Inxuba Yethemba Municipality
Annual Financial Statements
for the year ended 30 June 2012

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

Abbreviations

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

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

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 loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The municipality is largely dependent on the national and provincial government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the national and provincial governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on page 4 to 7 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Accounting Officer

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	4	764 754	756 911
Trade and other receivables from exchange transactions	5	17 121 364	4 786 689
Trade and other receivables from non exchange transactions	6	2 129 814	1 925 628
Cash and cash equivalents	7	11 104 466	1 529 567
		31 120 398	**8 998 795**
Non-Current Assets			
Investment property	10	40 181 390	40 181 390
Property, plant and equipment	8	287 371 181	309 916 878
Intangible assets	9	17 382	11 151
Investments in controlled entities	11	100	100
Other financial assets	12	8 091	7 915
		327 578 144	**350 117 434**
Total Assets		**358 698 542**	**359 116 229**
Liabilities			
Current Liabilities			
Bank overdraft	7	22 172 442	11 546 691
Other financial liabilities	13	339 962	293 798
Trade and other payables	14	25 469 763	17 198 105
Chris Hani Agency Account	15	-	25 805 936
VAT payable	16	11 846 178	12 311 356
Consumer deposits	17	2 034 160	902 656
Unspent conditional grants and receipts	18	728 815	333 246
		62 591 320	**68 391 788**
Non-Current Liabilities			
Other financial liabilities	13	1 294 186	1 642 450
Employee benefit obligation	19	33 244 062	32 102 752
Unspent conditional grants and receipts	18	(423 449)	-
Provisions	20	35 769 248	292 829
		69 884 047	**34 038 031**
Total Liabilities		**132 475 367**	**102 429 819**
Net Assets		**226 223 175**	**256 686 410**
Net Assets			
Reserves			
Revaluation reserve		399 839 421	399 839 309
Accumulated surplus		(141 230 239)	(143 152 899)
Total Net Assets		**258 609 182**	**256 686 410**

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	24	17 637 380	15 988 442
Service charges	25	118 806 670	59 610 333
Rental of facilities and equipment		1 736 538	1 572 040
Fines		144 242	159 647
Licences and permits		1 345 344	1 071 431
Government grants and subsidies	26	34 591 406	74 627 539
Fees earned		1 152 598	1 054 009
Commissions received		117 801	125 322
Other income		921 159	2 284 330
Interest received - investment	31	7 224 489	5 074 627
Gains on disposal of assets	31	276 918	1 440 429
Total Revenue		**183 954 545**	**163 008 149**
Expenditure			
Employee related costs	29	(56 339 384)	(49 856 530)
Remuneration of councillors	30	(5 464 018)	(4 906 614)
Depreciation and amortisation		(44 643 847)	(49 735 836)
Finance costs	32	(1 334 072)	(2 090 186)
Debt impairment		(50 136 096)	(41 457 130)
Repairs and maintenance		(3 524 813)	(3 149 671)
Bulk purchases	37	(41 508 180)	(36 418 803)
Contracted services	35	(204 900)	(309 818)
Grants and subsidies paid	36	(19 086 161)	(17 149 955)
General Expenses	28	(26 178 727)	(18 360 739)
Total Expenditure		**(248 420 198)**	**(223 435 282)**
Actuarial adjustments		602 250	(2 866 240)
Deficit for the year		**(63 863 403)**	**(63 293 373)**

Inxuba Yethemba Municipality
Annual Financial Statements for the year ended 30 June 2012

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	-	(245 668 051)	(245 668 051)
Adjustments			
Prior year adjustments	-	37 417 569	37 417 569
Balance at 01 July 2010 as restated	**-**	**(208 250 482)**	**(208 250 482)**
Changes in net assets			
Post employment medical aid contributions	-	7 687 392	7 687 392
Reversal of impairment losses on revalued PPE	399 839 309	49 735 835	449 575 144
Net income (losses) recognised directly in net assets	399 839 309	57 423 227	457 262 536
Surplus for the year	-	(63 293 373)	(63 293 373)
Total recognised income and expenses for the year	399 839 309	(5 870 146)	393 969 163
Receivable impairment contribution	-	71 788 083	71 788 083
Other appropriation transactions	-	(428 155)	(428 155)
Transactions posted to appropriation account	-	(392 199)	(392 199)
Total changes	399 839 309	65 097 583	464 936 892
Balance at 30 June 2012	**399 839 309**	**(143 152 899)**	**256 686 410**
Balance at 01 July 2011	**399 839 309**	**(258 866 836)**	**140 972 473**
Changes in net assets			
Deficit for the year	-	(63 863 403)	(63 863 403)
Transactions posted to appropriation account	112	181 500 000	181 500 112
Total changes	112	117 636 597	117 636 709
Balance at 30 June 2012	**399 839 421**	**(141 230 239)**	**258 609 182**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		86 134 970	88 627 072
Grants		58 663 316	66 593 696
Interest income		3 433 463	-
Other receipts		29 624 676	25 545 979
		177 856 425	180 766 747
Payments			
Employee costs		(58 484 545)	(53 251 682)
Suppliers		(47 524 892)	(19 462 866)
Finance costs		-	(1 663 372)
Other payments		(82 285 607)	(98 537 768)
Other cash item		-	1 373 878
		(188 295 044)	(171 541 810)
Net cash flows from operating activities	38	**(10 438 619)**	**9 224 937**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(22 572 092)	(26 043 290)
Proceeds from sale of property, plant and equipment	8	276 918	1 440 429
Purchase of other intangible assets	9	(2 299)	-
Net movement of financial assets		(176)	(208)
Defined benefit pension fund actuarial gains		602 250	(2 866 240)
Other cash item		-	(398 147)
Net cash flows from investing activities		**(21 695 399)**	**(27 867 456)**
Cash flows from financing activities			
Repayment of other financial liabilities		(302 100)	(356 110)
Interest income		3 791 026	5 074 627
Finance costs		(1 334 072)	(426 814)
Net cash flows from financing activities		**2 154 854**	**4 291 703**
Net increase/(decrease) in cash and cash equivalents		**(29 979 164)**	**(14 350 816)**
Cash and cash equivalents at the beginning of the year		(10 017 124)	1 114 917
Effect of correction on CHDM Agency Account		25 805 936	-
Cash and cash equivalents at the end of the year	7	**(14 190 352)**	**(13 235 899)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting 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. Significant judgements include:

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

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list municipality specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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

Fair value

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

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

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

1.2 Mergers (continued)

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- property that is held under an operating lease may be classified and accounted for as investment property if, the property would otherwise meet the definition of an investment property; and
- the municipality uses the fair value model.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

- property intended for sale in the ordinary course of operations or in the process of construction or development for such sale are classified as inventory;
- owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property are classified as property, plant and equipment;
- property that is being constructed or developed for future use as investment property. The Standard of GRAP on Property, Plant and Equipment applies to such property until construction or development is complete, at which time the property becomes investment property;
- property held to provide a social service and which also generates cashinflows are classified as property, plant and equipment.

Transitional provision

The municipality changed its accounting policy for investment property in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and investment property has accordingly been recognised at provisional amounts, as disclosed in note 10.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

Accounting Policies

1.2 Mergers (continued)
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

Item	Average useful life
Buildings	20-60 years
Plant and machinery	3-10 years
Furniture and fixtures	3-10 years
Motor vehicles	3-20 years
Office equipment	3-7 years
Roads	20 years
Other property, plant and equipment	3-12 years
Electricity	10-50 years
Other equipment	3-10 years
Security measures	3 years

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

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

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

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

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

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expires on 30 June 2012.

Accounting Policies

1.3 Property, plant and equipment (continued)

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related 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 municipality 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 or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

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

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

property, plant and equipment are initially recognised at cost.

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

Accounting Policies

1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Useful life
Computer software	3 years

1.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:
- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the subsidiary.

1.7 Financial instruments

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

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

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

1.7 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

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

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

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

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

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured 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. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, 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.

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

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

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

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

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

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

Finance leases – lessee

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

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

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

Operating leases - lessor

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

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

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

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. This liability is not discounted.

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

Transitional provision

1.8 Leases (continued)

The municipality changed its accounting policy for leases in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on leases. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leases was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Inventory GRAP (19),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on leases implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on leases.

1.9 Inventories

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

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

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

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

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

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

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

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

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

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

Transitional provision

The municipality changed its accounting policy for leases in 2012. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

1.9 Inventories (continued)

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2012 and inventories has accordingly been recognised at provisional amounts, as disclosed in 4.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

1.11 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]

1.12 Employee benefits

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.

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.

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

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 the statement of financial performance 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 the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

1.12 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 cost, plus the present value of available refunds and reduction in future contributions to the plan.

1.13 Provisions and contingencies

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

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

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

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

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

Provisions are not recognised for future operating deficits.

If a municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

1.13 Provisions and contingencies (continued)

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.14 Revenue from exchange transactions

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

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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

Measurement

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Interest, royalties and dividends

Revenue arising from the use by others of municipality assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

1.14 Revenue from exchange transactions (continued)

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

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

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another municipality in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

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

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

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised as revenue.

1.16 Investment income

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

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an municipality directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;

Accounting Policies

1.19 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

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

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

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

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

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

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

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

1.22 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice 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.

1.23 Presentation of Currency

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

Accounting Policies

1.24 Offsetting

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

1.25 Investments

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

1.26 Conditional Grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, unconditional grants are recognised as a liability (creditor - unutilised conditional grants). This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the unutilised conditional grant into the statement of financial performance as revenue.

1.27 Budget information

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

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

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 46.

1.28 Value Added Tax

The municipality accounts for value added tax on the cash basis.

1.29 Related parties

Individuals as well as their close family members and/or entities are related parties if one party has the ability, directly or indirectly, to control, jointly control or exercise significant influence over the other party or key management personnel in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except except for the withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measuremen withdrawn.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- IAS 19 Employee Benefits withdrawn but the municipality opted to continue until GRAP 25 becomes operative.
- Policy for Non-exchange Transactions based on GRAP 23 adopted.

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, not yet effective but relevant

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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2012 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

4. Inventories

Consumable stores	687 857	743 417
Fuel (Diesel, Petrol)	76 897	13 494
	764 754	**756 911**

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain inventories with a carrying value of - (2011: 756 911) was recognised at provisional amounts.

5. Trade and other receivables from exchange transactions

Gross balances		
Electricity	7 491 624	5 832 218
Refuse	32 024 140	27 752 032
Water	68 644 172	-
Waste water	46 113 231	-
Other	-	4 460 367
	154 273 167	**38 044 617**
Less: Allowance for debt impairment		
Electricity	(3 309 996)	(2 692 349)
Water	(58 918 952)	-
Waste water	(44 761 103)	-
Refuse	(30 161 752)	(26 305 082)
Other	-	(4 260 497)
	(137 151 803)	**(33 257 928)**
Net balance		
Electricity	4 181 628	3 139 869
Refuse	1 862 388	1 446 950
Water	9 725 220	-
Waste water	1 352 128	-
Other	-	199 870
	17 121 364	**4 786 689**
Electricity		
Current (0 -30 days)	3 111 144	3 032 958
31 - 60 days	457 252	106 911
61 - 90 days	303 565	201 091
91 - 120 days	291 566	198 526
121 - 365 days	236 190	1 520 280
> 365 days	2 878 526	772 452
	7 278 243	**5 832 218**
Water		
Current (0 -30 days)	472 728	-
31 - 60 days	1 528 624	-
61 - 90 days	2 433 309	-
91 - 120 days	32 853	-
121 - 365 days	5 257 706	-
	9 725 220	**-**

Figures in Rand	2012	2011

5. Trade and other receivables from exchange transactions (continued)

Waste water

Current (0 -30 days)	516 145	-
31 - 60 days	270 679	-
61 - 90 days	252 917	-
91 - 120 days	1 495	-
121 - 365 days	310 892	-
	1 352 128	**-**

Refuse

Current (0 -30 days)	693 624	1 175 471
31 - 60 days	422 540	271 479
61 - 90 days	405 224	272 253
91 - 120 days	392 188	271 795
121 - 365 days	395 773	10 417 267
> 365 days	16 517 119	15 343 767
	18 826 468	**27 752 032**

Sundry debtors

Current (0 -30 days)	-	180 705
31 - 60 days	-	19 111
61 - 90 days	-	19 709
91 - 120 days	-	25 880
121 - 365 days	-	1 591 110
> 365 days	-	2 623 852
	-	**4 460 367**

Reconciliation of allowance for debt impairment

Balance at beginning of the year	(33 257 928)	(15 721 754)
Contributions to provision (Including water & ssanitation from CHDM)	(33 305 020)	(17 536 174)
Prior year CHDM provisions	(71 788 083)	-
	(138 351 031)	**(33 257 928)**

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. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Trade and other receivables from non exchange transactions

Other receivables	393 640	511 598
Services paid in advance	(994 082)	(897 827)
Insurance debtor	106 929	-
Employee costs in advance	219	37 844
Property rates	38 163 784	34 798 361
Entity (Mmotlie inv)	16 864	16 864
Provision for impairment - rates	(35 557 540)	(32 541 212)
	2 129 814	**1 925 628**

Property rates

Property rates	38 264 969	34 798 361
Provision for debt impairments	(35 557 540)	(32 541 212)
	2 707 429	**2 257 149**

Property rates

Current (0 -30 days)	1 067 810	1 899 924
31-60 days	357 527	357 225
61-90 days	299 790	227 512
91-120 days	-	241 124
>120 days	982 302	32 072 576
	2 707 429	**34 798 361**

Provision for debt impairment: Property rates

Impairment balance prior year	(32 541 212)	(8 627 913)
Contribution	(3 016 328)	(23 913 299)
	(35 557 540)	**(32 541 212)**

Figures in Rand	2012	2011

7. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	4 585	4 585
Short-term deposits	11 099 881	1 524 982
Bank overdraft	(22 172 442)	(11 546 691)
	(11 067 976)	**(10 017 124)**
Current assets	11 104 466	1 529 567
Current liabilities	(22 172 442)	(11 546 691)
	(11 067 976)	**(10 017 124)**

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. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
First National Bank - Main account - acc no 51980028125	-	(3 935 456)	-	(13 735 265)
First National Bank - Eskom account - acc no 51981035195	-	16 052	-	2 207 690
Total	**-**	**(3 919 404)**	**-**	**(11 527 575)**

	2012	2011
Investments unlisted - short-term		
Nedbank	-	7 915
First National Bank - Various	-	772 194
First National Bank - Chris Hani agency account	-	38 667
Standard bank	-	503 943
ABSA bank	-	366 028
	-	**1 688 747**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	4 195 130	-	4 195 130	4 195 130	-	4 195 130
Buildings	13 555 900	(16 855)	13 539 045	13 555 900	-	13 555 900
Landfill sites	4 488 128	(105 355)	4 382 773	4 488 128	-	4 488 128
Electricity	35 181 600	(5 616 220)	29 565 380	28 144 283	(3 869 886)	24 274 397
Roads	349 974 915	(132 017 040)	217 957 875	345 512 367	(89 759 545)	255 752 822
Cemetaries	1 427 552	-	1 427 552	1 427 552	-	1 427 552
Community	361 000	-	361 000	361 000	-	361 000
Park facilities	2 127 130	-	2 127 130	2 127 130	-	2 127 130
Furniture and fixtures	161 827	(123 812)	38 015	151 235	(112 912)	38 323
Office equipment	812 032	(505 251)	306 781	542 425	(460 156)	82 269
Plant and machinery	2 492 928	(1 221 610)	1 271 318	2 461 338	(1 136 244)	1 325 094
Motor vehicles	4 559 096	(3 120 465)	1 438 631	4 559 096	(2 831 399)	1 727 697
Other equipment	114 654	(114 654)	-	114 654	(114 654)	-
Other property, plant and equipment # 1	10 760 551	-	10 760 551	561 436	-	561 436
Total	**430 212 443**	**(142 841 262)**	**287 371 181**	**408 201 674**	**(98 284 796)**	**309 916 878**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	4 195 130	-	-	-	4 195 130
Buildings	13 555 900	-	-	(16 855)	13 539 045
Landfill sites	4 488 128	-	-	(105 355)	4 382 773
Plant and machinery	1 325 094	31 506	84	(85 366)	1 271 318
Furniture and fixtures	38 323	10 563	29	(10 900)	38 015
Motor vehicles	1 727 697	-	-	(289 066)	1 438 631
Office equipment	82 269	269 607	-	(45 095)	306 781
Roads	255 752 822	4 462 548	-	(42 257 495)	217 957 875
Community	361 000	-	-	-	361 000
Cemetaries	1 427 552	-	-	-	1 427 552
Electricity	24 274 397	7 037 317	-	(1 746 334)	29 565 380
Other property, plant and equipment # 1	561 436	10 760 551	-	(561 436)	10 760 551
Park facilities	2 127 130	-	-	-	2 127 130
	309 916 878	**22 572 092**	**113**	**(45 117 902)**	**287 371 181**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Other changes, movements	Depreciation	Total
Land	4 195 130	-	-	-	4 195 130
Buildings	13 555 900	-	-	-	13 555 900
Landfill sites	4 488 128	-	-	-	4 488 128
Plant and machinery	1 300 711	24 383	-	-	1 325 094
Furniture and fixtures	57 859	17 385	(36 921)	-	38 323
Motor vehicles	-	2 724 611	(707 848)	(289 066)	1 727 697
Office equipment	19 228	63 041	-	-	82 269
Roads	4 305 609	6 019 496	245 427 717	-	255 752 822
Community	361 000	-	-	-	361 000
Cemetaries	1 427 552	-	-	-	1 427 552
Electricity	8 847 792	16 632 938	(1 206 333)	-	24 274 397
Other property, plant and equipment # 1	1 609 420	561 436	(1 609 420)	-	561 436
Park facilities	2 127 130	-	-	-	2 127 130
Other leased Assets # 2	3 016 416	-	(3 016 416)	-	-
	45 311 875	**26 043 290**	**238 850 779**	**(289 066)**	**309 916 878**

Pledged as security

No assets were pledged as security.

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain property, plant and equipment with a carrying value of - (2011: 32 034 518) was recognised at cost. These amounts only represents the additions for 2010 and 2011. The balances of assets aquired before 1 July 2008 were adjusted to R0.

9. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	20 140	(2 758)	17 382	11 894	(743)	11 151

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Other changes, movements**	**Amortisation**	**Total**
Computer software	11 151	2 299	5 947	(2 015)	17 382

Reconciliation of intangible assets - 2010

	Opening balance	**Other changes, movements**	**Total**
Computer software	5 204	5 947	11 151

10. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	40 181 390	-	40 181 390	40 181 390	-	40 181 390

A register containing the information required by section 63 of the Municipal Finance Management Act is available for iinspection at the registered office of the municipality.

Transitional provisions

Investment property recognised at provisional amounts

Inxuba Yethemba municipality has adopted GRAP 17 for the first time. All the Investment Properties have been identified and brought into the financial statements at fair value.

11. Investments in controlled entities

Name of company	**Held by**	**% holding 2012**	**% holding 2011**	**Carrying amount 2012**	**Carrying amount 2011**
Mmotlie investments (Pty) Ltd	Inxuba Yethemba	100,00 %	100,00 %	100	100

The carrying amounts of subsidiaries are shown net of impairment losses.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Other financial assets

Loans and receivables		
Loans and receivables	8 091	7 915
Collateral deposits		
Non-current assets		
Loans and receivables	8 091	7 915

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

The creation and release of provision for impairment receivables have been included in operating expenses in surplus or deficit (note 5). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

13. Other financial liabilities

Held at amortised cost		
DBSA Loan	1 634 148	1 936 248
This loan bears interest at 12% per annum and is repayable over 5 years.		
Non-current liabilities		
At amortised cost	1 294 186	1 642 450
Current liabilities		
At amortised cost	339 962	293 798
	1 634 148	**1 936 248**

14. Trade and other payables

Trade payables	806 378	2 523 160
Payments received in advanced - contract in process	(965)	-
Other payables	14 517 689	8 366 767
Accrued leave pay	2 238 289	2 361 470
Deposits received	403 617	272 308
Unallocated receipts	6 782 976	2 952 621
Employee related payables	721 779	721 779
	25 469 763	**17 198 105**

15. Chris Hani District Municipality Agency Account

Tax refunds payables	-	1 045 312
Agency account accumulated transactions	-	24 760 624
	-	**25 805 936**
Accumulated surplus	-	-

16. VAT payable

Tax refunds payables	11 846 178	12 311 357

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. Consumer deposits

Electricity	965 400	902 656
Water	1 068 760	-
	2 034 160	**902 656**

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises:

Unspent conditional grants and receipts		
Unspent grant - Government	(294 957)	333 246
Unspent grant - Provincial	(276 690)	-
Unspent grant - Public	(543 119)	12 546 878
Unspent grant - Public	(244 718)	-
Unspent grant 5	1 664 850	-
Unspent grant 6	-	(12 546 878)
	305 366	**333 246**

Non-current liabilities	(423 449)	-
Current liabilities	728 815	333 246
	305 366	**333 246**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

These amounts are invested in a ring-fenced investment until utilised.

19. Employee benefit obligations

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	32 102 752	25 155 894
Contributions by plan participants	-	73 518
Exchange differences	(269 158)	-
Benefits paid	(1 287 654)	617 142
Net expense recognised in the statement of financial performance	2 698 122	6 256 198
Closing balance	**33 244 062**	**32 102 752**

Net expense recognised in the statement of financial performance

Current service cost	2 186 800	1 627 840
Interest cost	1 113 572	1 762 118
Actuarial (gains) losses	(602 250)	2 866 240
Total included in employee related costs	**2 698 122**	**6 256 198**

Key assumptions used

Assumptions used at the reporting date:

Discount rate	5,41 %	5,38 %
Long term medical inflation	8,45 %	8,20 %
Medical cost trend rates	5,06 %	12,90 %
Expected increase in salaries	6,75 %	6,08 %
Expected increase in healthcare costs	9,42 %	4,34 %

Notes to the Annual Financial Statements

19. Employee benefit obligations (continued)

The projected unit credit method valuation method were applied. This method is based on the idea that the post-retirement benefit is notionally built up over the employees working life.

The municipality did not make use of the "corridor method".

The amount of the liability shown in the balance sheet is the present value of the obligation less the fair value of any plan assets held in respect of the post-retirement medical scheme. There are no plan assets in this valuation.

Other assumptions

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide medical aid retirement benefits to all its employees that qualify.

The municipality is under no obligation to cover any unfunded benefits.

The municipality has an obligation to contribute to any actuarial shortfalls of the pension fund.

The required information for employee benefit obligations was not available by 31 August 2011. As soon as this information is made available it will incorporated into the financial statements.

20. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Performance bonus	292 829	301 427	(219 692)	(73 137)	301 427
Landfill site rehabilitation	-	35 467 821	-	-	35 467 821
	292 829	**35 769 248**	**(219 692)**	**(73 137)**	**35 769 248**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	192 811	369 954	(269 936)	292 829

No provision for the rehabilitation of landfill sites were disclosed in terms of applying Directive 4, as issued by the Accounting Standards Board. Refer note 39 contingencies.

21. Financial assets by category

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

2012

2011

	Amortisation	Total
Other financial assets	7 915	7 915
Trade and other receivables	4 786 688	4 786 688
Other receivables from non-exchange transactions	4 786 688	4 786 688
Cash and cash equivalents	1 447 411	1 447 411
	11 028 702	**11 028 702**

22. Financial liabilities by category

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

2012

2011

22. Financial liabilities by category (continued)

	Financial liabilities at amortised cost	Total
Other financial liabilities	1 936 248	1 936 248
Trade and other payables	10 880 056	10 880 056
Taxes and transfers payables (non-exchange)	10 880 056	10 880 056
Bank overdraft	11 527 575	11 527 575
	35 223 935	**35 223 935**

23. Revenue

	2012	2011
Property rates	17 637 380	15 988 442
Service charges	118 806 670	59 610 333
Rental of facilities & equipment	1 736 538	1 572 040
Fines	144 242	159 647
Licences and permits	1 345 344	1 071 431
Government grants & subsidies	34 591 406	74 627 539
	174 261 580	**153 029 432**

	2012	2011
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	118 806 670	59 610 333
Rental of facilities & equipment	1 736 538	1 572 040
Licences and permits	1 345 344	1 071 431
	121 888 552	**62 253 804**

	2012	2011
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	17 637 380	15 988 442
Fines	144 242	159 647
Transfer revenue		
Government grants and subsidies	34 591 406	74 627 539
	52 373 028	**90 775 628**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Property Rates

Rates received

	2012	2011
All	19 455 755	17 630 968
Less: Income forgone	(1 818 375)	(1 642 526)
	17 637 380	**15 988 442**

Valuations

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

A general rate is applied to property valuations to determine assessment rates which may vary according to the type of property. The assessment rates are as follows: Residential properties - 0.83%, Accommodation establishments - 0.94%, Business properties - 0.94%, Public service infrastructure - 0.21%, Learning institutions - 1.65%, State owned property - 0.99% and Agricultural properties - 0.06%. Rebates of R15 000 (2012:) are granted to residential property owners.

Rates are levied on an annual basis with the final date for payment being 30 September 2012 (30 September 2011). Interest at prime plus 1% per annum (2011: 1-%) is levied on late payments.

25. Service charges

	2012	2011
Service charges	26	-
Sale of electricity	61 001 344	48 113 725
Sale of water	29 165 966	-
Sewerage and sanitation charges	16 022 799	-
Refuse removal	12 616 535	11 496 608
	118 806 670	**59 610 333**

The information relating to distribution losses was not available by 31 August 2012. When this information becomes available it will be incorporated into the financial statements of the municipality.

26. Government grants and subsidies

	2012	2011
Equitable share	31 786 189	34 250 112
Provincial grants PPE	-	8 865 740
Government grant - other	980 243	31 120 215
Government grant (operating) 5	1 500 000	-
Government grant (operating) 6	324 974	391 472
	34 591 406	**74 627 539**

Equitable Share

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

27. Other revenue

	2012	2011
Fees earned	1 152 598	1 054 009
Commissions received	117 801	125 322
Other income	921 159	2 284 330
	2 191 558	**3 463 661**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

28. General expenses

Advertising	186 697	120 522
Auditors remuneration	3 767 136	2 836 417
Bank charges	404 825	489 156
Chemicals	316 949	21 988
Commission paid	740 393	735 727
Conferences and seminars	3 552	21 710
Consulting and professional fees	431 897	408 933
Consumables	409 532	513 713
Departmental service levy	6 119 623	2 130 785
Entertainment	14 177	1 650
External Financing Fund	1 973	-
Hire	1 012 289	265 047
IT expenses	740 443	1 335 602
Indigents	124 407	89 191
Insurance	1 273 446	1 327 368
Lease rentals on operating lease	29 578	11 659
Levies	53 001	-
Motor vehicle expenses	2 974 063	2 626 390
Other expenses	2 095 015	526 154
Postage and courier	800 806	584 983
Printing and stationery	324 343	326 421
Promotions and sponsorships	14 984	-
Protective clothing	191 245	191 850
Security (Guarding of municipal property)	158 413	403
Subscriptions and membership fees	60 569	51 894
Telephone and fax	2 653 063	2 317 676
Tourism development	80 422	174 608
Training	133 190	66 745
Travel - local	600 583	695 397
Veterinary department	462 113	488 750
	26 178 727	**18 360 739**

Other expenses

Allowances - Audit Committee	77 311	46 766
CDW	-	4 800
Communication Section	5 999	39 339
Community Liason	-	9 397
Condemnation Pit	(9 014)	5 153
Deeds Transfers	2 189	14 803
Disaster Management	2 329	15 610
Election Expenses	-	60 091
FBE	1 276 267	1 131 001
Flush Masters	1 475	2 598
Grant Expenditure	-	508 913
Interest On Creditor Accounts	43 301	14 930
Levy-Compensation Commissioner	-	119
Licence Fees	598 043	23 922
Pauper Burials	28 403	11 179
Public Participation Costs	1 610	198 069
Special programms	144 789	176 644
Strategy	-	29
Supporting Services	(83 828)	(1 742 240)
Ward meetings	6 141	610
Website	-	4 421
	2 095 015	**526 154**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

29. Employee related costs

Basic	36 012 337	32 632 326
Medical aid - company contributions	4 255 973	3 525 987
UIF	377 951	339 532
SDL	800 291	523 420
Other payroll levies	1 054 508	1 204 913
Group Life Insurance	25 848	28 321
Levy Bargaining Council	19 646	15 957
Performance incentive	24 000	393 953
Post-employment benefits - Pension - Defined contribution plan	5 657 746	5 005 532
Overtime payments	3 047 482	1 756 396
13th Cheques	2 743 170	2 367 505
Car allowance	2 051 734	1 871 252
Housing benefits and allowances	121 061	124 535
Entertainment	6 771	5 674
Other allowance	128 242	53 451
Uniform	7 320	7 776
Share-based payment	5 304	-
	56 339 384	**49 856 530**

Remuneration of municipal manager

Annual Remuneration	879 816	829 380
Performance Bonuses	49 763	58 057
	929 579	**887 437**

Remuneration of chief finance officer

Annual Remuneration	711 564	670 776
Performance Bonuses	22 359	46 954
	733 923	**717 730**

Other directors

Annual Remuneration	2 846 256	2 683 104
Performance Bonuses	147 571	187 817
	2 993 827	**2 870 921**

30. Remuneration of councillors

Executive Mayor	650 529	622 685
Mayoral Committee Members	1 060 118	1 016 349
Speaker	433 441	270 170
Councillors	2 354 370	2 259 100
Councillors’ pension contribution	965 560	738 310
	5 464 018	**4 906 614**

31. Investment revenue

Interest revenue		
Unlisted financial assets	444 123	151 639
Interest charged on trade and other receivables	6 780 366	4 922 988
	7 224 489	**5 074 627**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Finance costs

Non-current borrowings	209 204	241 500
Bank	11 296	86 568
Other interest paid	1 113 572	1 762 118
	1 334 072	**2 090 186**

33. Auditors' remuneration

Fees	3 767 136	2 836 417

34. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	1 698 239	1 527 010
Rental of equipment	38 299	45 030
	1 736 538	**1 572 040**

35. Contracted Services

Other Contractors	204 900	309 818

36. Grants and subsidies paid

Other subsidies		
Grants	18 956 388	17 000 765
Grants in aid	129 773	149 190
	19 086 161	**17 149 955**

37. Bulk purchases

Electricity	41 441 898	36 418 803
Water	66 282	-
	41 508 180	**36 418 803**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Cash (used in) generated from operations

Deficit	(63 863 403)	(63 293 373)
Adjustments for:		
Depreciation and amortisation	44 643 847	49 735 836
(Loss) gain on sale of assets and liabilities	(879 168)	1 425 811
Finance costs - Finance leases	7 224 489	(5 074 627)
Interest income	(3 791 026)	-
Finance costs	1 334 072	426 814
Debt impairment	50 136 096	41 457 130
Movements in retirement benefit assets and liabilities	(1 141 310)	(123 392)
Movements in provisions	35 476 419	100 018
Contribution to impairment allowance		
Adjustment to transactions incorrectly allocted	(7 843)	(756 911)
Adjustment of inventory balance	(204 186)	21 212 621
Consumer debtors	(62 470 771)	(30 168 342)
Trade and other payables	8 271 656	(2 673 757)
VAT	(465 179)	1 739 508
Taxes and transfers payable (non exchange)	(25 805 936)	228 411
Unspent conditional grants and receipts	(27 880)	(5 067 633)
Consumer deposits	1 131 504	56 823
	(10 438 619)	**9 224 937**

39. Contingencies

The rehabilitation of landfill sites in Cradock and Middelburg will cost an estimated R78m after closure in +- 15 years.

40. Related parties

Relationships

Mmotlie Investments Proprietary Limited — Refer to note 11

Related party balances

Amounts included in Trade receivable (Trade payable) regarding related parties		
Mmotlie Investments Proprietary Limited	-	16 864
Share issues		
Mmotlie Investments Proprietary Limited	-	100

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

41. Prior period errors

Correction of transfers to Chris Hani District Municipality Agency account R0

The correction of the error(s) resulted in R0 after the opening balances of the Chris Hani Agency Account were adjusted to R0:

Statement of financial position		
Chris Hani Agency Account	-	40 587 279
Sewerage and Water debtors	-	41 682 450
Unappropriated Surplus	-	(35 135 181)
Opening Accumulated Surplus or Deficit	-	(47 555 223)
Short term deposits	-	420 675
	-	**-**

42. Comparative figures

Certain comparative figures have been reclassified.

Statement of financial position		
Accumulated surplus	(143 152 899)	(143 152 899)
Property, plant and equipment	309 916 878	309 916 878
Investment properties	40 181 390	40 181 390
Trade and other receivables	1 925 628	1 925 628
Provisions	(35 760 650)	(35 760 650)
Retirement benefit obligation	(32 102 752)	(32 102 752)
Unspent conditional grant creditors	(300 000)	(300 000)

43. Risk management

Liquidity risk

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

Interest rate risk

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

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2012 and 2011, the municipality’s borrowings at variable rate were denominated in Rand, which is the functional currency of the municipality.

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

44. Going concern

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

45. Events after the reporting date

There were no significant events identified after the reporting date that may have a significant impact on the June 2012 reporting.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

46. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(63 863 403)	(63 293 373)
Adjusted for:		
Underspent on expenditure	(23 464 203)	-
Allowance for debt impairment	41 457 130	-
Shortfall on income	32 891 989	-
Other movements and journals	(1 405 793)	-
Net deficit per approved budget	**(14 384 280)**	**(63 293 373)**

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	657 953	673 721
Amount paid - current year	(579 489)	(673 721)
	78 464	**-**

Audit fees

Opening balance	1 041 809	828 217
Current year subscription / fee	3 767 136	2 836 417
Amount paid - current year	(1 800 000)	(2 622 825)
	3 008 945	**1 041 809**

PAYE and UIF

Opening balance	517 801	-
Current year subscription / fee	6 389 051	6 780 674
Amount paid - current year	(6 379 047)	(6 263 292)
	527 805	**517 382**

Pension and Medical Aid Deductions

Opening balance	1 066 441	-
Current year subscription / fee	13 758 731	13 440 503
Amount paid - current year	(13 679 344)	(12 374 062)
	1 145 828	**1 066 441**

VAT

VAT payable	11 846 178	12 311 357

All VAT returns were submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no accounts in arrears on 30 June 2012.

48. Unauthorised expenditure

Unauthorised expenditure	-	7 575 615

No disciplinary steps were taken as a consequence of above expenditure.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

49. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	-	4 104