 days)	287,384,874	220,903,859
31 - 60 days	88,195,390	79,283,449
61 - 90 days	74,894,107	69,075,222
91 - 120+ days	2,296,825,287	1,885,886,987
	2,747,299,658	**2,255,149,517**
Waste water		
Current (0 -30 days)	90,115,549	49,745,438
31 - 60 days	30,558,072	25,930,872
61 - 90 days	22,825,717	21,431,414
91 - 120+ days	675,250,212	542,656,622
	818,749,550	**639,764,346**
Refuse		
Current (0 -30 days)	45,421,492	37,989,010
31 - 60 days	25,777,279	21,682,920
61 - 90 days	22,895,891	18,701,197
91 - 120+ days	789,893,585	636,803,398
	883,988,247	**715,176,525**
Housing rental		
Current (0 -30 days)	699,732	665,965
31 - 60 days	1,244,476	815,189
61 - 90 days	1,095,406	740,374
91 - 120+ days	41,296,654	34,287,073
	44,336,268	**36,508,601**
Other		
Current (0 -30 days)	61,040,127	53,775,736
31 - 60 days	37,967,958	29,359,337
61 - 90 days	35,848,133	30,953,141
91 - 120+ days	2,139,717,823	2,200,087,997
	2,274,574,041	**2,314,176,211**

Reconciliation of debt impairment provision

Balance at beginning of the year	(7,187,582,562)	(6,255,038,588)
Contributions to provision	(1,432,511,739)	(1,445,304,490)
Debt impairment written off against provision	410,871,467	512,760,516
Provision transferred to Other receivables from exhange transactions	51,769,974	-
	(8,157,452,860)	**(7,187,582,562)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past, nor due, nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

Cash on hand	523,881	483,610
Bank balances	2,837,900,208	1,338,379,832
	2,838,424,089	**1,338,863,442**

Figures in Rand	2012	2011

15. CASH AND CASH EQUIVALENTS (continued)

The controlling entity has provided bank guarantees to the amount of R23,166,798 (2011: R20,081,932) with regards to special clauses in contracts concluded with various third parties.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

ABSA		
Alberton income account	1,705,381	2,517,470
Benoni Income Account	3,084,767	5,067,159
Benoni Direct Banking	1,046,811	1,106,234
Mask Account	2,195	-
Boksburg Income Account	7,523,013	3,164,906
Boksburg Direct Banking Account Kl	3,288	-
Brakpan Income Account	673,890	3,695,677
Brakpan pre-paid sales Account	293,200	-
Germiston Income Account	6,628,801	7,380,967
Kempton Park Income Account	1,703,571	3,437,801
Kempton Park Direct Banking Account	1,328,463	769,521
Lethabong Direct Banking Account	326,287	259,570
Lethabong Income Account	1,344,359	2,670,918
Nigel Income Account	302,251	3,206,833
Springs Income Account	688,700	102,736
Springs Direct Banking Account	-	714,667
Springs Market Account	1,134,982	(629,801)
RSC Levies Account	802,650	802,650
External Finance Fund Account	564,798,036	542,045,629
Capital Replacement Reserve Account	677,269,690	769
Primary Bank Account (Capital from revenue account)	241,236,344	142,303,806
Salary Account	53,002,667	32,393,374
Treasury Account	537,422,215	389,622,245
Expenditure Imprest Account	229,617,416	(8,365,408)
CMIP Account (MIG)	360,357,905	84,806,962
Housing Account	144,175,508	99,377,265
Short Term Deposits at various institutions with dates within 3 months	122,518	117,006
Lease bank account	-	20,505,576
Guarantee Account	1,305,300	1,305,300
Petty Cash and Floats	523,881	483,610
	2,838,424,089	**1,338,863,442**

The economic entity had the following bank accounts

Figures in Rand	2012	2011

15. CASH AND CASH EQUIVALENTS (continued)

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
ABSA BANK - Income Alberton-111-841-0641	-	-	-	1,705,381	2,517,470	3,311,582
ABSA BANK - Income Benoni - 4055327394	-	-	-	3,084,767	5,067,159	3,027,128
ABSA BANK - Direct Banking Benoni - 4055328015	-	-	-	1,046,811	1,106,234	1,337,862
ABSA BANK - Mask Account Benoni - 4065622380	-	-	-	2,195	-	-
ABSA BANK - Income Boksburg - 230000069	-	-	-	7,523,013	3,164,906	3,650,827
ABSA BANK - Direct Banking KL Boksburg - 230000220	-	-	-	3,288	-	-
ABSA BANK - Income Brakpan - 240000024	-	-	-	-	-	-
ABSA BANK - Income Brakpan - 240000024	-	-	-	673,890	3,695,677	1,019,870
ABSA BANK - Prepaid Sales Account Brakpan-240159392	-	-	-	293,200	-	-
ABSA BANK - Income Germiston - 2500002277	-	-	-	6,628,801	7,380,967	5,909,250
ABSA BANK - Direct Banking Germiston - 250000804	-	-	-	-	-	-
ABSA BANK - Direct Banking Kempton Park - 260181599	-	-	-	1,328,463	769,521	850,560
ABSA BANK - Income Kempton Park - 260000004	-	-	-	1,703,571	3,437,801	8,095,380
ABSA BANK - Income Lethabong - 4055442546	-	-	-	1,344,359	2,670,918	467,337
ABSA BANK - Direct Banking Lethabong - 4055442596	-	-	-	326,287	259,570	149,990
ABSA BANK - Income Nigel - 270000010	-	-	-	302,251	3,206,833	1,859,622
ABSA BANK - Income Springs - 280000051	-	-	-	688,700	102,736	502,402
ABSA BANK - Direct Springs - 280000094	-	-	-	-	714,667	1,125,912
ABSA BANK - Fresh Produce Market - 1135470160	1,700,216	191,534	1,220,120	1,134,982	(629,801)	1,220,120
ABSA BANK - RSC Levies - 1018470132	-	-	-	802,650	802,650	802,650
ABSA BANK - EFF Account (EX CLF) - 4053834321	564,798,036	542,045,629	275,133,232	564,798,036	542,045,629	275,133,232
ABSA BANK - C R R Account (EX CDF) - 4053834779	677,269,628	769	753	677,269,690	769	753
ABSA BANK - Primary Bank Acc - 4053835084	241,236,282	142,303,806	136,953,414	241,236,344	142,303,806	136,953,414
ABSA BANK - Salary Account - 4055571973	54,515,276	34,087,292	6,226,280	53,002,667	32,393,374	4,235,901
ABSA BANK - Treasury Account - 4055571931	537,422,215	389,622,245	63,266,255	537,422,215	389,622,245	63,266,255
ABSA BANK - Expenditure Imprest Acc - 4055571915	261,765,414	15,051,689	4,084,411	229,617,416	(8,365,408)	(19,255,239)
ABSA BANK - MIG Account - 4055571884	360,357,843	84,806,962	51,311,824	360,357,905	84,806,962	51,311,824
ABSA BANK - Housing Account - 4055571842	144,175,446	99,377,265	116,240,993	144,175,508	99,377,265	116,240,993
ABSA BANK - Lease Income - 4075756252	-	20,551,720	-	-	20,505,576	-
ABSA BANK - Guarantee account -	-	-	-	1,305,300	1,305,300	-
Petty Cash and Floats	-	-	-	523,881	483,610	480,060
Short Term Deposits at various institutions with dates within 3 months	-	122,518	2,927,431	122,518	117,006	2,927,431
ABSA licences income bank account	-	-	-	-	-	284

Figures in Rand	2012	2011

15. CASH AND CASH EQUIVALENTS (continued)

EMM - 4075756252	-	-	804,183	-	-	-
Total	**2,843,240,356**	**1,328,161,429**	**658,168,896**	**2,838,424,089**	**1,338,863,442**	**664,625,400**

16. LONG-TERM LIABILITIES

	2012	2011
Held at amortised cost		
Bank loan	1,990,237,754	2,108,087,111
Interset rates on Bank loans vary between 10.78% and 11.99% per annum.		
Final redemption payments on these loans vary between June 2014 and May 2025		
Development Bank of South Africa	110,273,790	167,675,719
Interest rates on DBSA loans vary between 12.20% and 13.50% per annum.		
Final redemtion dates on these loans vary between March 2013 and June 2014		
Stock Loans	-	305,346
All stock loans have redeemed by 30 June 2012		
Municipal bonds	2,415,000,000	1,615,000,000
Interest rates on the JSE EMM bonds vary between 10.05% and 10.72 % per annum.		
Final redemtion dates on these bonds vary between July 2020 and May 2024		
	4,515,511,544	**3,891,068,176**
Held at amortised cost - current		
Bank loans	(117,171,228)	(117,849,358)
Development Bank of South Africa	(65,133,877)	(57,411,274)
Stock Loans	-	(93,590)
	(182,305,105)	**(175,354,222)**
	4,333,206,439	**3,715,713,954**
Non-current liabilities		
At amortised cost	4,515,511,544	3,891,068,176
At amortised cost - current portion	(182,305,105)	(175,354,221)
	4,333,206,439	**3,715,713,955**

Investments with a carrying value of R464,610,451 (2011: R224,185,159) are encumbered in respect of long term liabilities above with a carrying value of R2,847,620,000 (2011: R2,268,364,605) as disclosed in the Other Investments note (note 8).

17. UNSPENT CONDITIONAL GRANTS AND RECEIPTS

Unspent conditional grants comprises

	2012	2011
Township Initiatives	7,207,447	7,211,274
UEM Danida - Capex	-	639,757
Zonki Trust	-	725,181
Public Transport Infrastructure Fund	5,592,350	33,978,118
Rondebult Water - Public Contribution	28,546	961,041
Department of Water Affairs & Forestry (DWAF)	582,545	582,545
Local Economic Development (LED) - Street Trading Facilities	8,815,614	9,950,000
HSDG Accreditation	41,562,118	-
HSDG	5,253,535	65,689,902
OR Tambo Narrative centre	20,000,000	-
Accreditation Capacity Enhancement	2,459,687	3,163,049
PHB Interest	6,035,353	6,035,352
Roodekop Ext - Public Contribution	1,844,676	1,844,676
USDG	25,681	-
HDA Urban Renewal	268,029	3,100,000
	99,675,581	**133,880,895**

Movement during the year

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. UNSPENT CONDITIONAL GRANTS AND RECEIPTS (continued)

Balance at the beginning of the year	133,880,895	200,485,475
Additions during the year	4,538,677,795	3,351,501,294
Income recognition during the year	(4,557,540,172)	(3,397,688,308)
Refunded to National Treasury	(14,617,756)	(18,400,000)
Appropriations	(725,181)	(2,017,566)
	99,675,581	**133,880,895**

See note 25 for reconciliation of grants from National/Provincial Government.

Figures in Rand	2012	2011

18. PROVISIONS

Reconciliation of provisions - 2012

	Opening Balance	Additions/Interest /Unwinding	Utilised/adjusted during the year	Under / (over) provision prior year	Reversed during the year	Total
COID provision	19,771,271	2,174,840	(1,255,921)	(397,955)	(1,825,411)	18,466,824
Leave and bonus provision	207,601,200	100,454,345	(85,587,478)	3,710,887	-	226,178,954
Landfill rehabilitation provision	101,125,811	48,889,219	-	-	-	150,015,030
WCA provision	9,058,988	24,188,874	(346)	-	-	33,247,516
Long service awards	304,117,199	73,111,063	-	-	-	377,228,262
GMRF	94,090,202	27,517,691	-	(18,118,764)	-	103,489,129
	735,764,671	**276,336,032**	**(86,843,745)**	**(14,805,832)**	**(1,825,411)**	**908,625,715**

Reconciliation of provisions - 2011

	Opening Balance	Additions/Interest /Unwinding	Utilised/adjusted during the year	Under / (over) provision prior year	Total
COID provision	14,433,627	6,493,693	(1,510,270)	354,221	19,771,271
Leave and bonus provision	179,969,975	102,665,614	(73,866,198)	(1,168,191)	207,601,200
Landfill rehabilitation provision	113,357,825	13,602,939	(25,834,953)	-	101,125,811
WCA provision	7,068,916	7,706,273	(5,716,201)	-	9,058,988
Long service awards	243,344,197	93,165,905	(32,392,903)	-	304,117,199
GMRF	168,019,694	5,497,962	(79,427,454)	-	94,090,202
	726,194,234	**229,132,386**	**(218,747,979)**	**(813,970)**	**735,764,671**

	2012	2011
Non-current liabilities	649,199,245	503,152,405
Current liabilities	259,426,470	232,612,266
	908,625,715	**735,764,671**

18. PROVISIONS (continued)

COID provision
This provision is made for future expected outflows as a result of the economic entity's obligation to contribute to the pension fund and medical expenses that was incurred due to past contractual arrangements with various employees in the old Benoni- and Germiston local municipalities. The discount rate used in determining the present value of the obligation was 11.00% (2011 - 11.50%) and the inflation assumption used for the increase in expenses/contributions is 6.50% (2011 - 6.10%).

Leave and bonus provision
The liability is based on the total accrued leave days at year end. A section 57 bonus provision is also provided for.

Landfill rehabilitation provision
In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision. Due to the increase from 3.90% to 5.90% of the CPIX there was an increase in the provision (2011 - due to the decrease of the CPIX from 5.00% to 3.90%, there was a reduction in the provision). The discounting rate for 2012 is 11.00% (2011 - 11.50%). The net result of the re-estimation had the following effect on the current year amounts:

Increase in the provision for Landfill site rehabilitation	R30,010,287 (2011 - Reduction of R25,834,953)
Increase in the cost of property, plant and equipment	R30,010,287 (2011 - reduction of R15,408,360)
Amount recognised in profit and loss due to re-estimation where the adjustment exceed the carrying amount of the asset	R0 (2011 - R10,426,593)

Workmens compensation provision
The provision is for the period March 2012 to June 2012 (2011 - March 2011 to June 2011) which has been estimated in the latest return submitted to the compensation commissioner.

Long service awards provision
The economic entity offers various types of long service awards to its employees.
The key actuarial financial assumptions are as follows:

- Discount rate:	8.10% (2011 - 7.46%)
- General salary inflation (long-term)	6.40% (2011 - 6.13%)

An actuarial valuation was performed by IAC Actuarial Consulting at 30 June 2012.

GMRF provision
The provision is for the economic entity's obligation to the Germiston Municipal Retirement Fund due to the economic entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

19. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS

	2012	2011
Trade payables	1,884,126,720	1,682,577,165
Receipts in advance	424,571,613	400,915,727
Lease rental payments liability	937,757	937,757
Other payables	34,036,347	52,131,252
Retentions	192,163,155	209,940,397
Licence fees	5,461,973	9,940,627
Stated benefits and group accident	17,782,614	10,821,676
Accrual for interest on external loans	101,337,465	90,789,060
Maintenance guarantees	2,918,837	2,888,308
Unclaimed salaries	22,494,669	2,932,108
	2,685,831,150	**2,463,874,077**

20. DEPOSITS

	2012	2011
Electricity and water	532,611,189	487,038,111

Guarantees in lieu of electricity and water deposits is R71,676,516 (2011 - R67,013,158).

21. FINANCIAL LIABILITIES BY CATEGORY

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

Figures in Rand	2012	2011

21. FINANCIAL LIABILITIES BY CATEGORY (continued)

Financial liabilities at amortised cost

Trade and other payables (including deposits)	3,218,442,335	2,950,912,188
Unspent conditional grants and receipts	99,675,581	133,880,895
Other financial liabilities - Non-current portion	4,333,206,439	3,715,713,955
Other financial liabilities - Current portion	182,305,105	175,354,221
	7,833,629,460	**6,975,861,259**

22. REVENUE

Property rates	2,590,399,280	2,431,046,779
Property rates – Penalties imposed and collection charges	53,770,449	62,530,966
Service charges	12,640,496,148	10,121,905,960
Rental of facilities and equipment	49,227,077	49,063,908
Income from agency services	208,920,868	186,876,573
Fines	210,363,750	135,348,768
Licences and permits	33,960,666	30,049,466
Government grants and subsidies	4,557,540,172	3,397,688,308
Interest earned - outstanding debtors	199,886,549	212,198,108
Interest received - external investment	153,736,169	119,552,608
Other income	105,666,528	69,723,591
	20,803,967,656	**16,815,985,035**

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

Service charges	12,640,496,148	10,121,905,960
Rental of facilities and equipment	49,227,077	49,063,908
Income from agency services	208,920,868	186,876,573
Licences and permits	33,960,666	30,049,466
Interest earned - outstanding debtors	199,886,549	212,198,108
Interest received - external investment	153,736,169	119,552,608
Other income	105,666,528	69,723,591
	13,391,894,005	**10,789,370,214**

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

Taxation revenue		
Property rates	2,590,399,280	2,431,046,779
Property rates – Penalties imposed and collection charges	53,770,449	62,530,966
Fines	210,363,750	135,348,768
Transfer revenue		
Government grants and subsidies	4,557,540,172	3,397,688,308
	7,412,073,651	**6,026,614,821**

Figures in Rand	2012	2011

23. PROPERTY RATES

Rates received

	2012	2011
Residential	1,735,737,690	1,648,099,498
Commercial	1,242,701,255	1,109,305,048
State	15,181,617	19,317,918
Municipal	68,779,017	67,044,503
Small holdings and farms	8,329,971	81,627,353
Vacant land	193,841,291	174,760,123
Other properties	15,431,544	19,319,018
Less: Income forgone	(547,777,914)	(636,097,436)
Less: Departmental rates	(141,825,191)	(52,329,246)
	2,590,399,280	**2,431,046,779**

Valuations (R'000)

	2012	2011
Residential	221,839,455	217,636,674
Commercial	81,442,105	80,795,614
Provincial and National Government	1,103,078	1,105,221
Municipal	5,292,740	5,369,809
Small holdings and farms	4,341,982	3,769,604
Sectional title	38,217,954	37,110,185
Vacant land	7,375,573	7,828,225
Other	11,302,240	10,912,508
	370,915,127	**364,527,840**

Valuations on land and buildings are performed every 3 to 5 years. The last general valuation roll came into effect on 1 July 2009 and the valuations have accordingly been adjusted in the current financial year.

Rates are levied on a monthly basis. Interest is levied on rates outstanding after due date.

24. SERVICE CHARGES

	2012	2011
Sale of electricity	9,086,645,817	7,588,993,998
Sale of water	2,061,805,493	1,184,377,501
Solid waste	726,039,265	610,982,895
Sewerage and sanitation charges	707,773,671	681,256,461
Fresh produce market	13,361,285	14,911,186
Other service charges	44,870,617	41,383,919
	12,640,496,148	**10,121,905,960**

Figures in Rand	2012	2011

25. GOVERNMENT GRANTS AND SUBSIDIES

Equitable share	2,906,100,000	2,588,173,933
Ambulance Subsidy	163,184,000	52,870,000
National Government grants	1,245,887,560	515,068,519
Provincial Government grants	105,845,309	91,492,900
Public contributions	17,214,690	25,357,113
Health Subsidies	95,769,925	113,431,459
SETA	23,538,688	11,294,384
	4,557,540,172	**3,397,688,308**

National Government grants

Balance unspent at beginning of year	37,723,712	63,633,529
Current-year receipts	1,230,131,040	471,280,742
Conditions met - transferred to revenue	(1,245,887,562)	(515,068,519)
Refunded to National Treasury	(13,978,000)	(18,400,000)
Debtor	671,071	36,277,960
	8,660,261	**37,723,712**

Provincial Government grants

Balance unspent at beginning of year	83,576,355	83,905,728
Current-year receipts	99,771,892	85,592,921
Conditions met - transferred to revenue	(105,845,309)	(91,492,900)
Transferred to appropriations	(725,181)	(455,635)
Debtor	6,060,955	6,026,241
	82,838,712	**83,576,355**

Equitable share

Current-year receipts	2,906,100,000	2,588,173,933
Conditions met - transferred to revenue	(2,906,100,000)	(2,588,173,933)
	-	-

Public contributions

Balance unspent at beginning of year	6,545,476	10,263,855
Current-year receipts	13,450,224	23,200,665
Conditions met - transferred to revenue	(17,214,690)	(25,357,113)
Refunded to National Treasury	(639,759)	-
Debtor	-	(1,561,931)
	2,141,251	**6,545,476**

Ambulance Subsidy

Current-year receipts	163,184,000	52,870,000
Conditions met - transferred to revenue	(163,184,000)	(52,870,000)
	-	-

Provincial Health Subsidies

Current-year receipts	79,896,425	29,335,459
Conditions met - transferred to revenue	(95,769,925)	(113,431,459)
Debtor	15,873,500	84,096,000
	-	-

SETA

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. GOVERNMENT GRANTS AND SUBSIDIES (continued)

Current-year receipts	23,538,688	11,294,384
Conditions met - transferred to revenue	(23,538,688)	(11,294,384)
	-	-

26. OTHER INCOME

Administration fees	349,224	411,432
Accident reports	450,584	229,729
Cleaning of stands	305,530	272,671
Essential services contributions	29,177,539	11,886,379
Entry fees	422,485	275,982
Insurance claims	6,515,982	712,890
Printing and copying of documents	461,568	583,876
Productions	84,009	82,030
Recoveries	1,242,261	818,660
Sundry income	63,544,692	51,288,207
Supply of information	422,885	1,420,552
Tender documents	2,392,438	1,202,665
Training	297,331	538,518
	105,666,528	**69,723,591**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. GENERAL EXPENSES

Advertising	6,786,929	7,135,509
Animal Costs	1,887,345	2,181,264
Auditors remuneration	14,880,101	14,186,136
Awareness campaigns	5,498,765	2,989,181
Bank charges	13,684,708	9,026,193
Community development and wellbeing	51,223,544	37,771,181
Consulting and professional fees	112,056,350	140,828,145
Consumables (including materials)	42,965,760	48,596,428
Departmental usage	-	(2,610)
Disaster management	10,614,659	4,196,693
Entertainment	1,612,486	1,115,249
Finance Interns	1,953,362	-
Fines and penalties	27,635,327	-
Fleet	122,081,249	110,248,618
Fuel and oil	4,014,849	3,400,850
Gifts	285,275	224,333
Human resource management	11,669,100	10,831,122
IT expenses	38,250,094	26,303,825
Insurance	59,147,247	53,487,422
Land management	13,119,906	43,640,492
Magazines, books and periodicals	478,945	594,724
Marketing	70,242,870	53,832,013
Pest control	3,799,876	-
Postage and courier	18,726,309	16,883,663
Printing and stationery	30,788,967	26,897,326
Productions	284,314	279,928
Refreshments	4,749,996	3,932,070
Refuse	17,748,041	29,861,122
Rentals	139,179,637	113,360,914
Service connections	81,832,858	90,707,486
Software expenses	6,235,620	3,781,839
Stock adjustments and write-offs	2,740,019	8,803,832
Subscriptions and membership fees	9,703,909	9,811,773
Telephone and fax	54,781,585	50,198,731
Title deed search fees	1,023,669	686,767
Training	26,569,170	26,574,555
Travel - local	7,402,263	5,783,179
Travel - overseas	4,895,482	1,342,472
Uniforms	20,636,119	18,867,791
Venue expenses	12,407,173	4,955,493
Other expenses	11,848,725	53,555,457
	1,065,442,603	**1,036,871,166**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

28. EMPLOYEE RELATED COSTS

Basic	3,104,497,856	2,919,622,483
Medical aid - entity contributions	394,345,753	342,535,724
UIF	21,673,513	20,979,264
WCA	24,188,874	23,513,034
SDL	34,511,460	31,468,038
Other payroll levies	792,928	788,114
Leave pay provision charge	87,983,482	95,130,761
Standby Allowances	19,962,160	18,107,835
Post-employment benefits - Pension - Defined contribution plan	586,159,792	547,258,257
Overtime payments	366,825,685	332,031,382
Long-service awards	73,118,342	60,813,260
Ad Hoc Travelling	1,012,007	1,009,551
Allowances	8,613,956	7,267,580
Less: Employee costs included in other expenses	(584,322,965)	(563,834,932)
Less: Employee costs capitalised to PPE	(29,830,944)	(36,244,211)
	4,109,531,899	**3,800,446,140**

Figures in Rand	2012	2011

28. EMPLOYEE RELATED COSTS (continued)

Senior Management Remuneration (key management)

30 June 2012	Basic Salary	Total Allowances	Performance Bonus	Total
City Manager	2,056,293	140,400	227,583	2,424,276
Chief Operating Officer	1,900,000	36,000	-	1,936,000
Chief Financial Officer	1,750,320	36,000	249,356	2,035,676
Chief Audit Executive	1,271,314	19,200	155,029	1,445,543
HOD: Energy	1,481,200	154,800	192,744	1,828,744
HOD: Institutional Strategy, M&E, Research and IDP	1,141,043	61,837	117,900	1,320,780
HOD: Health and Social Development	1,383,760	102,240	164,055	1,650,055
HOD: Corporate Legal	1,196,752	36,000	-	1,232,752
HOD: Human Resources	1,108,816	123,936	111,745	1,344,497
HOD: Sport, Recreation, Arts and Culture (SRAC)	1,204,875	36,000	-	1,240,875
HOD: City Planning	1,426,080	109,920	-	1,536,000
HOD: Disaster and Emergency Services (DEMS)	1,324,457	132,699	210,594	1,667,750
HOD: Human Settlements	1,196,752	36,000	108,410	1,341,162
HOD: Economic Development	1,421,000	36,000	-	1,457,000
HOD: ICT	1,196,752	36,000	110,912	1,343,664
HOD: Transport	1,400,000	36,000	-	1,436,000
Chief Director: Water Services	1,034,293	181,659	-	1,215,952
HOD: Roads and Stormwater	1,014,550	201,402	104,240	1,320,192
HOD: Enviroment	1,196,752	36,000	-	1,232,752
HOD: Waste Management	1,151,860	89,015	-	1,240,875
Chief Risk Officer	1,108,536	8,400	139,041	1,255,977
Chief of Police	1,283,568	19,200	143,554	1,446,322
Secretary of Council	1,000,000	36,000	-	1,036,000
	30,248,973	**1,704,708**	**2,035,163**	**33,988,844**

30 June 2011	Basic Salary	Total Allowances	Performance Bonus	Total
City Manager	2,025,540	33,600	223,960	2,283,100
Deputy City Manager: Strategic	1,548,690	224,438	192,960	1,966,088
Chief Financial Officer	1,650,000	16,800	182,440	1,849,240
Chief Audit Executive	1,198,448	13,440	149,320	1,361,208
General Manager: Electricity and Energy	1,329,821	118,800	181,740	1,630,361
General Manager: Organisational Performance	1,039,390	77,410	-	1,116,800
Executive Director: Health	1,143,524	106,272	154,680	1,404,476
Executive Director: Corporate and Legal	1,192,491	16,800	74,660	1,283,951
Executive Director: Human Resources	1,040,224	104,736	62,240	1,207,200
Executive Director: Sport, Recreation, Arts and Culture	1,128,160	-	14,690	1,142,850
Executive Director: City Development	1,128,160	16,800	44,060	1,189,020
Executive Director: Community Safety	1,026,815	118,145	102,800	1,247,760
Executive Director: Housing	1,128,160	16,800	44,060	1,189,020
Executive Director: Economic Development	1,128,160	16,800	-	1,144,960
Executive Director: ICT	1,128,160	-	-	1,128,160
Chief Director: Roads, Transport and Civil Works	945,958	195,642	42,660	1,184,260
Chief Director: Water Services	965,701	175,899	65,850	1,207,450
	20,747,402	**1,252,382**	**1,536,120**	**23,535,904**

Refer to Related parties note (note 43) for related party relationships.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. REMUNERATION OF COUNCILLORS

Executive Mayor	1,050,228	964,260
Mayoral Committee Members	8,560,200	7,955,112
Speaker	828,816	747,408
Councillors	61,862,885	51,709,725
Councillors' pension contribution	7,104,111	5,531,980
	79,406,240	**66,908,485**

In-kind benefits

The Executive Mayor, Chief Whip, Speaker and Mayoral Committee Members are full-time.

The Executive Mayor has use of a Council owned vehicle for official duties. The Mayor has full-time bodyguards. From time to time this service is also used by other councillors.

The chairpersons of the section 79 committees will be full time positions as from 1 July 2012.

Related parties

Refer to Related parties note (note 43) for related party relationships.

30. DEBT IMPAIRMENT

Contributions to debt impairment provision	1,432,511,739	1,445,304,490

31. INTEREST REVENUE

Interest revenue		
Bank	116,710,827	73,941,609
External investments	31,071,153	37,518,506
Interest received - other	5,954,189	8,092,493
	153,736,169	**119,552,608**

32. DEPRECIATION AND AMORTISATION

Property, plant and equipment	2,023,810,040	2,062,905,224
Investment property	593,732	593,732
Intangible assets	4,739,793	5,289,651
	2,029,143,565	**2,068,788,607**

33. IMPAIRMENTS OF ASSETS

Reversal of impairments		
Property, plant and equipment	-	(101,698)

34. FINANCE COSTS

Non-current borrowings	425,877,513	361,665,572
Trade and other payables	294,216	114,930
Other interest paid	27,246,099	20,832,936
	453,417,828	**382,613,438**

35. AUDITORS' REMUNERATION

Fees	14,880,101	14,186,136

Figures in Rand	2012	2011

36. RENTAL OF FACILITIES AND EQUIPMENT

Facilities and equipment		
Rental of facilities	49,196,893	49,030,072
Rental of equipment	30,184	33,836
	49,227,077	**49,063,908**

Included in the above rentals are operating lease rentals at straight-lined amounts of R3,106,92 (2011 - R12,136,096).

37. CONTRACTED SERVICES

Information Technology Services	8,124,493	6,873,455
Security contracts	135,704,565	139,549,070
Meter management contracts	134,324,181	120,841,556
Environment contracts	263,667,938	245,442,870
Asset management	6,502,152	6,033,161
Financial management	1,741,413	1,331,002
General	1,059,637	1,371,810
Laboratory services	7,463,076	7,263,492
Legal services	33,382,115	21,852,032
Power quality control	3,461,977	1,923,779
Equipment	712,381	1,043,907
Buidlings and equipment	11,478,389	9,239,920
Serving summonses/warrants	19,144,748	15,555,738
Traffic Management	16,808,016	14,868,120
Valuation roll	41,087,642	21,643,883
	684,662,723	**614,833,795**

38. GRANTS AND SUBSIDIES PAID

Other subsidies		
Urban renewal Germiston	-	94,845
Discretionary grant: Sport and Social support	3,704,884	3,940,090
Subsidy: SPCA	2,430,750	2,430,750
Discretionary grant: General	6,500,000	20,296,421
Free basic services	337,884,048	87,210,149
Discretionary grant: Educational	5,518,574	6,777,172
Grants: Education (External)	3,437,614	3,042,607
Grants: Expenditure incurred against grants received from National- and Provincial Government	66,809,091	-
	426,284,961	**123,792,034**

39. BULK PURCHASES

Electricity	5,991,227,461	4,746,661,733
Water	1,543,704,239	1,357,614,155
Sewer purification	395,584,753	330,940,954
	7,930,516,453	**6,435,216,842**

Figures in Rand	2012	2011

40. CASH GENERATED FROM OPERATIONS

	2012	2011
Surplus (deficit)	703,664,585	(1,072,926,682)
Adjustments for:		
Depreciation and amortisation	2,029,143,565	2,068,788,607
Gain on sale of fixed assets	(776,424)	(4,871,992)
Loss on sale of fixed assets	21,039,546	24,773,397
Impairment reversals	-	(101,698)
Debt impairment	1,432,511,739	1,445,304,490
Movements in retirement benefit assets and liabilities	124,157,887	96,930,072
Movements in provisions	142,850,757	9,570,439
Other non-cash items	(1,484,543)	(9,004,182)
Changes in working capital:		
Inventories	(764,438)	(12,153,520)
Other receivables from exchange transactions	140,331,196	(137,417,254)
Consumer debtors	(1,807,397,836)	(1,258,285,426)
Trade and other payables from exchange transactions	221,957,069	124,636,393
Other receivables	100,646,977	33,243,621
Unspent conditional grants and receipts	(34,205,314)	(66,604,580)
	3,071,674,766	**1,241,881,685**

Figures in Rand	2012	2011

41. COMMITMENTS

Authorised capital expenditure

Already contracted and provided for		
• Community	74,910,000	84,080,000
• Infrastructure	610,235,200	447,479,812
• Other assets	300,445,000	164,861,850
• Specialised vehicles	71,800,000	-
	1,057,390,200	**696,421,662**

Not yet contracted for and authorised		
• All classes	1,593,317,610	1,678,363,823

This committed expenditure relates to Property, plant and equipment and will be financed by available bank facilities, retained surpluses, external funding (bond issue, loans, grants, contributions etc) , existing cash resources etc.

Commitments for not yet contracted for and authorised relate to capital projects approved by Council on the capital budget.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	9,126,548	10,714,322
- in second to fifth year inclusive	5,321,266	4,507,494
	14,447,814	**15,221,816**

Operating lease payments represent rentals payable by the municipality for certain of its office buildings and photocopier machines. Leases are negotiated for periods ranging from two years to five years, for office building, and the expired photocopier machine leases are incurred on a month to month basis. The rentals escalate on average at 8.45% for office buildings and 0.00% for photocopier machines.

The actual lease contract amounts range between R11,880 and R361,259 (2011 - R8,000 and R300,000) per month on the office buildings and between R62 and R4,218 (2011 - R62 and R4,218) per month on the photocopier machines.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	3,389,153	4,487,867
- in second to fifth year inclusive	7,963,158	6,719,811
- later than five years	2,314,727	2,502,796
	13,667,038	**13,710,474**

The prior year has been restated due to errors found during the current year. The incorrect minimum lease payments reported previously was R156,369,752. Certain of the economic entity's property generates lease rental income. The majority of these leases are on a month to month basis. Lease periods range from month-to-month up to 99 years. Monthly lease payments range from R 0 (social benefit) up to R156,937
(2011 - R 178,403).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

42. CONTINGENCIES

Controlling entity

Category A:Claims exceeding R 500 000.

Category B: Claims less than R 500 000.

Category C: Other legal matters.

Figures in Rand	2012	2011

42. CONTINGENCIES (continued)

CONTINGENT LIABILITIES

Category A Claims:	**CCC/Region**	**2012**	**2011**
Engen Petroleum Ltd/Atlas road - Claim as a result of rerouting of a provincial road	Kempton Park	14,061,088.00	14,061,088.00
WLT Advertising CC - Claim for damages as a result of conduct	Metro	31,706,247.00	31,706,247.00
Van Deventer- Claim for damages arising from cancelled land transaction	Kempton Park		30,000,000.00
South African Rail Commuter Corporation Ltd - Claim for damages due to derailment of passenger train	Kempton Park	`	2,200,362.00
Bondev Midrand		2,676,187.19	
Strata International Pty Ltd and The Garden estate	Metro	150,000,000.00	-
Neiljud - Claim for arrear rates	Metro		20,000,000.00
Summer Symphony 264 CC - Claim for compensation resulting from expropriation of a portion of the Strydom Land for Housing purposes	Metro		49,652,700.00
Technology Corporate Management - Council Attorneys were served with notice of a summary judgement and furnished Council with instructions to invest trust moneys in terms of section 78 (2A) of the Attorneys Act	Metro	5,279,949.00	5,279,949.00
Group 15 - Possible claim submitted by employees of EMM**	Metro	2,240,872,378.00	2,000,000,000.00
Hometalk - Possible claim for losses in respect of developments	Metro	60,000,000.00	65,000,000.00
IMATU obo McCulloch and other - Arbitration award	Metro		1,327,995.00
J Masondo - Claim for damages	Metro		1,500,000.00
R McBride -	Metro		2,400,000.00
Siyavuka projects	Metro	5,401,380.00	
Scarlet IBIS 115 9 pty ltd	Metro	5,250,000.00	
Other	Metro	11,172,022.41	
	Sub-Total	**2,526,419,251.60**	**2,223,128,341.00**

****Group 15**
The grading dispute in the EMM stemmed from employees who were of the opinion that the EMM should be graded at higher grade upon amalgamation. They opined that the remuneration structure should be linked to the determination of the Minister on the upper limits regarding remuneration of public office bearers. This resulted in a dispute been declared by the employees. The dispute was arbitrated & the employees were awarded a back pay implementation of a higher grade retrospective to 1 July 2003. The award was still subjected to a Labour Court review as at 30 June 2011, but subsequent to the reporting date the labour court ruled in favour of the municipality and the award was set aside. The employees indicated that they apply for leave to appeal against the labour court ruling. The amount disclosed is a management estimate and the calculation, as well as factor's are subject to estimation uncertainty. The nature of the contingent liability as well as amount disclosed could thus differ substantially from the actual outcome. A salary related increase was applied to the amount and this is the change in values disclosed. An actuary has been appointed to determine the best estimate of the contingent liability, but as at 31 August 2012 the actuarial valuation has not yet been completed.

	CCC/Region	**2012**	**2011**
Category B Claims: Other Claims	Metro	2,527,767.00	1,899,555.00
Category C Claims: Other Matters	Metro	266,660.00	618,898.00

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

42. CONTINGENCIES (continued)

	Sub-Total	**2,794,427.00**	**2,518,453.00**

CONTINGENT ASSETS

Category A Claims:	**CCC/Region**	**2012**	**2011**
Mofokeng & Maqubela - loss incurred by Council as a result of bad conduct	Metro	4,000,000.00	4,000,000.00
Other contingent Assets	Metro		860,000.00
GCI logistics	Metro	12,000,000.00	
	Sub-Total	**16,000,000.00**	**4,860,000.00**

Figures in Rand	2012	2011

43. RELATED PARTIES

Relationships	
Accounting Officer	Refer to accounting officer's report note
Controlled entities	Refer to note 7
Close family member of key management	Declarations are retained in a register at tender office.
Members of key management	For remuneration and details of Members of key management, refer to note 28

2012
Tenders awarded to family members of staff.

1.PMO (ED) SWL 49:Appointment of a registered civil engineering consultant for the rendering of a technical advisory servie at the rietfontein Landfill site 1 July 12- 30 June 15 for the amount of R 632 260.00

2.PS-ED (SWL) 21/2011: Appointment of a consultant for the re-zoning of portions of the property on which the Weltevreden waste disposal site is situated for the amount of R 318 000.00

3.A-ED (SWL) 01/2011: Appointment of a financial administration consultant (FAC) experienced in the field os solid waste landfill sites fort he administration of five landfill sites and one privately owned site from date of award until 30 June 2012 for the amount of R 3,132,973.00.

4. A-IS (RW) 03/2012: Upgrade and construction of roads and stormwater infrastructure -as and when- until 31 December 2012 for the amount of R 67,985,731.04

Quotations awarded to family members of staff.

1.FWMN Mogabale Construction cc : R 275,149.14

2.Ipopeng African Language Services :R 355,453.82

3.Isolomzi Bed and Breakfast Place cc: R 98,810.00

4. Madi Business Enterprise cc :R 31,464.00

5.Reshoketswe Distribution cc: R 123,829.24

6.Supreme Range General Supplier cc: R 579,203.09

7.Takalani Development Corporation cc:29,810.00

8. Vukani General Contractors and Maintenance cc: R208,215.61

9. Zimemo Trading and Projects cc: R115,689.00

2011
1.C-ED 03/2011: Appointment as a contractor to operate the Rietfontein Waste Site 1Dec- 30 June 2011 for the amount of R3,431,900.

2.C-CL 02/2011: The appointment of attorneys to provide legal services-as and when until 30 June 2012 for the amount of R 577,300.

3.C-ED 70/2010: The cutting and cleaning of metro parks grass maintenance areas.Kwa Thema & Springs South for the amount of R3,000,000.

4. C-CS 07/2011: The maintenace os grass areas and gardens of community safety stands, on an as and when basis,from date of award until 30 June 2013 for the amount of R301 600.

5. C-IS 137/2010: The hire of plant and equipment for all customer care centres on an as and when basis, with effectyof award until 30 June 2013 for the amount of R850,000.

6. C-CL 02/2011: The appointment os attorneys to provide legal service- as and when until 30 June 2012

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Related party balances

Amounts included in Trade Receivable and Consumer Debtors regarding related parties - municipal entities

Figures in Rand	2012	2011

43. RELATED PARTIES (continued)

ERWAT	3,757,993	2,545,903
Pharoe Park Housing Company	1,466,737	-
Brakpan Bus Company	693,843	659,552
Lethabong Housing Institute	63,795	106,837
Pharoe Park Phase II	2,218,353	21,068
Ekurhuleni Development Company	636	1,336

Amounts included in Trade Payable regarding related parties - municipal entities

ERWAT	19,037,417	26,581,512
Pharoe Park Housing Company	-	7,070
Brakpan Bus Company	-	3,780

Related party transactions

Sales to related parties - municipal entities

ERWAT	46,898,655	34,688,802
Pharoe Park Housing Company	1,986,207	2,142,215
Pharoe Park Phase II	3,023,628	3,119,005
Ekurhuleni Development Company	38,195	18,191
Brakpan Bus Company	110,000	110,000
Lethabong Housing Institute	148,532	124,023

Purchases from related parties - municipal entities

ERWAT	423,595,568	354,030,147

Grants to related parties - municipal entities

Pharoe Park	2,567,500	4,187,301
Ekurhuleni Development Company	-	7,476
Pharoe Park Phase II	3,932,500	6,865,669
ERWAT	57,780,417	17,153,779
Lethabong Housing Institute	-	1,011,509

An amount of R7,219,613 in 2011, being an amount disclosed as a grant to ERWAT (included above), has been accounted for by ERWAT in the previous financial year.

Refer to Employe related costs note (note 28) for remuneration paid to key management.

44. CHANGE IN ESTIMATE

Property, plant and equipment (PPE)

Useful lives review had the following impact:	
Depreciation expense before remaining useful lives review	R96,955,277
Depreciation expense after remaining useful lives review	R41,078,443
Future reduction in depreciation due to review	R55,876,834

Discount rate

Management revised the discount rate used for calculating provisions in the current period. The discount rate was adjusted from 11.50% to 11.00% (2011: 12.00% to 11.50%) due to the weighted average cost of capital reducing during the current year.

Landfill site rehabilitation provision

Re-estimation had the following impact:	
Change due to increase in the inflation rate	R25,874,071
Change due to reduction in the discount rate	R10,177,365
Change due to change in remaining useful lives	R 5,588,318
	R41,639,754
Interest already recognised as part of the discounting of the provision	(R11,629,468)
Adjustment to the provision	**R30,010,286**

COID Provision

Figures in Rand	2012	2011

44. CHANGE IN ESTIMATE (continued)

Re-estimation had the following impact:	
Change due to increase in inflation rate as well as discount rate	R1,825,411
Interest already recognised as part of the discounting of the provision	(R2,174,840)
Adjustment to the provision	**(R 349,429)**

45. PRIOR PERIOD ERRORS

2012

Property, plant and equipment

Correction of assets recognised as PPE which does not meet the definition of an asset. This related to all houses and associated properties forming part of housing subsidy schemes.

Assets previously capitalised as work-in-progress which does not meet the definition of an asset and has subsequently been expensed

Correction of accumulated depreciaition that should have been raised due to work-in-progress projects not being capitalised on completion dates.

Work-in-progress adjustment due to water metres incorrectly included in property, plant and equipment, now transferred to other receivables from exchange transactions

Inventory

Correction of assets recognised as inventory which does not meet the definition of an asset. This related to all houses and associated properties forming part of housing subsidy schemes.

Service charges

Recalculation of billed services consumption after year-end in respect of reading period prior year (cut-off).

Consumption adjustment journals processed in current financial year which relates to adjustment period in previous financial year.

Pre-paid electricity

Calculated pre-paid electricity purcahsed in advance, not provided for in previous financial year.

Departmental charges

The municipality changed the way it reports departmental charges and re-allocated some items within surplus and deficit for the prior year.

2011

Retirement benefit obligation: The actuaries based the valuation of the obligation on a 70% subsidy in the prior periods, but was subsequently corrected to the correct percenatge of 60%.

Reclassification of manual correction journals to the appropriate financial period.

The correction of the errors results in adjustments as follows:

	2012	2011
Statement of financial position		
Property, plant and equipment (PPE)	(3,614,394,689)	-
Consumer Debtors	666,836,722	4,822,390
Trade and other payables from exchange transactions	35,328,905	-
Inventories	(12,341,400)	-
Retirement benefit obligation	-	(163,223,531)
Opening accumulated surplus	2,487,656,473	40,258,406
Statement of Financial Performance		
Service charges	378,067,581	(4,822,390)
Service charges - departmental	56,621,310	-
Property rates	(14,715,257)	-
Repairs and maintenance	104,520,629	-
Repairs and maintenance - departmental	521,931,489	-
Depreciation	(45,674,221)	-
Employee related costs	-	122,965,125
Employee related costs - departmental	(563,834,932)	-
General expenses - departmental	(2,610)	-

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

46. COMPARATIVE FIGURES

Certain comparative figures have been renamed, certain descriptions have changed and certain amounts have been reclassified in order to enhance presentation.

The effects of the reclassification are as follows:

Statement of financial position	R
Other receivables from exchange transations	(49,235)
Consumer debtors	49,235

47. RISK MANAGEMENT

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in note 16 and cash and cash equivalents disclosed in note 15.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2012 and 2011 respectively were as follows:

Total borrowings			
Other financial liabilities	16	(182,305,105)	(175,354,221)
Less: Cash and cash equivalents	15	2,838,424,089	1,338,863,442
Net debt		(3,020,729,194)	(1,514,217,663)
Total equity		38,979,145,429	41,200,051,306
Total capital		**35,958,416,235**	**39,685,833,643**

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk.

The economic entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the economic entity's financial performance.

Risk management is carried out by the risk management department under policies approved by the accounting officer. Economic entity treasury identifies, evaluates and hedges financial risks in close co-operation with the economic entity's operating units. The accounting officer provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date.

47. RISK MANAGEMENT (continued)

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long term and other liabilities	182,305,105	576,086,716	520,927,304	3,236,192,418
Trade and other payables	2,685,831,146	-	-	-

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Long-term and other liabilities	175,354,221	48,297,548	552,209,927	3,115,206,480
Trade and other payables	2,463,874,079	-	-	-

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the economic entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 100% of its borrowings in fixed rate instruments.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

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

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 five years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.00 %	2,822,359,047	-	-	-	-
Long-term receivables	9.00 %	839,945	839,945	839,945	-	-

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to five years	Due after five years	
Long-term and other liabilities	11.00 %	182,305,105	576,086,716	520,927,304	3,236,192,418	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis.

If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are based on internal or external ratings in accordance with limits set by the council. The utilisation of credit limits is regular monitored. Sales to retail customers are settled in cash or using major credit cards.

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

Financial instrument	2012	2011
Other investments	489,470,461	246,895,311
Long-term receivables	2,519,835	2,332,670
Consumer debtors	2,822,359,047	1,780,586,993
Other receivables	169,181,486	374,879,991
Cash and cash equivalents	2,838,424,089	1,338,863,442
Unlisted shares	4,000,000	4,000,000

Price risk

47. RISK MANAGEMENT (continued)

The municipality is exposed to equity price risk because of investments held by the municipality and classified on the statement of financial position as available-for-sale. The municipality is not exposed to commodity price risk.

The economic entity has a R4,000,000 investment in unlisted shares, which is the exposure to price risk. The price risk on this investment cannot be determined due to the fact that the shares are not listed and therefore unknown.

48. GOING CONCERN

2012

Cash and Cash Equivalents, Investments and Liquidity Ratio's

The Metro's cash and cash equivalents held at financial year end were as follows over the last three years:
Table 31: Cash and cash equivalents as at 30 June 2012

	June 2011	June 2012
Cash and Cash Equivalents	1,338.863,442	2,838,424,089
Current Ratio/Solvency Ratio	1.24	1.55
Acid Test Ratio	1.20	1.60
Number of days total cash held (total cash and investments)	40	84
Number of days total cash held (operating cash)	28	53
Number of days total cash held (Un-encumbered cash)	2	26
Interest cover	3.50	6.15

Cash and cash equivalents have increased significantly as a result of the following:

- Increased borrowings to fund long term infrastructure
- Increased collections
- On-going cost reduction strategies – all heads of departments have cost savings targets included in the performance agreements

Current Ratio/Solvency Ratio = Current assets:Current liabilities
Acid Test Ratio = Current assets less Inventory:Current liabilities
Number of days total cash held (total cash and investments) = Total bank and investments / Budgeted cash operating expenditure based on 365 days per year.
Number of days total cash held (operating cash) = Total bank and investments less encumbered investments, unspent loans and grants / Budgeted cash operating expenditure based on 365 days per year.
Number of days total cash held (Un-encumbered cash) = Total bank and investments less encumbered investments, unspent loans and grants as well as Statement of Financial Posistion provisions and reserves to be cash-backed as per EMM cash management policy / Budgeted cash operating expenditure based on 365 days per year.
Interest cover = Bank balance / Budgeted interest liability for the year.

Figures in Rand	2012	2011

49. EVENTS AFTER THE REPORTING DATE

2012

Suspension of officials
The Ekurhuleni Metropolitan Municipality has placed five senior officials on precautionary suspension as per the Labour Relations Act with effect from 16 July 2012. The municipality took the decision to place the five on suspension as to enable for further investigation into certain allegations levelled against the said officials. The metro trusts that the ongoing investigation on the matter will help determine whether there should be further action taken against any of the officials or not.

Institutional review
The Ekurhuleni Metropolitan Municipality is in the process of reviewing its organisational structure (at present only levels 1 – 3, one being the City Manager and 2 being Heads of Departments). The Mayoral Committee has recommended the revised structure to Council during August 2012. The proposed revisions will have a cost implication of R80m per year, and the filling of these positions will be phased in based on affordability.

2011

Separation of Powers
The mandate for Local Government (section 152 of the Constitution) is to:

- Promote democratic and accountable government for local communities;
- Ensure the provision of sustainable services to communities;
- Promote a safe and healthy environment;
- Encourage community participation in local government.

Inadequacies in accountability and poor governance at Local Government level were highlighted amongst other challenges in the State of Local Government Overview Report (COGTA 2009).

Separation of powers between the legislative and executive arms of government is congruent with internationally accepted principles of good governance. It creates independent oversight of the effective achievement of the municipal mandate. It further establishes an appropriate level of accountability, representation and participation through:

- Clear delineation of powers and functions among the spheres of government;
- Executive accountability for service delivery and development;
- Independent and representative oversight by the Legislative arm.

The Ekurhuleni Metropolitan Municipality accordingly in April 2011 (Item A-RC {15-2011}) approved in principle the separation of legislative and executive powers and the implementation thereof. The final approval for the implementation was granted by Council on the 18th August 2011.

50. UNAUTHORISED, FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE

	2012	2011
Opening balance	14,015,213	38,358,643
Add: Expenditure identified for the year	68,654,954	14,015,213
Less: Amounts approved by council	(14,015,213)	(38,358,643)
	68,654,954	**14,015,213**

50. UNAUTHORISED, FRUITLESS, WASTEFUL AND IRREGULAR EXPENDITURE (continued)

2012

Controlling entity

Department	Description	Amount	Classification
SCM	Section 33 application to appoint a service provider for a period exceeding 3 years were not concluded	R 17,312,799.00	Irregular
SCM	Claim against EMM for damages due to an advertising board falling on and injuring a bystander	R 2,309,230.00	Fruitless & wasteful
SCM	Interest on late payment to SALA Pension fund	R 212,473.00	Fruitless & wasteful
SCM	Appointment of supplier exceeding the 3 year period	R 2,219,719.00	Irregular
SCM	Irregularities pertaining to the installation and electrical reticulatio of Winnie Mandela Park	R 2,684,511.67	Fruitless, wasteful & Irregular
SCM	Quotations limited to R20,000 to circumvent the tender process	R 1,650,000.00	Irregular
SCM	Business Linkage centres were not implemented/contracted through the tender system/process	R 1,800,000.00	Irregular
SCM	Procurement processes were not adhered to - procured with incorrect order numbers	R 291,042.76	Irregular
SCM	Conflict of interests in the Outdoor Advertising	R 142,842.00	Irregular
SCM	Irregularities i.r.o. transactions in building maintenance section	R 123,532.40	Irregular
SCM	Awards to eployees	R 950,195.00	Irregular
SCM	Duplicating of litter picking and street cleaning services	R 28,925,257.63	Fruitless & wasteful
SCM	Irregularities around the storing of paving	R 992,290.20	Irregular
SCM	Review of procurement of the water awareness programme	R 2,414,262.31	Fruitless & wasteful
SCM	Allegations on group One electrical cc SAMWU	R 6,626,799.50	Fruitless & wasteful

In addition to the fruitless, wasteful and irregular expenditure shown above, the accounting officer identified, through an internal supply chain management review, that bids in excess of R10m was approved by the Bid Adjudication Committee and not the accounting officer as required by section 5 of the MFMA Municipal Supply Chain Management Regulations. The accounting officer is currently following the condonation process as per section 170 of the Municipal Finance Management Act.

Refer to Statement of Comparative and Actual information, note 56, for any unauthorised expenditure.

2011

Controlling entity

Department	Description	Amount	Classification
SCM	Non compliance with supply chain management policy	R 13,500,136.00	Irregular
Employee	B A Mbatha, meter reader related to Amafa Audio Visual Enterprise cc (AMA124)	R 79,044.00	Irregular
	G Tshabalala, caretaker related to Entsikeni Grading cc (ENT005)	R 129,562.00	Irregular
	D Britz, inspector related to Rotary Turbo Technology cc (ROT013)	R 291,030.70	Irregular
Councillor	J S Mashinini related to Dadewethu Business Enterprise cc (DAD002)	R 15,440.00	Irregular

Figures in Rand	2012	2011

51. IN-KIND DONATIONS AND ASSISTANCE

The economic entity received the following in-kind donations and assistance:

2012
None

2011
Two chartered accountants (up to 31 March 2011) and seven registered engineers (up to 31 May 2011) have been seconded to the economic entity as part of the partnership between DLG and SAICA.

52. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government

	2012	2011
Current year subscription / fee	9,575,000	9,811,773
Amount paid - current year	(9,575,000)	(9,811,773)
	-	-

Material losses through criminal conduct and fraudulent activities

	2012	2011
Current year	-	3,108,162

2012
None

2011
- Irregular audit journals passed at the Kempton Park CCC - R1,307,585
- Improper conduct by an official at the corporate CCA office - R236,852
- Fraudulent sale of pre-paid electricity using the IMS system at the Tembisa CCA - R1,495,725
- Allegations against improper behaviour of the area manager in the City Development department - R68,000

Audit fees

	2012	2011
Opening balance	-	386,185
Current year fees	14,880,101	14,186,136
Amount paid - current year	(14,880,101)	(14,572,321)
	-	-

PAYE and UIF

	2012	2011
Current year payroll deductions	609,462,329	566,989,131
Amount paid - current year	(609,462,329)	(566,989,131)
	-	-

Pension and Medical Aid Deductions

	2012	2011
Current year payroll deductions	856,465,974	792,775,976
Amount paid - current year	(856,465,974)	(792,775,976)
	-	-

VAT

	2012	2011
VAT receivable	29,540,450	130,187,427

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

Councillors' arrear consumer accounts

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

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

		Outstanding more than 90 days				
NAME	Outstanding less than 90 days	Normal account	Arrangement	Hand-over	Credit	Total
BALE NE	202	78	-	-	-	280
BODIBE S	-	-	24,089	-	(2,285)	21,804
KHUMALO TL	134	6,690	-	-	-	6,824
LESHABANE SM	-	-	69,451	-	(1,772)	67,679
LETSIMO ST	1,355	71,770	-	-	-	73,125
MABASO CN	162	12,592	-	-	-	12,754
MABOTE MI	-	-	12,428	-	-	12,428
MABUZA TH	1,459	4,949	18,265	-	-	24,673
MAHLOMA KF	395	1,892	-	-	-	2,287
MAKALENG PJ	156	719	-	-	-	875
MAKGOBOLA TU	1,182	7,752	-	-	-	8,934
MARAQANA SR	811	30,542	-	-	-	31,353
MDLULI NB	737	-	23,701	-	-	24,438
MOHOALADI MS	380	5,376	8,977	-	-	14,733
MWELASE SP	431	611	935	-	-	1,977
MXABANGELI VS	-	-	-	17,127	(34)	17,093
NGOBESE SS	437	-	6,705	-	-	7,142
NGOBESE AK	2,352	4,289	-	-	(21)	6,620
NKOSI MI	-	-	26,488	-	(361)	26,127
NOMVETE JP	933	6,318	-	56,640	-	63,891
NTOMBELA SI	493	14,644	-	-	-	15,137
PAPU ME	1,788	-	24,631	-	-	26,419
PIENAAR R	818	1,590	-	-	-	2,408
RADEBE TG	164	7,245	-	-	-	7,409
SHABALALA RR	-	-	8,653	-	(1,720)	6,933
TSHONGWENI ZK	1,430	2,480	10,045	-	(4,880)	9,075
VILAKAZI G	996	420	-	-	-	1,416
ZIDE VG	-	-	21,934	-	(463)	21,471
ZUMA LZ	-	-	6,045	-	(1,482)	4,563
	16,815	**179,957**	**262,347**	**73,767**	**(13,018)**	**519,868**

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

30 June 2011

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

	Outstanding Less than 90 Days	Outstanding more than 90 days				Total (Ex VAT)
		Normal Account	Arrangement	Hand-Over	Credit	
BABA NJ	470.90	1,115.05	-	-	-	1,585.95
BALE NE	2,911.19	-	5,536.66	-	-	8,447.85
BODIBE RS	669.13	-	-	37,448.90	-	38,118.03
CHAUKE HM	1,108.32	1,579.00	-	12,326.61	-	15,013.93
DHLADHLA MK	1,369.05	21.87	572.14	3,911.23	-	5,874.29
DUBA QB	140.23	595.00	-	-	-	735.23
GERSBACH GAK	-	1,189.00	-	-	-	1,189.00
GUMEDE T	3,376.79	1,455.29	-	4,641.47	-	9,473.55
KHUMALO TL	275.00	1,182.56	-	11,028.28	-	12,485.84
KLAAS GS	-	-	7,011.99	5,312.94	-10,150.67	2,174.26
KOMANE CL	1,869.31	35,646.56	-	-	-	37,515.87
KWILI MS	2,466.93	1,537.56	-	-	-	4,004.49
LESHABANE SM	670.84	-	6,466.04	62,203.83	-	69,340.71
LETSIMO ST	438.40	1,901.18	-	77,331.14	-	79,670.72
LETSOHA KT	947.66	1,383.75	-	32,488.79	-	34,820.20
MABASO SJ	302.21	1,282.02	-	23,330.96	-	24,915.19
MABENA VM	-	-	900.17	-	-505.40	394.77
MABUZA TH	1,982.56	2,600.67	-	36,064.67	-	40,647.90
MALOPE S	187.25	-	-	6,440.83	-	6,628.08
MARAQANA SR	1,138.64	14,046.55	-	12,056.37	-	27,241.56
MASHININI SJ	1,770.03	7,885.00	-	-	-	9,655.03
MATABANE TJ	235.80	1676.60				1912.40
MOKHETHOA SS	217.71	362.62	7,219.79	-	-	7,800.12
MORAKE P	-	-	2,539.25	3,075.86	-26.55	5,588.56
MOTAUNG A	684.80	928.45	-	17,154.47	-	18,767.72
MXABANGELI VS	386.06	-	-	25,236.62	-	25,622.68
NGOBESE AK	3,821.23	12,414.64	-	21,929.12	-	38,164.99
NGOBESE SS	527.14	905.66	-	7,797.82	-	9,230.62
NKOSI MI	885.54	721.73	-	31,672.55	-	33,279.82
NOMVETE JP	2,030.60	56.48	54,814.06	-	-	57,701.14
NTOMBELA SI	1,305.28	15,249.69	-	-	-	16,554.97
NXUMALO IS	106.11	-	-	13,417.17	-	13,523.28
NXUMALO A	285.63	1,374.77	-	-	-	1,660.40
PAPU EM	1,709.02	6,384.02	-	20,127.20	-	28,220.24
PHETLA TJ	1,317.02	5,032.98	-	22,082.76	-	28,432.76
RADEBE NM	1,269.91	9,630.12	-	-	-	10,900.03
RADEBE TG	563.12	1,462.44	-	9,788.74	-	11,814.30
RAMPAI TC	674.18	627.30	-	-	-	1,301.48
SENTSHO LD	9,799.67	9,672.97	-	-	-	19,472.64
SHABALALA RR	858.27	731.62	-	10,060.33	-	11,650.22
SHABALALA HV	1.90	57.66	-	-	-	59.56
SHABANGU SP	3,248.70	909.27	-	-	-	4,157.97
SITHOLE MM	167.80	312.32	-	3,719.44	-	4,199.56
SWANEPOEL CD	3,767.67	758.13	-	-	-13.49	4,512.31
TERBLANCHE HJ	953.22	1,726.31	-	2,846.50	-	5,526.03
ZIDE VG	676.98	356.42	-	23,853.42	-	24,886.82
ZUMA LZ	1,251.89	305.86	-	6,645.96	-	8,203.71
ZWANE TS	1,831.76	4,891.75	-	-	-	6,723.51
Total Councillor Arrears	**60,671.45**	**150,770.87**	**85,060.10**	**543,993.98**	**-10,696.11**	**829,800.29**

Figures in Rand	2012	2011

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

Councillor Arrears 30 June 2011

Declared municipal services accounts in respect of Councillors have been monitored on a monthly basis to ensure compliance with provisions of the Systems act, which states that councillor accounts may not be in arrears for periods in excess of 90 day's.

Status of councillor accounts as at end May 2011, prior to municipal elections can be summarized as follows :

• Number of accounts linked	192	
• Accounts in arrears (+90 Days)	3	R 19 465.00
• Accounts with arrangement	1	R 1 060.02
• Arrear Debt (30 – 90 Days)	54	R 30 405.06

Municipal elections on 18 May 2011 however resulted in approximately 129 new councillors being elected. Personal details in respect of all elected councillors were received during August 2011.

Verification process against billing data basis was performed based on submitted id numbers and re-elected councillor information.

The results can be summarized as follows :

• Linked accounts	
• Number of councillors	154
• Number of accounts linked	248
• Accounts in arrears (+90 Days – June 2011)	R 693 781
• Not linked (No positive link to billing account)	50

PROCESS.

- Letter to all councillors to confirm linked accounts	- September 2011
- Letter to all councillors in arrears to settle or arrange debt	- September 2011
- Letter to all councillors NOT linked to submit account details	- September 2011

53. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

	2012	2011
Outstanding long-term liabilities	3,891,068,355	2,695,562,832
Redemption of loans	(175,556,632)	(419,494,477)
New loans	800,000,000	1,615,000,000
	4,515,511,723	3,891,068,355
Used to finance property, plant and equipment: Opening Balance	(3,891,068,355)	(2,695,562,832)
Redemption of loans	175,556,632	419,494,477
Capital financed from external loans for the year	(475,499,863)	(1,043,571,750)
Capital expenditure for 2009/2010 financed from loans taken up this year	-	(483,767,872)
Unspend long term liabilities	**324,500,137**	**87,660,378**
Cash set aside for the repayment of long-term liabilities for the year	182,305,105	175,354,221

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Figures in Rand	2012	2011

54. 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 Council and includes a note to the annual financial statements.

The expenses incurred, as listed hereunder, have been approved/condoned

	2012	2011
Emergencies	3,961,430	13,092,617
Sole supplier	18,450,456	45,169,059
Appointment of consultants	50,856,587	29,210,530
Upgrade electricity infrastructure	14,267,141	1,419,892
Upgrade of roads infrastructure	68,100,000	-
Upgrade water infrastructure	30,000,000	1,469,100
Events	420,772	2,382,208
operational services	22,914,259	-
Other	1,597,717	147,832,842
Training	2,187,935	-
Extension of contract	113,732,735	75,942,258
Deviations less than R200,000	1,234,434	3,266,684
	327,723,466	**319,785,190**

Number/quantity of deviations included above is 75 (2011: 80)

55. UNACCOUNTED ELECTRICITY AND WATER

Electricity

	2011/2012		2010/2011	
	Units	**Value**	**Units**	**Value**
Units purchased	10 874 885 184.00	5,934,915,571.44	10,838,522,687.00	4,708,908,535.47
Units sold	9,665,581,695.00	5,274,944,088.08	10,506,921,076.04	4,543,779,184.95
Units lost	1,209,303,489.00	659,971,483.36	331,601,610.96	165,129,350.52
Total lost %	11.12%	11.12%	3.06%	3.51%
Technical loss%	5.90%			
Non-technical loss%	5.22%			

Water

	2011/2012		2010/2011	
	Units	**Value**	**Units**	**Value**
Units on hand 1 July	1,246,000.00	5,069,381.42	2,720,000.00	9,621,456.00
Units purchased	339,056,381.00	1,544,154,231.41	332,557,257.00	1,353,017,318.87
	340,302,381.00	1,549,223,612.83	335,277,257.00	1,362,638,774.87
Units on hand 30 June	1,203,000.00	5,478,786.55	1,246,000.00	5,069,381.42
Units for sale	339,099,381.00	1,543,744,826.28	334,031,257.00	1,357,569,393.45
Units sold	236,225,854.00	1,075,416,134.03	235,171,946.78	955,425,771.99
Units lost	102,873,977.00	468,330,741.67	98,859,310.22	402,143,621.46
Units lost %	30.34%	30.34%	29.60%	29.62%

Additional information are contained in the annual report on unaccounted water (paragraph 3.1.1) and electricity (paragraph 3.1.2).

Notes to the Annual Financial Statements

Figures in Rand

56. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
Property rates	2,817,728,777	2,812,194,874	2,812,194,874	2,644,169,729	168,025,145	94 %	94 %
Service charges	12,972,764,246	12,899,334,871	12,899,334,871	12,640,496,148	258,838,723	98 %	97 %
Investment revenue	70,000,000	105,000,000	105,000,000	153,736,169	(48,736,169)	146 %	220 %
Transfers recognised - operational	4,494,424,545	4,534,029,913	4,534,029,913	4,534,001,484	28,429	100 %	101 %
Other own revenue	778,200,364	723,747,539	723,747,539	808,801,862	(85,054,323)	112 %	104 %
Total revenue (excluding capital transfers and contributions)	**21,133,117,932**	**21,074,307,197**	**21,074,307,197**	**20,781,205,392**	**293,101,805**	**99 %**	**98 %**
Employee costs	(4,333,687,366)	(4,252,209,236)	(4,252,209,236)	(4,109,531,899)	(142,677,337)	97 %	95 %
Remuneration of councillors	(78,572,289)	(79,406,263)	(79,406,263)	(79,406,240)	(23)	100 %	101 %
Debt impairment	(1,536,305,545)	(1,573,268,042)	(1,573,268,042)	(1,432,511,739)	(140,756,303)	91 %	93 %
Depreciation and asset impairment	(2,101,119,139)	(2,151,573,424)	(2,151,573,424)	(2,029,143,565)	(122,429,859)	94 %	97 %
Finance charges	(488,226,680)	(461,486,680)	(461,486,680)	(453,417,828)	(8,068,852)	98 %	93 %
Materials and bulk purchases	(7,945,553,951)	(7,948,266,418)	(7,948,266,418)	(7,930,516,453)	(17,749,965)	100 %	100 %
Transfers and grants	(296,430,200)	(456,326,120)	(456,326,120)	(426,284,961)	(30,041,159)	93 %	144 %
Other expenditure	(4,127,745,889)	(3,927,315,894)	(3,927,315,894)	(3,640,266,810)	(287,049,084)	93 %	88 %
Total expenditure	**(20,907,641,059)**	**(20,849,852,077)**	**(20,849,852,077)**	**(20,101,079,495)**	**(748,772,582)**	**96 %**	**96 %**
Surplus/(Deficit)	**225,476,873**	**224,455,120**	**224,455,120**	**680,125,897**	**(455,670,777)**	**303 %**	**302 %**

Notes to the Annual Financial Statements

Figures in Rand

56. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	17,730,484	17,730,484	17,730,484	23,538,688	(5,808,204)	133 %	133 %
Surplus (Deficit) after capital transfers and contributions	**243,207,357**	**242,185,604**	**242,185,604**	**703,664,585**	**(461,478,981)**	**291 %**	**289 %**
Surplus/(Deficit) for the year	**243,207,357**	**242,185,604**	**242,185,604**	**703,664,585**	**(461,478,981)**	**291 %**	**289 %**

Notes to the Annual Financial Statements

Figures in Rand

56. STATEMENT OF COMPARATIVE AND ACTUAL INFORMATION (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	2,374,785,485	2,252,103,854	2,252,103,854	2,001,014,442	251,089,412	89 %	84 %
Sources of capital funds							
Transfers recognised - capital	1,296,183,235	1,298,425,669	1,298,425,669	1,256,427,052	41,998,617	97 %	97 %
Public contributions and donations	21,500,000	21,461,041	21,461,041	21,617,505	(156,464)	101 %	101 %
Borrowing	867,934,512	701,059,502	701,059,502	475,499,863	225,559,639	68 %	55 %
Internally generated funds	189,167,738	231,157,642	231,157,642	247,470,022	(16,312,380)	107 %	131 %
Total sources of capital funds	**2,374,785,485**	**2,252,103,854**	**2,252,103,854**	**2,001,014,442**	**251,089,412**	**89 %**	**84 %**
Cash flows							
Net cash from (used) operating	2,576,098,000	2,633,841,000	2,633,841,000	3,071,674,766	(437,833,766)	117 %	119 %
Net cash from (used) investing	(2,557,154,000)	(2,434,473,000)	(2,434,473,000)	(2,242,130,565)	(192,342,435)	92 %	88 %
Net cash from (used) financing	654,844,000	654,844,000	654,844,000	670,016,446	(15,172,446)	102 %	102 %
Net increase/(decrease) in cash and cash equivalents	**673,788,000**	**854,212,000**	**854,212,000**	**1,499,560,647**	**(645,348,647)**	**176 %**	**223 %**
Cash and cash equivalents at the beginning of the year	1,338,863,442	1,338,863,442	1,338,863,442	1,338,863,442	-	100 %	100 %
Cash and cash equivalents at year end	**2,012,651,442**	**2,193,075,442**	**2,193,075,442**	**2,838,424,089**	**(645,348,647)**	**129 %**	**141 %**