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

AUDITOR - GENERAL
SOUTH AFRICA
3 1 AUG 2012

General Information

Nature of business and principal activities	Service delivery
Accounting Officer	Thembeni Samuel
Chief Finance Officer (CFO)	Pieter Steyn
Registered office	15 Maclear Road Elliot 5460
Business address	15 Maclear Road Elliot 5460
Postal address	PO Box 21 Elliot 5460
Bankers	First National Bank
Auditors	Office of the Auditor General

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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)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

SAKHISIZWE MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2012

Accounting Officer's Responsibilities and Approval

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 Standard Board.

I am responsible for the Annual Financial Statements set out on pages 4 to 69, in terms of section 126 (1) of the Municipal Finance Management Act and which have been prepared on the going concern basis. I certify that the salaries, allowances and benefits of Councillors and payments made to councillors for loss of office as disclosed in the notes to the Annual Financial Statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act. The Annual Financial Statements have been approved on behalf of the Municipality by the accounting officer and were signed on its behalf by:

Thembeni Samuel

Municipal Manager

31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Other receivables from non-exchange transactions	9	3,451,511	4,337,264
VAT receivable	10	4,238,270	5,877,444
Trade & other receivables from exchange transactions	11	3,373,805	1,618,190
Cash and cash equivalents	12	11,743,281	9,967,338
		22,806,867	**21,800,236**
Non-Current Assets			
Investment properties	4	34,779,036	34,968,398
Property, plant and equipment	5	94,494,440	87,232,643
		129,273,476	**122,201,041**
Total Assets		**152,080,343**	**144,001,277**
Liabilities			
Current Liabilities			
Finance lease obligation	13	2,202,687	2,156,294
Trade & other payables from exchange transactions	16	6,117,988	4,935,368
Consumer deposits	17	344,469	313,534
Employee benefit obligation	7	67,549	92,063
Unspent conditional grants and receipts	14	8,377,946	4,455,654
		17,110,639	**11,952,913**
Non-Current Liabilities			
Finance lease obligation	13	6,038,197	8,240,885
Employee benefit obligation	7	1,094,048	1,488,773
Provisions	15	2,323,200	2,112,000
		9,455,445	**11,841,658**
Total Liabilities		**26,566,084**	**23,794,571**
Net Assets		**125,514,259**	**120,206,706**
Net Assets			
Accumulated surplus		125,514,259	120,206,706

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue	19	67,274,667	54,716,284
Other income		13,956,522	3,295,762
Operating expenses		(75,178,822)	(60,839,049)
Operating surplus (deficit)		**6,052,367**	**(2,827,003)**
Investment revenue	29	661,566	835,634
Loss on sale of assets		(12,743)	-
Finance costs	32	(1,393,637)	(1,179,791)
Surplus (deficit) for the year		**5,307,553**	**(3,171,160)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	86,336,493	86,336,493
Adjustments		
Change in accounting policy (note 2)	35,157,760	35,157,760
Prior period errors (note 39)	1,883,613	1,883,613
Balance at 01 July, 2010 as restated	**123,377,866**	**123,377,866**
Changes in net assets		
Surplus for the year	(3,171,160)	(3,171,160)
Total changes	(3,171,160)	(3,171,160)
Opening balance as previously reported	87,280,182	87,280,182
Adjustments		
Change in accounting policy (note 2)	34,968,398	34,968,398
Prior period errors (note 39)	(2,041,874)	(2,041,874)
Balance at 01 July, 2011 as restated	**120,206,706**	**120,206,706**
Changes in net assets		
Surplus/ (deficit) for the year	5,307,553	5,307,553
Total changes	5,307,553	5,307,553
Balance at 30 June, 2012	**125,514,259**	**125,514,259**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		12,915,202	4,533,560
Grants		54,254,512	47,608,069
Interest Income		4,242,775	-
Other receipts		14,873,210	2,556,574
		86,285,699	54,698,203
Payments			
Employee costs		(32,595,076)	(22,380,268)
Suppliers		(14,056,710)	(6,442,452)
Finance costs		(147,994)	-
Other payments		(18,578,368)	(20,960,705)
Prior year non-cash journal		-	(3,610,185)
		(65,378,148)	(53,393,610)
Net cash flows from operating activities	36	**20,907,551**	**1,304,593**
Cash flows from investing activities			
Purchase of property, plant & equipment	5	(16,391,236)	(16,616,806)
Cash flows from financing activities			
Finance lease payments		(2,156,295)	9,781,509
Other cash item		-	(30,716)
Interest income		661,566	2,546,571
Finance costs		(1,245,643)	(1,179,791)
Net cash flows from financing activities		**(2,740,372)**	**11,117,573**
Net increase/(decrease) in cash and cash equivalents		**1,775,943**	**(4,194,640)**
Cash and cash equivalents at the beginning of the year		9,967,338	14,161,978
Cash and cash equivalents at the end of the year	12	**11,743,281**	**9,967,338**

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 and rounded to the nearest rand.

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

These accounting policies are consistent with the previous period.

1.1 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

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

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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

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.

1.2 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.

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings wich 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 with a maximum period of four years 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.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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

Item	**Average useful life (years)**
Buildings	30
Plant and machinery	5 - 10
Furniture and fixtures	5 - 7
Motor vehicles	5
Office equipment	5 - 7
IT equipment	5 - 7
Infrastructure	
• Roads and paving	25 - 50
• Pedestrian Malls	30
• Electricity	15 - 50
Community	
• Improvements	30
• Recreational facilities	20-30
• Security	5
Investment property	30

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.

Accounting Policies

1.3 Landfill Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of landfill site. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of landfill site 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.

1.4 Provision for debt impairment

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Provision for debt impairment are initially recognised at cost.

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

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

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 or service potential.
- 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.

Provision for debt impairment is carried at cost less any accumulated amortisation and any impairment losses.

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

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

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as provision for debt impairment.

1.4 Provision for debt impairment (continued)

Amortisation is provided to write down the provision for debt impairment, on a straight line basis, to their residual values as follows:

Provision for debt impairment is derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

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

1.5 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 non collection.

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 .

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

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

A financial asset is:
- cash;
- 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.

Cash and cash equivalents are initially measured at fair value and subsequently at amortised cost. They are categorised as financial assets: loans and receivables.

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.

Accounting Policies

1.5 Financial instruments (continued)

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

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

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

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

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

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

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

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.

Initial recognition

The entity recognises a financial asset or a financial liability in its 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].

1.5 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.

Fair value measurement considerations

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

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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

Impairment and non collection 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:

1.5 Financial instruments (continued)

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.

Accounting Policies

1.5 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 entity 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 entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity 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 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

1.5 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 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.

1.6 Leases

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

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 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 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 or the bank prime interest rate..

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

Accounting Policies

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

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

1.8 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 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:

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities

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

Accounting Policies

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Redesignation

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

1.9 Share capital / contributed capital

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

1.10 Employee benefits

Short-term employee benefits

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

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

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

1.10 Employee benefits (continued)

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

The municipality provides post-retirement healthcare benefits to its retirees. The entitlement to these benefits is conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. An actuarial study was undertaken to determine the municipality's obligations. 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 end of the reporting period 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 surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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

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

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

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

1.11 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.

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.

1.11 Provisions and contingencies (continued)

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 an entity 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

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 38.

1.12 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.

1.12 Revenue from exchange transactions (continued)

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.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity 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.

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.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

1.14 Comparative figures

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

1.15 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- 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.

1.16 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.

1.17 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

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

Accounting Policies

1.18 Presentation of currency

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

1.19 Offsetting

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

1.20 Transfer of functions between entities not under common control

A transfer of function between entities not under common control is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity.

A function is considered to be an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. Although functions may have outputs, outputs are not required to qualify as a function.

Where the municipality is the acquirer of a function, the municipality will measure the identifiable assets acquired and the liabilities assumed at their acquisition date fair values.

The acquisition date will be considered the date control is obtained of the function.

Any difference between the fair value of the assets and liabilities assumed and the consideration (if any) will be recognized as of the acquisition date in surplus or deficit. The consideration transferred in a transfer of functions shall be measured at fair value, which shall be calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the residual interests issued by the acquirer.

1.21 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 a liability is recognised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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 for the adoption of the following new or revised standards.

- Investment Property: The transitional provision for directive 4 was previously applied in 2011. The Directive has expired and Investment properties , which were previously recognised at the provisional amount of R nil, have now been recognised at their fair value in 2012. The adjustment to the fair value and related depreciation was made in terms of a change in accounting policy with retrospective effect on the corresponding figures.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June, 2011 is as follows:

	2012	2011
Investment Property		
Previously stated	-	-
Adjustment	35,157,760	35,157,760
	35,157,760	**35,157,760**
Accumulated Surplus		
Adjustment	(34,968,398)	(35,175,760)

Statement of Financial Performance

	2012	2011
Depreciation on Investment Properties		
Adjustment	189,362	-

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities

The interpretation applies to changes in the measurement of any existing decommissioning, restoration or similar liability that is both:

- recognised as part of the cost of an item of property, plant and equipment in accordance with the Standard of GRAP on Property, Plant and Equipment (as revised in 2010); and
- recognised as a liability in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) .

The interpretation addresses how the effect of the following events that change the measurement of an existing decommissioning, restoration or similar liability should be accounted for:

- a change in the estimated outflow of resources embodying economic benefits (e.g. cash flows) or service potential required to settle the obligation;
- a change in the current market-based discount rate as defined in paragraph .52 of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (as revised in 2010) (this includes changes in the time value of money and the risks specific to the liability); and
- an increase that reflects the passage of time (also referred to as the unwinding of the discount).

The effective date of the interpretation is for years beginning on or after 01 April, 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

IGRAP 10: Assets Received from Customers

This Interpretation of the Standards of GRAP applies to the accounting for the receipt of items of property, plant and equipment by entities that receive such assets from their customers.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Agreements within the scope of this Interpretation of the Standards of GRAP are those in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment and the entity must then use the item of property, plant and equipment either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services, or to do both.

This Interpretation of the Standards of GRAP does not apply to agreements in which the receipt occurs as part of a non-exchange transaction as defined in the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), or infrastructure used in a public-private partnership agreement (see the Guideline on Accounting for Public-private Partnerships), or assets received in a transfer of functions.

The Interpretation of the Standards of GRAP addresses the following issues:

- Is the definition of an asset met?
- If the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?
- If the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- How should the entity account for a receipt of cash from its customer?

The effective date of the interpretation is for years beginning on or after 01 April, 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

IGRAP 13: Operating Leases – Incentives

In negotiating a new or renewed operating lease, the lessor may provide incentives for the lessee to enter into the agreement. Examples of such incentives are an up-front cash payment to the lessee or the reimbursement or assumption by the lessor of costs of the lessee (such as relocation costs, leasehold improvements and costs associated with a pre-existing lease commitment of the lessee). Alternatively, initial periods of the lease term may be agreed to be rent free or at a reduced rent.

The issue is how incentives in an operating lease should be recognised in the financial statements of both the lessee and the lessor.

The effective date of the interpretation is for years beginning on or after 01 April, 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease

An entity may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, an entity may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

When an arrangement with an investor involves the legal form of a lease, the issues are:

- how to determine whether a series of transactions is linked and should be accounted for as one transaction;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

- whether the arrangement meets the definition of a lease under the Standard of GRAP on Leases (as revised in 2010); and, if not,
  - whether a separate investment account and lease payment obligations that might exist represent assets and liabilities of the entity;
  - how the entity should account for other obligations resulting from the arrangement; and
  - how the entity should account for a fee it might receive from an investor.

The effective date of the interpretation is for years beginning on or after 01 April, 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 1 (as revised 2010): Presentation of Financial Statements

The revision resulted in various terminology and definition changes.

Additional commentary has been added, describing the purpose of financial statements in the public sector.

Commentary has been added to explain that where legislation requires a departure from a particular Standard of GRAP and that departure is material, entities cannot claim compliance with the Standards of GRAP.

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

Operating cash flows:

- Where an entity is in the business of renting and subsequently selling the same assets, these cash flows should be regarded as operating rather than investing cash flows.

Investing cash flows:

- Only expenditures incurred on a recognised asset qualify to be classified as investing activities in the cash flow statement.

Acquisitions and disposals of controlled entities and other operating units:

- Guidance relating to acquisitions and disposals of entities, particularly those on another basis of accounting, has been deleted.

Disclosure of undrawn borrowing facilities, restricted cash balances and the operating, investing and financing cash flows of jointly controlled entities accounted for using the proportionate consolidation method, now encouraged rather than required.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The revision resulted in various terminology and definition changes.

Paragraphs added to Changes in accounting policies
- A change from one basis of accounting to another basis of accounting is a change in accounting policy.
- A change in the accounting treatment, recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies
- The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- Commentary on the selection of benchmark and alternative accounting policies has been deleted.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2010): Revenue from Exchange Transactions

The revision resulted in various terminology and definition changes.

Dividends or similar distributions declared from pre-acquisition surpluses:
Paragraph .36 has been amended to encompass not only securities, but any contributed capital.

Various amendments, deletions and additions to examples included in the appendix.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

Cost formulas:
Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the entity.

Recognition as an expense:
Where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Fair value measurement:
The appendix on how to determine fair value has been deleted.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2010): Leases

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The revision resulted in various terminology and definition changes.

Scope:
Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

Non-current Assets Held for Sale and Discontinued Operations:
Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard.

Guidance on accounting for finance leases by lessors:
The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance.

Guidance on operating lease incentives and substance over legal form:
The guidance included in the original text on substance over legal form has been deleted.

Classification of leases on land and buildings elements:
The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance.

All amendments to be applied retrospectively

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 14 (as revised 2010): Events After the Reporting Date

Existence of a liability for dividends or similar distributions:
Paragraph .13 of GRAP 14 was amended to clarify that no liability exists at the reporting date for dividends or similar distributions declared after the reporting date.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 17 (as revised 2010): Property, Plant and Equipment

The revision resulted in various terminology and definition changes.

Scope:
- The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions.
- Investment properties under construction have been removed from the scope.

Measurement at initial recognition:
Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that 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.

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the entity subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories.

Disclosures:
- The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used.
- The requirement to disclose the cost basis for revaluated assets was removed.

Amendments to be applied as follow:
- Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets

The revision resulted in certain terminology changes.

Social benefits:
Paragraphs .08 and .16(a) clarify that social benefits due at year end are 'payables', as the amounts due are certain in terms of legislation.

Binding agreements for restructurings:
Paragraph .87 has been amended to clarify that restructurings may take place in the public sector in terms of directives, legislation or other means. These alternative means are enforceable and may give rise to an obligation.

Interpretations:
In developing the Standard initially, the Board included relevant text from any Interpretation that had been issued by the International Financial Reporting Interpretations Committee (IFRIC) relating to provisions, contingent liabilities and contingent assets. The Board included selected text from IFRIC 1 on Changes in Decommissioning, Restoration and Similar Liabilities and IFRIC 5 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds in line with the Board's decisions. The Board concluded at its May 2008 meeting that it would issue any Interpretations as separate documents rather than dispersing the text of the Interpretations across various Standards. As a result, paragraphs .37 to .43, .74 to .80, and Appendix F of the previous version of GRAP 19, have been deleted.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April, 2011.

The municipality has adopted the amendment for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

3.2 Standards and interpretations issued, but not yet effective

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

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

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

A comparable basis means that the budget and annual financial statements:

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 103: Heritage Assets

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

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

A heritage asset should be recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will to the municipality; and
- the cost of fair value of the asset can be measured reliably.

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

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The carrying amount of a heritage asset should be derecognised:

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

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

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

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 26: Impairment of cash-generating assets

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 25: Employee benefits

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

GRAP25 defines, amongst others, the following:

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

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

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

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

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

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

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

The standard prescribes recognition and measurement for:

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

The effective date of the standard is for years beginning on or after 01 April, 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 104: Financial Instruments

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

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

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

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

This Interpretation of the Standards of GRAP applies to all post-employment defined benefits and other long-term employee defined benefits.

For the purpose of this Interpretation of the Standards of GRAP, minimum funding requirements are any requirements to fund a post-employment or other long-term defined benefit plan.

The issues addressed in this Interpretation of the Standards of GRAP are:

- When refunds or reductions in future contributions should be regarded as available in accordance with paragraph .68 of the Standard of GRAP on Employee Benefits.
- How a minimum funding requirement might affect the availability of reductions in future contributions

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

The effective date of the interpretation is for years beginning on or after 01 April, 2011.

The municipality has adopted the interpretation for the first time in the 2012 annual financial statements.

The impact of the amendment is not material.

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

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

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

The effective date of the standard is for years beginning on or after 01 April, 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

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

GRAP 20: Related parties

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

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

- identifying related party relationships and transactions;

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

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

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

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

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

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

The standard elaborates on the definitions and identification of:

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

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April, 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

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

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

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

Amendments were made to the Scope and Definitions.

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

All amendments to be applied retrospectively.

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

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 12 (as revised 2012): Inventories

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

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

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

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 13 (as revised 2012): Leases

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

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

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

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 16 (as revised 2012): Investment Property

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

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

All amendments to be applied prospectively.

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

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

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

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

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

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

All amendments to be applied prospectively.

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

The municipality expects to adopt the amendment for the first time in the 2014 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

4. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	35,157,760	(378,724)	34,779,036	35,157,760	(189,362)	34,968,398

Reconciliation of investment property - 2012

	Opening balance	**Depreciation**	**Total**
Investment property	34,968,398	(189,362)	34,779,036

Reconciliation of investment property - 2011

	Opening balance	**Other changes, movements**	**Depreciation**	**Total**
Investment property	-	35,157,760	(189,362)	34,968,398

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

The fair value for the Investment property was determined in 2009 through an independent property valuation by a valuer who at the time had a recognised qualification.

The transitional provision for directive 4 was previously applied in 2011. The Directive has expired and Investment properties, which were previously recognised at the provisional amount of R nil, have now been recognised at cost in 2012. The adjustment to the cost and related depreciation was made in terms of a change in accounting policy with retrospective effect on the corresponding figures. (refer to note 2 on Change in Accounting Policy for further detail)

5. 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	883,000	-	883,000	883,000	-	883,000
Buildings	8,747,359	(277,849)	8,469,510	8,335,501	-	8,335,501
Landfill Sites	4,378,375	(730,488)	3,647,887	2,055,175	(486,992)	1,568,183
Plant and machinery	17,851,388	(7,129,156)	10,722,232	17,403,688	(4,533,078)	12,870,610
Furniture and fixtures	2,116,875	(985,396)	1,131,479	1,530,830	(291,175)	1,239,655
Motor vehicles	2,886,149	(1,921,356)	964,793	1,119,376	(238,415)	880,961
Office equipment	400,014	(168,948)	231,066	355,332	(138,310)	217,022
IT equipment	1,498,348	(858,430)	639,918	1,429,332	(677,205)	752,127
Emergency equipment	55,372	(40,927)	14,445	55,372	(36,254)	19,118
Infrastructure	68,170,100	(13,718,331)	54,451,769	65,463,299	(8,497,047)	56,966,252
Community	2,561,623	(85,388)	2,476,235	2,468,464	-	2,468,464
Work in Progress	10,862,106	-	10,862,106	1,031,750	-	1,031,750
Total	**120,410,709**	**(25,916,269)**	**94,494,440**	**102,131,119**	**(14,898,476)**	**87,232,643**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance (Carrying value)	Additions	Disposals	Transfers	Depreciation & other adjustments	Impairment loss	Total (Carrying value)
Land	883,000	-	-	-	-	-	883,000
Buildings	8,335,501	411,858	-	-	(277,849)	-	8,469,510
IT equipment	752,127	89,824	(12,743)	-	(167,562)	(21,728)	639,918
Furniture and fixtures	1,239,655	74,242	-	-	(178,188)	(4,230)	1,131,479
Office equipment	217,022	44,682	-	-	(30,138)	(500)	231,066
Emergency Equipment	19,118	-	-	-	(4,673)	-	14,445
Motor vehicles	880,961	369,415	-	-	(109,601)	(175,982)	964,793
Plant and machinery	12,870,610	447,700	-	-	(2,596,078)	-	10,722,232
Infrastructure	56,966,252	756,834	-	1,949,966	(5,221,283)	-	54,451,769
Community	2,468,464	93,159	-	-	(85,388)	-	2,476,235
Landfill Sites	1,568,183	2,323,200	-	-	(243,496)	-	3,647,887
Work in Progress	1,031,750	12,637,244	-	(2,806,888)	-	-	10,862,106
	87,232,643	**17,248,158**	**(12,743)**	**(856,922)**	**(8,914,256)**	**(202,440)**	**94,494,440**

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance (Carrying value)	Additions	WIP	Depreciation & other adjustments	Total (Carrying value)
Land	883,000	-	-	-	883,000
Buildings	8,290,500	45,001	-	-	8,335,501
IT equipment	765,095	189,848	-	(202,816)	752,127
Furniture and fixtures	598,118	740,954	-	(99,417)	1,239,655
Office equipment	113,850	127,926	-	(24,754)	217,022
Emergency equipment	23,791	-	-	(4,673)	19,118
Motor vehicles	1,119,376	-	-	(238,415)	880,961
Plant and machinery	732,294	14,230,056	-	(2,091,740)	12,870,610
Infrastructure	58,859,364	3,306,506	-	(5,199,618)	56,966,252
Community	1,866,581	601,883	-	-	2,468,464
Landfill Sites	1,568,183	-	-	-	1,568,183
Work in Progress (WIP)	-	-	1,031,750	-	1,031,750
	74,820,152	**19,242,174**	**1,031,750**	**(7,861,433)**	**87,232,643**

Pledged as security

There were no assets pledged as security.

Assets subject to finance lease (Net carrying amount)

Plant and machinery	9,819,637	12,381,047

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Property, plant and equipment (continued)

Impairment of assets took place where assets were physically inspected and found to be damaged to the extent where the expected useful life of the asset is expected to be reduced. The relevant assets will not be repaired or maintained in order to sustain the original estimated useful life of the asset

Adjustments were made to the corresponding figures for certain categories of property, plant and equipment. The adjustments related to prior period errors (refer to detail in note 40)

6. Financial assets by category

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

2012

	Financial assets amortised	Total
Other receivables from non-exchange transactions	3,451,511	3,451,511
Trade & other receivables from exchange transactions	3,373,805	3,373,805
Cash & cash equivalents	11,743,281	11,743,281
	18,568,597	**18,568,597**

2011

	Financial assets amortised	Total
Other receivables from non-exchange transactions	4,337,264	4,337,264
Trade & other receivables from exchange transactions	1,618,190	1,618,190
Cash & cash equivalents	9,967,338	9,967,338
	15,922,792	**15,922,792**

7. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical aid defined benefit medical plan. The last valuation was performed by Deloitte & Touch Actuarial & Insurance Solutions using the Projected Unit Credit Method.

The value of the PRMA (Post-retirement medical assistance) liability is respect of all eligible Sakhisizwe Municipality employees who belong to one of the following medical schemes: Hosmed, Kei Health, LA Health, Bonitas and SAMWUMED.

Sakhisizwe Municipality will contribute 70% of the total premium payable, subject to a maximum of R2 850.80 (2011: R2 850.80.) The municipality only subsidises the employee, spouse or life partner, biological children, and legally adopted children, up to the age of 21 years. An assumption is therefore made that should a child dependant turn 21 years of age, he/she is no longer eligible for subsidy benefits.

Post retirement defined benefit medical aid plan

Membership profile:

- The calculation is based on 2 members (2011: 4) with an average age of 67.8 (2011: 66.1), and 1.5 average dependants 2011: 0.75) and an average monthly contribution of R2 751 (R1 871)

The average age of pensioners increased by 1.2 years while, the average number of dependants increased from 0.75 to 1.50 from the previous valuation. These changes were as a result of 2 pensioners (Takane and Coetzer) leaving their medical scheme.

The large change in average monthly employer contribution is due to the following:
- An increase in the medical scheme contribution rates. The principal member contributions increased from R 1,563 to R 1,696 (9%) for LA Active and from R 2,687 to R 2,916 (9%) for LA Core.
- However, the biggest contributor to this increase was the departure of Mrs Coetzer and Mrs Takane which led to the average number of dependants increasing and hence increasing the average monthly contributions of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Employee benefit obligations (continued)

The amounts recognised in the are as follows:

Present value of the defined benefit medical aid obligation		
Present value of the defined benefit medical aid obligation	(1,161,597)	(1,580,836)
Non-current liabilities	(1,094,048)	(1,488,773)
Current liabilities	(67,549)	(92,063)
	(1,161,597)	**(1,580,836)**

There are no plan assets held by the municipality.

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

Opening balance	(1,580,836)	(1,714,738)
Interest cost	(93,724)	(115,854)
Benefit payments	92,063	95,689
Actuarial gain	420,900	154,067
	(1,161,597)	**(1,580,836)**

Key assumptions used

7. Employee benefit obligations (continued)

Assumptions used at the reporting date:
Valuation assumptions

We used realistic assumptions in the central basis.

In this section, we discuss the central basis, on which the main results are based. We also performed sensitivity tests in a separate section below where we changed the central basis to allow for other factors and examined the effects on the results. These adjusted bases are discussed below where the results of the sensitivity tests are shown.
Investment returns
There is general agreement amongst the actuarial profession that IAS 19 (AC 116) requires the valuation discount rate to be equal to actual long bond yields at the date of the valuation (par. 78-82 of IAS 19 (AC 116)). The statement stipulates that:

The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

We have used the entire zero-coupon South African Bond Yield curve as at 29 June 2012 in the PRMA valuation of Sakhisizwe Municipality. Therefore, a single assumption for the discount rate is not shown. The full yield curve used in this valuation is given in Appendix A.

Medical inflation
Since the discount rates were described using a yield curve, a yield curve is also used to describe future medical inflation. Future medical inflation was assumed to be 1% lower than the valuation discount rate at each term to maturity. This assumption is consistent with the previous valuation.

It is not the actual levels of the assumptions that are important, but rather the differences or gaps between them (particularly between medical inflation and the discount rate). We believe that a long-term gap of 1% between medical inflation and the valuation discount rate is reasonable for long term valuation purposes. We refer to the difference between medical inflation and the discount rate as the ‘gap” or the real discount rate.

Consumer Price Index
We have assumed CPI to be 2.75% lower than the discount rate at each term to maturity. This is different to the assumption used in the previous valuation of 3.00% lower than the discount rate at each term to maturity.

A gap of 2.75% between CPI and the discount rate is believed to be more reflective view of future CPI rates due to the following two factors:

1. The current gap between CPI and the ZAR zero-coupon bond yield is below 3.00%.

StatsSA released their latest May 2012 CPI rate in June 2012. The May 2012 CPI rate is 5.7% year-on-year. In comparison, the ZAR zero-coupon bond annual effective yield is currently at 5.41%. The actual gap between CPI and the ZAR zero-coupon bond yield as at June 2012 is therefore 0.29%. The actual gap is therefore below 3.00%.

2. More importantly, over the long-term, the average gap between the ZAR zero-coupon bond yield curve and forecasted CPI is expected to be lower than 3.00%.

Therefore, we have reduced the CPI Gap assumption to 2.75% for the current valuation as this assumption provides a better reflection of expected future CPI rates in comparison to the previous assumption of 3.00%. We believe that a long-term gap of approximately 2.75% between CPI and the valuation discount rate is reasonable for long term valuation purposes.

Salary inflation
The maximum subsidy amount payable by Sakhisizwe Municipality of R 2,851 at 30 June 2012 is expected to increase from time to time. The rate of increase is assumed to be equivalent to salary inflation. This implies that salary inflation will have an impact on the liability. For the current valuation we have assumed salary inflation to be 1% above CPI in the long run. This is consistent with the previous valuation.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Employee benefit obligations (continued)

Based on this assumption, salary inflation is assumed to be at a rate of 3.82% in the valuation model as at 30 June 2012 (compared to an expected salary inflation of 4.02% in the 2011 valuation). This implies that the maximum subsidy amount is expected to increase to R 2,960 in the following year.

The real discount rate (or the 'gap')
This is the variable having the greatest effect on the liability. Small changes in this assumption will lead to large changes in the liability result. As discussed above, we have assumed a gap of 1%. The effect of changes in the real discount rate is shown under the sensitivity analysis in a separate section below.

Normal retirement age
The normal retirement age of the Sakhisizwe Municipality employees is 65 years for males and 60 years for females.

Mortality
The post-retirement mortality used in the valuation is PA(90) M for males, and PA(90) F for Females.

Marital Status/Number of Dependants/ Spouse Age Difference
The actual numbers of adult and child dependants was used when valuing the pensioners. The actual age difference between spouses was used as per the data received for the 2011/2012 financial year.

8. Inventories

The quantity of water held in the reservoirs and pipelines at year end has not been included in inventory as it is not considered material to the fair presentation of the annual financial statements.

9. Other receivables from non-exchange transactions

Rates (net of impairment)	3,451,511	2,717,165
Debtor for the Rehabilitation of Landfill Sites	-	2,112,000
Chris Hani District Municipality Agency Account	-	(491,901)
	3,451,511	**4,337,264**

Key assumptions used in the assessment of the impairment of debt: It was considered that all debt owed by government departments, councillors & municipal officials and the agricultural sector will be recoverable, therefore no provision was made for the impairment of any outstanding debt balances for these categories.

10. VAT receivable

VAT Receivable	4,238,270	5,877,444

During 2011 not all VAT returns were submitted to SARS by the due date due to delays experienced in the registration of Sakhisizwe Municipality for VAT e-filing. During the 2012 financial year VAT returns for December 2011 and June 2012 were submitted late.

11. Trade and other receivables from exchange transactions

Gross balances		
Electricity	2,128,786	1,701,569
Refuse	14,976,897	13,977,489
Other Trade Debtors	34,485	33,436
Water	20,702,678	-
Sewerage	11,162,861	-
Irregular expenditure: Refundable	30,587	40,350
Other receivables	50,999	46,818
	49,087,293	**15,799,662**

Figures in Rand	2012	2011

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

Less: Provision for debt impairment		
Electricity	(697,379)	(573,698)
Refuse	(14,625,403)	(13,603,038)
Other Trade Debtors	(3,875)	(4,736)
Other receivables	-	-
Water	(19,695,580)	-
Sewerage	(10,691,251)	-
	(45,713,488)	**(14,181,472)**

Net balance		
Electricity	1,431,407	1,127,871
Refuse	351,494	374,451
Other Trade Debtors	30,610	28,700
Water	1,007,098	-
Sewerage	471,610	-
Irregular Expenditure: Refundable	30,587	40,350
Other receivables	50,999	46,818
	3,373,805	**1,618,190**

Electricity		
Current (0 -30 days)	763,330	564,214
31 - 60 days	158,489	165,968
61 - 90 days	107,506	89,455
91 - 120 days	59,069	67,931
121 - 365 days	343,013	240,303
	1,431,407	**1,127,871**

Water		
Current (0 -30 days)	269,938	-
31 - 60 days	52,874	-
61 - 90 days	40,815	-
91 - 120 days	30,115	-
121 - 365 days	613,356	-
	1,007,098	**-**

Sewerage		
Current (0 -30 days)	168,956	-
31 - 60 days	19,238	-
61 - 90 days	10,906	-
91 - 120 days	5,339	-
121 - 365 days	267,171	-
	471,610	**-**

Refuse		
Current (0 -30 days)	213,631	261,334
31 - 60 days	13,473	16,691
61 - 90 days	7,499	9,609
91 - 120 days	3,065	3,988
121 - 365 days	113,826	82,829
	351,494	**374,451**

Irregular expenditure		
Current (0 -30 days)	30,587	40,350

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

Other receivables		
Current (0 -30 days)	50,999	46,818

Other Trade Debtors		
Current (0 -30 days)	7,540	8,129
31 - 60 days	1,170	521
61 - 90 days	251	240
91 - 120 days	251	235
121 - 365 days	21,398	19,575
	30,610	**28,700**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(14,181,472)	(11,921,857)
Contributions to provision	(1,149,240)	(2,259,615)
Water & Sanitation reallocated from agency account	(30,382,776)	-
	(45,713,488)	**(14,181,472)**

Key assumptions used:

It was considered that all debt owed by government departments, councillors & municipal officials and the agricultural sector will be recoverable, therefore no provision was made for the impairment of any outstanding debt balances for these categories.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Bank balances	601,857	648,056
Short-term deposits	11,141,424	9,319,282
	11,743,281	**9,967,338**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June, 2012	30 June, 2011	30 June, 2010	30 June, 2012	30 June, 2011	30 June, 2010
First National Bank - Current Account - 6207-652-3135	949,789	871,244	504,350	601,857	648,056	32,648
MSP - 6207-652-2294	42,702	43,377	44,052	42,702	43,378	44,052
MIG - 6207-657-7091	5,625,897	185,655	25,885	5,625,897	185,656	25,886
Disaster fund - 6207-659-5902	-	-	75,346	-	-	75,347
Elliot Housing - 6207-745-0056	1,109	1,109	1,109	1,110	1,110	1,109
Survey Account - 6207-659-0621	8,648	9,367	10,087	8,648	9,368	10,088
Extension 13&14 -6207-745-1278	1,000	1,000	1,000	1,000	1,000	1,000
Extension 15 - 6207-740-8203	2,213	2,213	2,213	2,213	2,213	2,213
FMG - 6216 - 538 - 9464	10,000	24,789	32,490	10,000	24,789	32,490
General Valuation - 6207-745-0832	1,000	1,000	1,000	1,000	1,000	1,000
IDP plan - 6207-744-9603	53,618	109,452	226,761	53,618	109,452	226,761
MSIG - 6216-538-9555	10,000	13,065	585,617	10,000	13,066	585,617
PMF review account - 6216-534-1993	172,764	172,764	172,764	172,764	172,764	172,764
DME - 6220-960-0776	2,045,152	3,713,115	10,535	2,045,152	3,713,115	10,535
IEC - 6221-824-3418	47,422	47,422	47,422	47,423	47,423	47,423
Skills Development - 6217-582-8189	31,319	31,319	31,319	31,320	31,320	31,320
FNB Operating Call - 6216-534-1943	3,088,577	4,963,627	12,861,725	3,088,577	4,963,628	12,861,725
Total	**12,091,210**	**10,190,518**	**14,633,675**	**11,743,281**	**9,967,338**	**14,161,978**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Finance lease obligation

Minimum lease payments due		
- within one year	3,155,490	3,398,375
- in second to fifth year inclusive	6,970,943	10,126,434
	10,126,433	13,524,809
less: future finance charges	(1,885,549)	(3,127,630)
Present value of minimum lease payments	**8,240,884**	**10,397,179**

Present value of minimum lease payments due		
- within one year	2,202,687	2,156,294
- in second to fifth year inclusive	6,038,197	8,240,885
	8,240,884	**10,397,179**

Non-current liabilities	6,038,197	8,240,885
Current liabilities	2,202,687	2,156,294
	8,240,884	**10,397,179**

The municipality has plant & equipment assets to the value of R9 819 637 (2011: R12 381 047) subject to a finance lease.

It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid for the current year is R1 245 643 (2011: R1 063 937)

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
National conditional grants	7,691,049	4,036,626
Other conditional grants	686,897	419,028
	8,377,946	**4,455,654**

Movement during the year

Balance at the beginning of the year	4,455,654	1,267,836
Additions during the year	20,083,111	17,809,785
Income recognition during the year	(16,160,819)	(14,621,967)
	8,377,946	**4,455,654**

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation of Landfill Sites	2,112,000	211,200	2,323,200

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation of landfill sites	1,920,000	192,000	2,112,000

The legislation does not dictate the time frame in which the rehabilitation must be undertaken. Allowance has been made for all landfill sites that are required to be closed in terms of Department of Water Affairs minimum requirements to be closed. The area where the landfill operations complete must be closed and capped. Although the classification has been advised as being "C" – Communal, The Minimum Requirements for Waste Disposal by landfill states that where the Minimum Rate of Deposition (MRD) is borderline, the higher class must be used. For the purpose of this document, the conservative approach will be followed, as no formal study has been made of the sites of the current or projected MRD, or of the significance of the Climate Water Balance (B).
The closure design will be based on "S" – Small sites, with a significant Climate Water Balance (B+), and it is accepted that the design may be reduced if the study indicates the site is indeed Communal, or if the Climate Water Balance (B) is sporadic rather than significant.

In calculating the provision for rehabilitation, the following four items have been included:.
1. Direct Contract Cost
2. Indirect Professional Fees
3. Indirect disbursements
4. Escalation

The costs in the construction industry have escalated at approximately 10% to 12% per annum. The estimate for the closure of the landfill sites was compiled by Munitech, who have specialist experience closure of landfill sites.

16. Trade & other payables from exchange transactions

	2012	2011
Trade payables	1,936,639	2,318,978
Accrual for leave	2,551,467	1,452,841
Accrued expenses: Provision 13th cheque	510,743	476,829
Accrued expenses: Workmens compensation	363,534	309,264
Deposits received: Dam & Hall deposits	13,321	6,084
Other creditors: Debtors in credit balance	742,284	371,372
	6,117,988	**4,935,368**

The accrued expense for Workmens Compensation relates to an assessment received for the 2005 financial year, for which the municipality has not yet submitted an assessment to the Department of Labour ito compensation for Health & Safety. The municipality is currently in the process of negotiating settlement terms for the debt.

The fair value of trade and other payables approximates their carrying amounts.

17. Consumer deposits

	2012	2011
Electricity	344,469	313,534

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Financial liabilities by category

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

2012

	Financial liabilities at amortised cost	Total
Trade & other payables from exchange	2,692,244	2,692,244
Unspent conditional grants and receipts	8,377,946	8,377,946
	11,070,190	**11,070,190**

2011

	Financial liabilities at amortised cost	Total
Trade & other payables from exchange	2,696,434	2,696,434
Unspent conditional grants and receipts	4,455,654	4,455,654
	7,152,088	**7,152,088**

19. Revenue

	2012	2011
Interest on arrears	4,242,775	1,845,310
Property rates	2,867,068	2,608,692
Service charges	9,832,604	6,147,404
Government grants & subsidies	50,332,220	44,114,878
	67,274,667	**54,716,284**

	2012	2011
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	9,832,604	6,147,404

	2012	2011
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2,867,068	2,608,692
Interest	4,242,775	1,845,310
Transfer revenue		
Government grants & subsidies	50,332,220	44,114,878
	57,442,063	**48,568,880**

Figures in Rand	2012	2011

20. Property rates

Rates received

Property rates received	2,867,068	2,608,692

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009.

A general rate of 0.005169 cents (2011: 0.004876 cents) is applied to property valuations to determine assessment rates.

Rates are levied on an annual basis for agricultural properties and monthly for all other properties with the final date for payment being 31 August. Interest is charged at prime plus 1% per annum (2011: prime plus 1%).

21. Service charges

Sale of electricity	5,529,336	4,499,869
Refuse removal	1,443,149	1,647,535
Sale of water	1,681,960	-
Sewerage and sanitation charges	1,178,159	-
	9,832,604	**6,147,404**

The sale of electricity comprises of electricity in terms of monthly meter readings and pre-paid electricity sales.

A revised agreement was signed with the Chris Hani District Municipality whereby from 1 July 2011, all water & sanitation services were transferred back to Sakhisizwe Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Government grants and subsidies: Revenue

Equitable share	33,088,000	27,217,243
Municipal Improvement Grant (MIG)	7,996,441	7,596,230
MSIG Grant	793,066	1,362,389
Finance Management Grant (FMG)	1,514,789	3,007,701
DME Grant	5,767,963	2,313,653
Other government grants	1,171,961	2,617,662
	50,332,220	**44,114,878**

Equitable Share

In terms of the Constitution, equitable share is an unconditional grant from National Treasury. A portion of the grant is used to subsidise the provision of basic services to indigent community members.

National conditional grants

Balance unspent at beginning of year	4,036,626	654,528
Current-year receipts	20,071,558	17,506,000
Conditions met - transferred to revenue	(16,417,135)	(14,123,902)
	7,691,049	**4,036,626**

The funds will remain a liability as long as the conditions are still to be met. (see note 14)

Other conditional grants

Balance unspent at beginning of year	419,028	613,308
Current-year receipts	336,652	303,785
Conditions met - transferred to revenue	(68,783)	(498,065)
	686,897	**419,028**

The funds will remain a liability as long as the conditions are still to be met. (see note 14)

23. Other income

Rental income	137,915	90,215
Traffic department income	2,269,263	2,522,873
Sundry income (detailed in note on Sundry Income below)	11,549,344	682,674
	13,956,522	**3,295,762**

24. Sundry income

Electricity re-connection fee	34,342	29,780
Commission on collection	31,866	24,357
Building plan & inspection fees	13,289	17,817
Registration data base	3,912	6,404
Other income	596,753	273,634
Rates clearance certificates	5,666	2,856
Site payments	63,147	68,317
Trading licences	9,357	9,753
Defined Benefit Medical Aid actuarial gain	512,963	249,756
Water income	7,024,390	-
Sanitation income	2,811,663	-
Debt relief from Chris Hani	441,996	-
	11,549,344	**682,674**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. General expenses

Advertising	108,134	42,867
Auditors remuneration	2,415,494	1,660,958
Bank charges	138,752	157,977
Consulting and professional fees	276,686	17,544
Consumables	157,401	250,628
Catering & Entertainment	190,399	88,503
Insurance	447,853	271,663
IT expenses	129,812	361,507
Rent: office equipment	53,856	90,486
Mayors fund	61,634	444,532
Promotions and sponsorships	452,143	68,742
Magazines, books and periodicals	-	3,802
Fuel and oil	2,269,539	983,801
Printing and stationery	403,027	338,098
Protective clothing	283,343	59,631
Security services	438,280	332,707
Licence fees	344,686	553,075
Subscriptions and membership fees	236,096	114,663
Telephone, postage and fax	1,232,267	540,160
Training	266,338	94,191
Travel expenses	1,966,595	1,750,286
Electricity purchases	101,041	155,496
Refuse bags	4,600	15,480
Disaster support	-	74,574
Pound expenditure	24,243	15,279
Tools & accessories: non-capital	378,821	108,983
Remuneration Ward Committee	709,000	325,000
Water week expenditure	48,650	-
VIP Suckage	49,880	-
Plant Hire	34,898	-
Council inauguration	170,793	-
Water cartage	64,891	-
Team building	107,542	-
Assets expensed: Water (refundable)	332,638	-
Water purification	438,213	-
Valuation Roll	1,116,968	-
	15,454,513	**8,920,633**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Employee related costs

Basic	16,355,744	11,633,987
Allowances	-	18,759
Bonus	979,634	676,467
Medical aid - company contributions	1,179,467	693,963
UIF	137,599	96,152
SDL	228,853	173,125
Leave pay provision charge	1,113,605	604,502
Post-employment benefits - Pension - Defined contribution plan	1,660,649	1,298,445
Overtime payments	1,690,101	978,241
Long-service awards	7,999	-
Transitional & other allowances	21,700	23,430
Telephone allowances	9,600	2,400
Contribution Bargaining Council	7,438	5,117
Acting allowances	6,672	3,696
	23,399,061	**16,208,284**

Remuneration of Municipal Manager

Annual Remuneration	633,863	594,916
Car Allowance	84,000	84,000
Contributions to UIF, Medical and Pension Funds	140,615	136,966
Housing & telephone allowances	81,708	81,708
Subsistence & Other allowances	37,862	46,859
	978,048	**944,449**

Remuneration of Chief Finance Officer

Annual Remuneration	507,505	509,681
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	143,885	138,437
Subsistence & Other allowances	47,190	65,689
	758,580	**773,807**

Remuneration of Community Services Manager

Annual Remuneration	283,555	-
Car Allowance	9,277	-
Contributions to UIF, Medical and Pension Funds	749	-
	293,581	**-**

Remuneration of Corporate Services Manager

Annual Remuneration	573,869	561,391
Car Allowance	108,000	108,000
Contributions to UIF, Medical and Pension Funds	31,935	29,451
Subsistence & Other allowances	22,347	17,975
	736,151	**716,817**

Remuneration of IPED Manager

Annual Remuneration	601,531	576,310
Car Allowance	108,000	108,000
Contributions to UIF, Medical and Pension Funds	14,623	13,550
Subsistence & Other allowances	37,211	40,002

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Employee related costs (continued)

	761,365	**737,862**

Remuneration of Technical Services Manager

Annual Remuneration	623,935	555,748
Car Allowance	108,000	108,000
Contributions to UIF, Medical and Pension Funds	9,671	32,332
Subsistence & Other allowances	48,231	17,635
	789,837	**713,715**

27. Remuneration of councillors

Remuneration: Executive Major	749,906	528,093
Remuneration: Councillors	2,636,523	1,627,772
Medical, travel & other allowances	1,072,785	630,539
Pension contributions	-	97,739
	4,459,214	**2,884,143**

28. Debt impairment expenditure

Debt impairment	2,372,088	3,615,852
Bad debt write off	3,165,304	-
	5,537,392	**3,615,852**

In the current year, R3 165 304 of the debt impairment was condoned by council and written off as bad debts. No debtors were written off in the previous year.

29. Investment revenue

Interest revenue

Interest received on investment accounts	661,566	835,634

30. Depreciation and amortisation

Property, plant and equipment	8,914,256	8,105,044
Investment property	189,362	189,362
	9,103,618	**8,294,406**

31. Impairment of assets

Impairments

Property, plant and equipment	202,440	-

The impairment of assets occurred where the condition of an asset was noted during the physical asset count as being significantly less than the carrying value of the asset per the fixed asset register.

32. Finance costs

Finance leases	1,245,643	1,063,937
Other interest paid	147,994	115,854
	1,393,637	**1,179,791**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

33. Auditors' remuneration (expenditure)

Auditor General fees	1,888,814	1,335,711
Internal Audit expenditure	526,680	325,247
	2,415,494	**1,660,958**

34. Expenditure through Grants and subsidies

Other subsidies		
Fund: Finance Management Grant (FMG)	1,504,482	3,098,162
Fund: MSIG expenditure	914,475	641,764
Fund: LED	50,163	-
Fund: Repairs & maintenance roads	224,826	1,753,157
Fund: Repairs & maintenance: pounds	5,700	387
Fund: Repairs & maintenance: street lights	15,253	24,476
Fund: Land audit & other	-	281,968
Fund: DEDEA	154,850	477,461
Fund: IDP	162,631	368,847
	3,032,380	**6,646,222**

35. Bulk purchases

Electricity	7,090,874	5,113,861

36. Cash generated from operations

Surplus (deficit)	5,307,553	(3,171,160)
Adjustments for:		
Depreciation and amortisation	9,103,618	8,294,406
Loss on sale of assets	12,743	-
Interest income (cash)	(661,566)	(2,546,571)
Interest income (non-cash)	(4,242,775)	-
Finance costs (cash)	1,245,643	1,179,791
Finance costs (non-cash)	147,994	-
Movements in retirement benefit assets and liabilities	(567,233)	(133,902)
Movements in provisions	211,200	211,200
Non-cashflow journals: 2011	-	(4,132,622)
Impairment of assets	202,440	-
Changes in working capital:		
Trade and other receivables from exchange transactions (reallocated to note 11)	2,487,160	(4,689)
Other receivables from non-exchange transactions	885,753	3,315,078
Trade & other payables from exchange transactions	1,182,620	(341,515)
VAT	1,639,174	(4,559,671)
Unspent conditional grants and receipts	3,922,292	3,187,818
Consumer deposits	30,935	6,430
	20,907,551	**1,304,593**

37. Commitments

Authorised capital expenditure

Already contracted for but not completed		
• Property, plant and equipment	12,107,801	-

This committed expenditure relates to Infrastructure and will be financed by National subsidies and retained surpluses.

38. Contingencies

Workmens Compensation:

2012: The municipality has not yet submitted the required assessments to the Department of Labour relationg to Compensation for Occupational Health and Safety for the 2006, 2007, 2008, 2009 and 2010 financial years. The municipality is currently in the process of negotiating payment terms, however it was not possible to quantify the amount owed for the 2006 to 2010 financial years, nor was it possible to quantify the amount that will be due by the municipality for penalties and interest.

2011: A contract was entered into between MTN Cellular Service Provider and Sakhisizwe Municipality whereby the Municipality stands as surety for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not concluded and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones and subsequently in 2011 the municipality was disputing their liability of the claim by the service provider for an outstanding balance of R513 446. The amount owing was paid in the 2012 financial year.

39. Prior period errors

Property, plant and equipment purchased prior to 1 July 2010 was adjusted for assets not located and noted as a prior year error, assets located but not traced to the Fixed Asset Register and assets noted as duplications to the value of R267 143.

Property, plant and equipment was further adjusted with additional depreciation of R3 316 098 due to last year's asset register which was not adding up correctly and additional depreciation of R1 115 612 that resulted from the change in useful lives of roads which was incorrectly determined for additions.

The Housing Fund agency account to the value of R215 019 carried forward from 2010 as a trade payable from non-exchange transactions was written off.

The movement on the impairment on receivables for the periods were incorrectly processed inclusive of VAT to the statement of financial position, resulting in an understatement of the VAT receivable.

Statement of financial position	2011	2010
Property, plant and equipment	(4,164,567)	267,143
Housing Fund	215,019	215,019
VAT receivable	1,907,674	1,401,454
Total prior year adjustments to accumulated surplus	(2,041,874)	1,883,616

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

40. 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.

Cash flow and available borrowing facilities are monitored.

Interest rate risk

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

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. Customers cannot be refused basic services and this constitutes a serious credit risk. A credit control policy is in place so as to minimise the risk but the risk is largely dependent on the political will for execution to control the credit risk

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

Financial instrument	**2012**	**2011**
Short term deposits	11,743,281	9,967,338
Trade and other receivables	9,686,681	8,474,432

41. Going concern

We draw attention to the fact that at 30 June, 2012, the municipality had accumulated surplus of R 125,514,259 and that the municipality's total assets exceed its liabilities by R 125,514,259.

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.

42. Unauthorised expenditure

Opening balance	4,001,515	13,435,017
Unauthorised expenditure: current year	6,415,945	4,001,515
Expenditure condoned	-	(13,435,017)
	10,417,460	**4,001,515**

Unauthorised expenditure in 2012 for R6 415 945 (2011: R4 001 515) was due to the overspending on the budget. Included in the current year overspending was additional depreciation of R3 316 098 due to the budgeted depreciation being based on last year's asset register which did not add up correctly and additional depreciation of R1 115 612 that resulted from the change in useful lives of roads.

43. Fruitless and wasteful expenditure

Opening balance	62,284	136,070
Duplicate payment: Eskom	-	39,146
Overpayment of expenditure refunded	(39,146)	(112,932)
Overpayment of expenditure	62,430	-
MTN contract unauthorised	683,724	-
	769,292	**62,284**

Figures in Rand	2012	2011

43. Fruitless and wasteful expenditure (continued)

2012: A contract was entered into between MTN Cellular Service Provider and Sakhisizwe Municipality whereby the municipality stands as surety for numerous cellphone contracts for unknown users of the cellphones. The original agreement between the service provider and the municipality was not concluded and signed by an authorised municipal official, neither have the costs been recovered from the users of the cellphones. The payment to MTN in the current financial year is regarded as fruitless and wasteful expenditure. An amount of R6 000 was overpaid to a supplier due to a casting error on their invoice submitted. An amount of R56 430 was overpaid to the supplier for car hire.

2011: Licencing & service fees totalling R23 138 were incurred in 2010 by the Traffic department on licencing & service fees paid to TCS (Pty)Ltd for the use of a system which is no longer in use by the Traffic department, but for which no notice has been given to the relevant company to cancel the contract. No attempt has been made to recover the fruitless expenditure. No criminal or disciplinary steps were considered necessary in relation to the expenditure. The expense had not been condoned as at 30 June 2012.

2011: An amount of R112 932 was overpaid to Mars Technology during the 2010 financial year where a duplicate payment was made by the municipality. An agreement has been reached whereby Mars Technology will refund the overpayment to the municipality in the 2011 financial year. No criminal or disciplinary steps were considered necessary in relation to the overpayment. The payment was refunded in the 2011 financial year.

2011: A duplicate payment was incorrectly made to Eskom on 26 August 2010 R39 146. The payment was refunded during the 2012 financial year.

44. Irregular expenditure

Opening balance	13,321,328	5,284,247
Add: Irregular Expenditure - current year	8,755,693	13,321,328
Less: Amounts condoned	-	(5,284,247)
	22,077,021	**13,321,328**

2011: During the 2011 financial year it was noted that under banking to the amount of R 14 807 (2010: R21 713) occurred at the Cala Receipting office. No explanation could be provided and no authorisation was given for the under banking of the cash receipts.

Expenditure to the value of R8 755 693 (2011: R13 306 521) was incurred during the current financial year, for which the minimum required documentation was not available in order to comply with the required procurement procedures. As a result, the expenditure is considered irregular and it will be investigated further.

45. Reconciliation between budget and statement of financial performance

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011
Net surplus (deficit) per the statement of financial performance	6,607,397	(2,561,768)
Adjusted for:		
Rental of facilities & equipment: Incorrect allocation of actual vs budget income accounts	-	917,485
Rental of facilities and equipment: over budgeted expected rental income of plant	873,452	-
Interest earned: outstanding debtors: Inclusion of water & sewerage function	(2,112,775)	-
Fines: appointment of traffic officers resulted in increase in collection of fines	(24,286)	-
Subsidy received from Chris Hani not budgeted for: Inclusion of water & sanitation function	(5,460,705)	-
Other income: expected income from water & sanitation function budgeted for as agency income but function transferred	17,216,560	-
Bad debts: inclusion of water & sanitation function	9,252	-
Depreciation: under budgeted (refer note 40)	3,064,530	3,505,460
Interest on outstanding debtors: Budgeted for cash receipts only	-	(1,765,310)
Income from agency services: actual income allocated to subsidies received	-	485,000
Repairs & maintenance: more/(less) planned repairs carried out	(2,455,516)	3,834,998
Interest paid: additional interest on plant purchased	-	337,311
Contracted services: overspending	119,280	71,865
Revenue over budgeted for	5,638,497	9,009,207
Revenue for debt relief Chris Hani not budgeted for	441,996	-
Expenditure (under)/ over budgeted	(7,504,121)	(242,659)
Net surplus per approved budget	**16,413,561**	**13,591,589**

46. Additional disclosure in terms of Municipal Finance Management Act

Material losses through criminal conduct

Under banking of current Cala Municipal Office Cashier: R nil (2011: R14 807)

Under banking of Elliot Traffic Department Cashiers: R nil (2011: R90 689 (2010: R161 729) (Total balance: R252 418)

(refer to details in note on irregular expenditure above)

Audit fees (Liability)

	2012	2011
Current year subscription / fee	2,415,494	2,069,616
Amount paid - current year	(2,415,494)	(2,069,616)
	-	-

Councillors' arrear consumer accounts

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

30 June, 2012	Outstanding less than 90 days	Outstanding more than 90 days	Total
SP Ntakana	3,346	393	3,739
TT Doda	646	18,404	19,050
	3,992	**18,797**	**22,789**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

30 June, 2011	Outstanding less than 90 days	Outstanding more than 90 days	Total
SP Ntakana	1,416	1,179	2,595
TT Doda	591	15,721	16,312
	2,007	**16,900**	**18,907**

47. Water & electricity losses

Water losses: At the time of the submission of the financial statements, the municipality was unable to determine water losses as no bulk meters were in place. The installation of bulk water meters is in its planning stage.

Electricity losses: At the time of the submission of the financial statements, the municipality was unable to determine electricity losses as no bulk meters were in place. The installation of bulk electricity meters is in its planning stage.

48. Transfer of water & sanitation function

Water & Sanitation

A revised agreement was signed with the Chris Hani District Municipality whereby from 1 July 2011, all water & sanitation services were transferred back to Sakhisizwe Municipality. All assets for water and sanitation were transferred at their fair value on 1 July 2011, which was considered to be R nil based on the payment history and expected recoverability of the debt. No consideration was received for the transfer of the function. (refer to note 11 and 24)

Fair value of assets acquired and liabilities assumed

	2012	2011
Trade receivables from exchange transactions	-	-
Investment property	19,776,073	-
Property, plant and equipment	10,606,703	-
Provision for debt impairment	-	-
Water	(19,776,073)	-
Sewerage	(10,606,703)	-
Total identifiable net assets	-	-
Relief of debt	441,996	-
	441,996	**-**

Detailed Income statement

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	20	2,867,068	2,608,692
Service Charges	21	9,832,604	6,147,404
Government grants and subsidies received	22	50,332,220	44,114,878
Rental income		137,915	90,215
Motor vehicles licenses & permits		2,269,263	2,522,873
Sundry income	24	11,549,344	682,674
Interest received - arrears		4,242,775	1,845,310
Interest received - investment	29	661,566	835,634
Total Revenue		**81,892,755**	**58,847,680**
Expenditure			
Employee related costs	26	(27,716,623)	(20,094,934)
Remuneration of councillors	27	(4,459,214)	(2,884,143)
Depreciation and amortisation	30	(9,103,618)	(8,294,406)
Impairment loss: Chris Hani Agency account	31	(202,440)	-
Finance costs	32	(1,393,637)	(1,179,791)
Debt impairment	28	(5,537,392)	(3,615,852)
Repairs and maintenance		(2,581,768)	(5,268,998)
Bulk purchases	35	(7,090,874)	(5,113,861)
Expenditure through grants & subsidies	34	(3,032,380)	(6,646,222)
General Expenses	25	(15,454,513)	(8,920,633)
Total Expenditure		**(76,572,459)**	**(62,018,840)**
Loss on sale of assets		(12,743)	-
Surplus (deficit) for the year		**5,307,553**	**(3,171,160)**