EPHRAIM MOGALE LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011

General Information

Legal form of entity	Local Municipality
Mayor	Cllr. M.Y. Mmakola
Councillors	Cllr. J Oosthuizen
	Cllr. CA Tsiane
	Cllr. MF Lekola
	Cllr. KM Selamolela
	Cllr. LJ Shalang
	Cllr. P Ranoto
	Cllr. BG Mashego
	Cllr. HSM Bokaba
	Cllr. MG Phala
	Cllr. SC Mamogobo
	Cllr. MF Matlala
	Cllr. EM Monyamane
	Cllr. ET Sehlola
	Cllr. J Jmotsepe
	Cllr. JH Bogopa
	Cllr. MJ Napo
	Cllr. ME Mokwena
	Cllr. LJ Mphahlele
	Cllr. ME Mohlamonyane
	Cllr. FE Tladi
	Cllr. KSD Mokoka
	Cllr. LM Matlala
	Cllr. WM Monama
	Cllr. TT Maila
	Cllr. MR Seono
	Cllr. MA Mampana
	Cllr. PM Matlala
	Cllr. LB Modisha
	Cllr. EK Laka
	Cllr. KM Seoka
	Cllr. MG Phefadi
	Cllr. MF Ratau
	Cllr. KN Kekana
	Cllr. MF Maibelo
	Cllr. NP Ndobeni
	Cllr. M Chauke
	Cllr. GN Makanyane
	Cllr. ST Mahlobogoane
	Cllr. SZ Modige
	Cllr. LM Seloane
	Cllr. WM Mabaso
	Cllr. PM Mashabela

General Information

	Cllr. ME More Cllr. PM Nkadimeng Cllr. SB Mashego Cllr. EM Tshiguvho Cllr. MM Kekana Cllr. OE Sebothoma Cllr. ME Morwaswi Cllr. BA Esson Cllr. MJ Nchabeleng Cllr. FS Sedibane
Grading of local authority	Low Capacity Municipality
Chief Finance Officer (CFO)	Me TM Mathabatha
Accounting Officer	Mr SR Monakedi
Registered office	Ephraim Mogale LIM471
Business address	13 Ficus Street Civic Centre Marble Hall 0450
Postal address	PO Box 111 Marble Hall 0450
Bankers	First National Bank Limited
Auditors	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)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 6 to 59, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Mr SR Monakedi
Municipal Manager

31 August 2011

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2011.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 8 number of meetings were held.

Name of member	Number of meetings attended
Adv.M J Ralefalane (Chairperson)	5
Mr M J Mpai CA(SA)	3
Mr M Namane	5

Audit committee responsibility

We report that we have adopted appropriate formal terms of reference in our charter in line with the requirements of section 166(2)(a) of the MFMA. We further report that we have conducted our affairs in compliance with this charter.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King II Report on Corporate Governance requirements, Internal Audit provides the Audit Committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management letter of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations there from. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

We are satisfied with the content and quality of monthly and quarterly reports prepared and issued by the auditors of the municipality during the year under review.

Evaluation of annual financial statements

We have:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the auditors;
- Reviewed the Auditor-General of South Africa's management letter and management’s response thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the entities compliance with legal and regulatory provisions;
- Reviewed significant adjustments resulting from the audit.

We concur with and accept the Auditor-General of South Africa's report the annual financial statements, and are of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

We are satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

Auditor-General of South Africa

We have met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

_____

Chairperson of the Audit Committee

Date: _____

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

Net deficit of the municipality was R 5 691 589 (2010: surplus R 8 958 034).

2. Going concern

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

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer had no interest in contracts.

5. Accounting policies

The annual financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

Accounting Officer's Report

6. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year is set out in the notes to the financial statements.

7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr SR Monakedi

8. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

Internal audit

The municipality had employed internal auditors for the year under review.

9. Bankers

The municipality banks primarily with First National Bank Limited.

10. Auditors

The Auditor General will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	6	476 807	875 772
Trade and other receivables from exchange transactions	7	111 525 711	110 754 848
Other receivables from non-exchange transactions	8	-	197 900
VAT receivable	9	1 531 241	2 909 757
Consumer debtors	10	4 905 760	4 520 176
Cash and cash equivalents	11	8 048 089	3 375 255
		126 487 608	**122 633 708**
Non-Current Assets			
Investment property	3	63 917 414	63 521 852
Property, plant and equipment	4	795 826 873	812 624 056
		859 744 287	**876 145 908**
Total Assets		**986 231 895**	**998 779 616**
Liabilities			
Current Liabilities			
Other financial liabilities	12	538 073	400 473
Operating lease liability		165 378	170 941
Trade and other payables from exchange transactions	14	17 176 649	15 829 724
Consumer deposits	15	1 621 112	1 630 678
Retirement benefit obligation	5	5 683 162	5 451 644
Unspent conditional grants and receipts	13	-	6 074 146
Bank overdraft	11	-	1 880 647
		25 184 374	**31 438 253**
Non-Current Liabilities			
Other financial liabilities	12	6 955 652	7 558 083
Total Liabilities		**32 140 026**	**38 996 336**
Net Assets		**954 091 869**	**959 783 280**
Net Assets			
Accumulated surplus		954 091 869	959 783 280

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	17	10 565 300	9 311 666
Service charges	18	28 337 440	21 232 924
Rental of facilities and equipment		116 597	123 203
Fines		214 137	1 509 128
Licences and permits		3 640 355	4 087 374
Government grants & subsidies	19	85 784 358	80 608 689
Recoveries		134 531	230 434
Other income		873 780	804 107
Interest received - investment	27	998 453	2 906 847
Interest received - other	27	2 788 515	-
Total Revenue		**133 453 466**	**120 814 372**
Expenditure			
Personnel	23	(34 314 710)	(35 112 789)
Remuneration of councillors	24	(6 678 680)	(6 488 096)
Administration	25	(87 321)	(75 391)
Depreciation and amortisation	28	(32 575 115)	(32 025 007)
Finance costs	29	(1 200 193)	(1 253 208)
Debt impairment	26	(5 737 263)	(2 403 439)
Repairs and maintenance	21	(3 299 603)	(2 628 458)
Bulk purchases	33	(14 656 946)	(11 349 489)
Grants and subsidies paid	32	(2 863 442)	(1 062 815)
General Expenses	21	(37 620 956)	(19 457 646)
Total Expenditure		**(139 034 229)**	**(111 856 338)**
Loss on disposal of assets and liabilities		(110 826)	-
Surplus/(deficit) for the year		**(5 691 589)**	**8 958 034**

Statement of Changes in Net Assets

Figures in Rand	Capital replacement reserve	Township development fund	Total reserves	Accumulated surplus	Total net assets
Opening balance as previously reported	3 077 258	2 900 099	5 977 357	63 712 132	69 689 489
Adjustments					
Fundamental errors affecting net assets	-	-	-	100 282 931	100 282 931
Change in accounting policy	-	-	-	786 153 559	786 153 559
Prior year adjustments	(3 077 258)	(2 900 099)	(5 977 357)	5 977 357	-
Balance at 01 July 2009 as restated	**-**	**-**	**-**	**956 125 979**	**956 125 979**
Changes in net assets					
Transfer to Sekhukhune	-	-	-	(5 300 733)	(5 300 733)
Net income (losses) recognised directly in net assets	-	-	-	(5 300 733)	(5 300 733)
Surplus for the year	-	-	-	8 958 034	8 958 034
Total recognised income and expenses for the year	-	-	-	3 657 301	3 657 301
Total changes	-	-	-	3 657 301	3 657 301
Opening balance as previously reported	-	-	-	204 925 852	204 925 852
Adjustments					
Fundamental errors affecting net assets	-	-	-	(6 845 794)	(6 845 794)
Change in accounting policy	-	-	-	761 081 454	761 081 454
Prior year adjustments	-	-	-	621 946	621 946
Balance at 01 July 2010 as restated	**-**	**-**	**-**	**959 783 458**	**959 783 458**
Changes in net assets					
Surplus for the year	-	-	-	(5 691 589)	(5 691 589)
Total changes	-	-	-	(5 691 589)	(5 691 589)
Balance at 30 June 2011	**-**	**-**	**-**	**954 091 869**	**954 091 869**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Cash receipts from customers,grant and other sources of revenue		129 448 714	118 491 156
Interest income		998 515	2 879 622
		130 447 229	121 370 778
Payments			
Cash payments for inventory, suppliers and employ related cost		(105 527 128)	(76 244 427)
Finance costs		(1 200 193)	(1 253 208)
		(106 727 321)	(77 497 635)
Undefined difference compared to the cash generated from operations note		**529 053**	**-**
Net cash flows from operating activities	34	**24 248 961**	**43 873 143**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(16 724 260)	(44 090 902)
Proceeds from sale of property, plant and equipment	4	(110 826)	-
Purchase of investment property	3	(395 562)	(3 947 369)
Net cash flows from investing activities		**(17 230 648)**	**(48 038 271)**
Cash flows from financing activities			
Repayment of other financial liabilities		(464 831)	(397 733)
Net cash flows from financing activities		**(464 831)**	**(397 733)**
Net increase/(decrease) in cash and cash equivalents		**6 553 482**	**(4 562 861)**
Cash and cash equivalents at the beginning of the year		1 494 608	6 057 469
Cash and cash equivalents at the end of the year	11	**8 048 090**	**1 494 608**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

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

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5.

Effective interest rate

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

Allowance for doubtful debts

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

1.2 Investment property

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

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

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

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, 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.

Fair value

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

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

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

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

Accounting Policies

1.2 Investment property (continued)

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.

The fair value of investment properties has not been reviewed as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the the fair value of all its investment properties. A service provider was acquired to assist with the process.

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in 3.

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

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

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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 are depreciated as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and usefull life of all assets. A service provider was acquired to assist with the process.

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
Land	Indefinite
Buildings	20 - 25 years
Plant and machinery	3 - 10 years
Furniture and fixtures	4 - 6 years
Motor vehicles	5 years
Office equipment	4 - 6 years
IT equipment	3 years
Computer software	3 years
Infrastructure	2 - 100 years

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.

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

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Accounting Policies

1.3 Property, plant and equipment (continued)

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

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 4.

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

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

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

1.4 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- 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, and any impairment loss is recognised in surplus or deficit.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to other comprehensive income and accumulated in the revaluation surplus in equity, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to other comprehensive income as a decrease to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and to other comprehensive income under (a). If a revaluation is necessary, all assets of that class are revalued.

Accounting Policies

1.5 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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.

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

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

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

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

Website	3 years

Intangible assets are not amortised as the municipality have applied the transitional provisions as set out in Directive 4. The municipality is in the process of determining the residual values and usefull life of all assets. A service provider was acquired to assist with the process.

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

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

Transitional provision

The municipality changed its accounting policy for intangible assets in 2011. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

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

Accounting Policies

1.5 Intangible assets (continued)

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and intangible assets has accordingly been recognised at provisional amounts, as disclosed in .

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

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

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

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

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

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Regular way purchases of financial assets are accounted for at settlement date.

1.6 Financial instruments (continued)

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Loans to / (from) economic entities

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Accounting Policies

1.6 Financial instruments (continued)

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Accounting Policies

1.6 Financial instruments (continued)

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.7 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.

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

1.7 Leases (continued)

Operating leases - lessee

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

1.8 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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.

Identification

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

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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.

1.10 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Accounting Policies

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

1.11 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.

1.12 Employee benefits

Short-term employee benefits

Accounting Policies

1.12 Employee benefits (continued)

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.

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.

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.13 Provisions and contingencies (continued)

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 agreement.

After their initial recognition contingent liabilities recognised in business 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 35.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

Accounting Policies

1.13 Provisions and contingencies (continued)

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in .

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

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

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.14 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 .

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.

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

1.15 Revenue from non-exchange transactions

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.

Measurement

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

Accounting Policies

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

Accounting Policies

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.16 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.17 Investment income

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

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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.

1.21 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.

Accounting Policies

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is:

(a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
(b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
(c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
(d) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law,

but excludes expenditure by a municipality which falls within the definition of ''unauthorised expenditure''.

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

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

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

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

1.23 Use of estimates

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

1.24 Presentation of currency

These annual financial statements are presented in South African Rand.

1.25 Offsetting

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

1.26 Investments

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

Accounting Policies

1.27 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.

1.28 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.29 Research and development expenditure

Research costs are charged against operating surplus as incurred. Development costs are recognised as an expense in the period in which they are incurred unless the following criteria are met:

- The product or process is clearly defined and the costs attributable to the process or product can be separately identified and measured reliably;
- The technical feasibility of the product or process can be demonstrated;
- The existence of a market or, if to be used internally rather than sold, its usefulness to the municipality can be demonstrated;
- Adequate resources exist, or their availability can be demonstrated, to complete the project and then market or use the product or process; and
- The asset must be separately identifiable.

Where development costs are deferred, they are written off on a straight-line basis over the life of the process or product, subject to a maximum of five years. The amortization begins from the commencement of the commercial production of the product or use of the process to which they relate.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

GRAP 17: Property, Plant and Equipment

GRAP 17 does not require or prohibit the recognition of heritage assets but if an entity recognises heritage assets the municipality needs to comply with GRAP 17 disclosure requirements.

Additional commentary has been included in to clarify the applicability of infrastructure assets to be recognised in terms of GRAP 17.

Where an entity acquires an asset through a non-exchange transaction, i.e. for a nominal or no consideration, its cost is its fair value as at the date of acquisition.

The disclosure requirement for temporarily idle, fully depreciated property, plant and equipment and for property, plant and equipment that are retired from active use is required in GRAP 17 whereas IAS 16 only encourages this disclosure.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities that applied the transitional provisions in the Standard of GAMAP on Property, Plant and Equipment may continue to take advantage of those transitional provisions until they expire. Entities are also not required to measure classes of Property, Plant and Equipment in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

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

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

The carrying amount of a heritage asset should be derecognised:

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

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

The effective date of the standard is for years beginning on or after 01 April 2010.

The municipality has adopted the standard for the first time in the 2011 annual financial statements.

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

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2011 annual financial statements.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has not chosen to early adopt any standards and interpretations.

2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

3. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	63 917 414	-	63 917 414	63 521 852	-	63 521 852

Reconciliation of investment property - 2011

	Opening balance	**Additions**	**Total**
Investment property	63 521 852	395 562	63 917 414

Reconciliation of investment property - 2010

	Opening balance	**Additions**	**Total**
Investment property	59 574 483	3 947 369	63 521 852

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.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the cost model (when fair value of investment property cannot be reliably determined), disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and

Transitional provisions

3. Investment property (continued)

Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain investment property with a carrying value of R 63 917 414 (2010: R 63 521 852) was recognised at provisional amounts. Carrying amounts of investment property carried at provisional amounts are as follows:

Due to a transfer of functions

Steps taken to establish the values of investment property recognised at provisional amounts due to the transfer of functions, is as follows:

Provisional amounts retrospectively adjusted during the year, are as follows (refer to note for effect on the annual financial statements:

The date at which full compliance with GRAP 16 is expected, is 30 June 2012.

4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Buildings	32 511 531	(2 597 033)	29 914 498	32 085 701	(1 909 251)	30 176 450
Motor vehicles	1 505 527	(589 785)	915 742	1 098 501	(370 085)	728 416
Office equipment	13 743 036	(10 887 714)	2 855 322	12 669 976	(10 031 449)	2 638 527
Infrastructure	72 725 490	(12 662 420)	60 063 070	72 443 243	(8 327 220)	64 116 023
Community	1 589 479	(438 605)	1 150 874	1 589 479	(403 045)	1 186 434
Other property, plant and equipment	33 586 948	(11 998 284)	21 588 664	24 113 523	(14 746 126)	9 367 397
Asset found	729 482 914	(50 144 211)	679 338 703	729 482 914	(25 072 105)	704 410 809
Total	**885 144 925**	**(89 318 052)**	**795 826 873**	**873 483 337**	**(60 859 281)**	**812 624 056**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Cost Disposed**	**Depreciation**	**Accumulated Depr - Disposal**	**Total**
Buildings	30 176 450	425 830	-	(687 782)	-	29 914 498
Motor vehicles	728 416	407 026	-	(219 700)	-	915 742
Office equipment	2 638 527	1 098 421	(25 362)	(874 564)	18 300	2 855 322
Infrastructure	64 116 023	282 247	-	(4 335 200)	-	60 063 070
Community	1 186 434	-	-	(35 560)	-	1 150 874
Other property, plant and equipment	9 367 397	14 510 736	(5 037 311)	(1 350 202)	4 098 044	21 588 664
Asset found	704 410 809	-	-	(25 072 106)	-	679 338 703
	812 624 056	**16 724 260**	**(5 062 673)**	**(32 575 114)**	**4 116 344**	**795 826 873**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Transfers**	**Depreciation**	**Total**
Land and Buildings	22 640 777	8 272 175	-	(736 502)	30 176 450
Motor vehicles	465 308	462 881	-	(199 773)	728 416
Office equipment	3 000 976	1 065 145	-	(1 427 594)	2 638 527
Infrastructure	36 182 947	30 667 888	-	(2 734 812)	64 116 023
Community	1 233 629	-	-	(47 195)	1 186 434
Other property, plant and equipment	7 551 611	3 622 813	-	(1 807 027)	9 367 397
Asset found	729 482 914	-	-	(25 072 105)	704 410 809
Capital work in progress	714 120	-	(714 120)	-	-
	801 272 282	**44 090 902**	**(714 120)**	**(32 025 008)**	**812 624 056**

Other information

Details of properties

Transitional provisions

Property, plant and equipment recognised at provisional amounts

Figures in Rand	2011	2010

4. Property, plant and equipment (continued)

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain property, plant and equipment with a carrying value of R 795 826 873 (2010: R 812 624 056) was recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

Figures in Rand	2011	2010

4. Property, plant and equipment (continued)

Due to initial adoption of GRAP 17

Non Current Assets - All categories	795 826 873	812 624 056

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The municiplaity will use the services of an accredible service provider which will assist in determining the valuation of the Property, plan and equipment.

Provisional amounts retrospectively adjusted during the year, are as follows (refer to note for effect on the annual financial statements:

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

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.

5. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-partially or wholly funded	(5 683 162)	(5 451 644)

Net expense recognised in the statement of financial performance

Key assumptions used

Assumptions used at the reporting date:

The basis used to determine the overall expected rate of return on assets is as follow: [provide details]

The effect of the major categories of plan assets is as follow: [state effect]

The basis on which the discount rate has been determined is as follow: [state basis]

Defined contribution plan

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

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

Figures in Rand	2011	2010

6. Inventories

Stores, materials and fuels	476 807	875 772

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note certain inventories with a carrying value R 476 807 (2010: R 875 772) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Inventory	476 807	875 772

Steps taken to establish the values of inventories recognised at provisional amounts due to the initial adoption of GRAP 12, is as follows:

The municipality will employ the services of a valuator to accuratly determine the valuation method and valuation of consumables to comply with Grap 12.

The date at which full compliance with GRAP 12 is expected, is 30 June 2012.

7. Trade and other receivables from exchange transactions

Trade debtors	370 023	1 560 451
Other receivables	67 104	16 549
Sekhukhune Debtor	110 572 671	108 629 748
Debtor from prior year corrections	515 913	548 100
	111 525 711	**110 754 848**

8. Other receivables from non-exchange transactions

Government grants and subsidies	-	197 900

9. VAT receivable

VAT	1 531 241	2 909 757

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Consumer debtors

Gross balances		
Rates	6 781 342	5 039 861
Electricity	2 715 143	1 981 289
Refuse	1 707 344	1 289 357
Other - (Interest and other major items)	8 467 569	5 967 700
	19 671 398	**14 278 207**
Less: Provision for debt impairment		
Rates	(4 833 253)	(3 231 883)
Electricity	(683 029)	(353 471)
Refuse	(1 496 112)	(1 019 780)
Other - (Interest and other major items)	(7 753 244)	(5 152 717)
	(14 765 638)	**(9 757 851)**
Net balance		
Rates	1 948 089	1 807 798
Electricity	2 032 114	1 627 818
Refuse	211 232	269 577
Other - (Interest and other major items)	714 325	814 983
	4 905 760	**4 520 176**
Rates		
Current (0 -30 days)	678 237	915 071
31 - 60 days	132 241	366 421
61 - 90 days	102 903	398 986
91 - 120 days	76 954	3
121 - 150 days	49 515	-
150 days plus	908 239	-
	1 948 089	**3 417 840**
Electricity		
Current (0 -30 days)	1 729 115	1 425 056
31 - 60 days	151 828	143 065
61 - 90 days	28 971	59 697
91 - 120 days	12 511	-
121 - 150 days	8 315	-
150 days plus	101 374	-
	2 032 114	**1 627 818**
Refuse		
Current (0 -30 days)	131 155	168 211
31 - 60 days	7 840	53 085
61 - 90 days	4 738	48 281
91 - 120 days	3 626	-
121 - 150 days	3 290	-
150 Days plus	60 583	-
	211 232	**269 577**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Consumer debtors (continued)

Other		
Current (0 -30 days)	283 278	110 095
31 - 60 days	17 223	251 250
61 - 90 days	38 419	453 638
91 - 120 days	30 126	-
121 - 150 days	17 619	-
150 Days plus	327 660	-
	714 325	**814 983**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(9 757 852)	(9 621 184)
Additional contribution for the year to debt impairment provision	(5 539 363)	-
Amounts debited (written off) against provision	531 577	(136 668)
	(14 765 638)	**(9 757 852)**

Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 19 671 398 (2010: R 9 757 852) were impaired and provided for.

The amount of the provision was R 14 765 638 as of 30 June 2011 (2010: R 9 757 852).

Figures in Rand	2011	2010

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	8 048 089	3 375 255
Bank overdraft	-	(1 880 647)
	8 048 089	**1 494 608**
Current assets	8 048 089	3 375 255
Current liabilities	-	(1 880 647)
	8 048 089	**1 494 608**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**		**Cash book balances**	
	30 June 2011	**30 June 2010**	**30 June 2011**	**30 June 2010**
First National Bank Limited - Cheque Account (Acc No 52950020208)	6 756 866	3 018 152	4 480 613	(1 880 647)
First National Bank Limited - Cheque Account (PHP) (Acc No 62057590393)	33 986	45 655	33 986	45 655
Rand Merchant Bank Unit Trusts Limited: Money Market Fund (Acc No RU 500434945)	3 533 490	3 329 600	3 533 490	3 329 600
Total	**10 324 342**	**6 393 407**	**8 048 089**	**1 494 608**

12. Other financial liabilities

DBSA Loans	6 955 652	7 558 083

Held at amortised cost

DBSA Loans Short term Capital Portion Terms and conditions	251 639	400 473
DBSA Short Term Interest Payments Terms and conditions	286 434	-
	538 073	**400 473**
	7 493 725	**7 958 556**

Refer to appendix A for more details on the loans.

Non-current liabilities		
At amortised cost	6 955 652	7 558 083
Current liabilities		
At amortised cost	538 073	400 473
	7 493 725	**7 958 556**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Figures in Rand	2011	2010

13. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	5 870 000
MSIG	-	114 513
FMG	-	12 999
SDM WARD SUPPORT 2008	-	7 555
GRANT GREATER SEKHUKHUNE 2008	-	69 079
	-	**6 074 146**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 19 for reconciliation of grants from Provincial Government.

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

14. Trade and other payables from exchange transactions

Trade payables	9 652 267	8 082 686
Accrued leave pay - Normal Leave	4 471 927	4 225 690
Accrued bonus	955 742	1 622 104
Accrued leave pay - Long Service Leave	1 538 118	1 311 862
Operating lease payables	375 683	345 689
Other creditors	182 912	241 693
	17 176 649	**15 829 724**

Figures in Rand	2011	2010

15. Consumer deposits

Deposits held	1 621 112	1 630 678

The Municipality also has consumer Guarantees amounting to R 820 045 on 30 June 2011.

16. Revenue

Property rates	10 565 300	9 311 666
Service charges	28 337 440	21 232 924
Rental of facilities & equipment	116 597	123 203
Fines	214 137	1 509 128
Licences and permits	3 640 355	4 087 374
Government grants & subsidies	85 784 358	80 608 689
	128 658 187	**116 872 984**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	28 337 440	21 232 924
Rental of facilities & equipment	116 597	123 203
Licences and permits	3 640 355	4 087 374
	32 094 392	**25 443 501**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	10 565 300	9 311 666
Fines	214 137	1 509 128
Transfer revenue		
Levies	85 784 358	80 608 689
	96 563 795	**91 429 483**

17. Property rates

Rates received

Residential	10 565 300	9 311 666

Valuations

Residential	653 305 900	647 328 500
Commercial	235 019 471	267 527 986
State	9 048 000	19 113 200
Municipal	31 508 800	31 974 800
Small holdings and farms	691 279 114	690 411 114
Social	10 065 200	9 774 000
Property rates 2	115 358 810	-
	1 745 585 295	**1 666 129 600**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Service charges

Sale of electricity	23 743 794	18 139 984
Agency Fee SDM Water Sales	1 452 195	565 474
Agency Fee SDM Sanitation Sales	587 775	177 246
Refuse removal	2 553 676	2 350 220
	28 337 440	**21 232 924**

Figures in Rand	2011	2010

19. Government grants and subsidies

Equitable share	52 271 943	42 474 880
Municipal Infrastructure Grant	14 859 000	12 862 000
Municipal Systems Improvement Program Grant	864 513	1 336 917
Finance Management Grant	1 000 000	750 000
Integrated National Electrification Program Grant	1 539 000	-
Grant Horticultural Program	15 159 850	-
Grant Logistic Hub	-	793 844
Sekhukhune District Asset grant received	418	21 792 548
Ward Committee Support	89 634	598 500
	85 784 358	**80 608 689**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	5 870 000	2 700 000
Current-year receipts	8 989 000	16 032 000
Conditions met - transferred to revenue	(14 859 000)	(12 862 000)
	-	**5 870 000**

Conditions still to be met - remain liabilities (see note 13).

Municipal Systems Improvement Program Grant

Balance unspent at beginning of year	114 513	716 430
Current-year receipts	750 000	735 000
Conditions met - transferred to revenue	(864 513)	(1 336 917)
	-	**114 513**

Conditions still to be met - remain liabilities (see note 13)

Grant Provincial Government

Balance unspent at beginning of year	12 999	12 999
Conditions met - transferred to revenue	(12 999)	-
	-	**12 999**

Conditions still to be met - remain liabilities (see note 13)

SDM Ward Committee Support

Balance unspent at beginning of year	7 555	7 555
Conditions met - transferred to revenue	(7 555)	-
	-	**7 555**

Conditions still to be met - remain liabilities (see note 13)

GRANT GREATER SEKHUKHUNE 2008

Balance unspent at beginning of year	69 079	69 079
Conditions met - transferred to revenue	(69 079)	-
	-	**69 079**

Figures in Rand	2011	2010

19. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 13)

HIV AIDS Grant

Balance unspent at beginning of year	-	2 733
Conditions met - transferred to revenue	-	(2 733)
	-	**-**

All conditions have been met.

Financial Management Grant

Current-year receipts	1 000 000	750 000
Conditions met - transferred to revenue	(1 000 000)	(750 000)
	-	**-**

All conditions have been met during the year.

DTI Organic Farming Grant

Current-year receipts	15 159 850	-
Conditions met - transferred to revenue	(15 159 850)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Integrated National Electrification Programme Grant Paid directly to ESCOM

Current-year receipts	1 539 000	1 000 000
Conditions met - transferred to revenue	(1 539 000)	(1 000 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 13)

Provide explanations of conditions still to be met and other relevant information

Changes in level of government grants

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

20. Other revenue

Insurance refund	134 531	230 434
Other income	873 780	804 107
	1 008 311	**1 034 541**

Figures in Rand	2011	2010

21. General expenses

Advertising	364 010	323 767
Assets expensed	526	-
Auditors remuneration	2 233 106	1 237 846
Bank charges	206 660	199 504
Chemicals	15 095	9 431
Cleaning	48 197	42 392
Community development and training	15 159 850	-
Conferences and seminars	46 803	17 580
Consulting and professional fees	5 018 929	5 116 207
Financial Management Grant Expense	1 000 000	693 932
Consumables	51 811	109 196
Donations	19 511	229 717
Electricity	1 222 786	1 066 411
Entertainment	65 946	47 992
IT expenses	-	404 624
Insurance	252 737	304 568
Lease rentals on operating lease	750 479	1 243 307
Inventory adjustments - stock losses	307 293	-
Marketing	672 327	18 710
Provision Post employment Medical expenses	231 518	-
Motor vehicle expenses	596 885	1 241 256
General expenses	2 031 307	1 086 970
Bank fraud - Fruiteless and wasteful expenditure	83	-
Postage and courier	110 031	129 519
Printing and stationery	717 615	382 690
Protective clothing	66 607	87 536
Refuse	154 961	139 143
Security (Guarding of municipal property)	1 978 358	1 715 180
Sewerage and waste disposal	16 543	16 289
Staff welfare	360 917	173 945
Stock written off	88	-
Subscriptions and membership fees	597 744	562 038
Telephone and fax	1 400 333	1 145 227
Training	363 066	181 653
Travel - local	1 280 346	1 398 874
Uniforms	500	-
Rental Property Services	139 407	-
Water	138 581	132 142
	37 620 956	**19 457 646**

22. Operating surplus/(deficit)

Operating surplus/(deficit) for the year is stated after accounting for the following:

Operating lease charges		
Premises		
• Contractual amounts	196 710	778 903
Equipment		
• Contractual amounts	553 769	464 404
	750 479	**1 243 307**
Loss on sale of property, plant and equipment	(110 826)	-
Depreciation on property, plant and equipment	32 575 115	32 025 007
Employee costs	40 993 390	41 600 885

Figures in Rand	2011	2010

23. Employee related costs

Basic	21 262 814	18 606 878
Bonus	1 252 845	1 544 576
Medical aid - company contributions	1 419 869	1 305 342
UIF	202 504	159 734
WCA	-	207 407
Other payroll levies	9 747	8 625
Leave pay provision charge	573 332	4 277 560
Short term benefit	64 473	59 768
Post-employment benefits - Pension - Defined contribution plan	4 661 660	4 162 867
Overtime payments	1 497 924	1 160 441
Car allowance	878 600	1 082 269
Housing benefits and allowances	49 174	59 625
	31 872 942	**32 635 092**

Remuneration of municipal manager

Salary	460 736	407 670
Car Allowance	159 131	130 152
Bonus	31 493	31 770
Contributions to UIF, Medical and Pension Funds	131 763	119 112
Reinbursive allowances	3 011	58 639
Cellphone allowance	15 840	-
	801 974	**747 343**

Remuneration of chief finance officer

Salary	611 353	334 502
Car Allowance	41 255	90 000
Contributions to UIF, Medical and Pension Funds	64 198	44 352
Reinbursive allowances	7 274	28 922
Cellphone allowance	12 120	-
	736 200	**497 776**

Director Corporate Services

Salary	381 771	26 512
Car Allowance	70 000	3 623
Bonus	30 000	92 023
Contributions to UIF, Medical and Pension Funds	82 854	8 683
Reinbursive allowances	31 629	413
	596 254	**131 254**

Director Community Services

Salary	116 831	348 940
Car Allowance	-	70 000
Bonus	-	30 000
Contributions to UIF, Medical and Pension Funds	18 029	73 757
Reinbursive allowances	4 362	24 194
	139 222	**546 891**

Director Technical Services

Salary	115 727	347 589

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Employee related costs (continued)

Car Allowance	23 818	101 000
Contributions to UIF, Medical and Pension Funds	24 364	80 300
Reinbursive allowances	4 209	25 544
	168 118	**554 433**

Economic Development and Planning

Total Employee Costs

24. Remuneration of councillors

Executive Major	631 907	589 256
Deputy Executive Mayor	434 623	-
Mayoral Committee Members	876 109	870 710
Speaker	438 899	461 105
Councillors	4 297 142	3 970 509
Executive Committee Members - Part Time	-	457 216
Skills development, UIF and travel	-	78 874
	6 678 680	**6 427 670**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council owned vehicle for official duties.

Remuneration of executive mayor

Salary	385 496	-
Car Allowance	143 421	-
Contributions to UIF, Medical and Pension Funds	60 104	-
Cellphone allowance	26 532	-
	615 553	**-**

Remuneration of speaker

Salary	274 303	-
Car Allowance	104 063	-
Contributions to UIF, Medical and Pension Funds	44 173	-
Reinbursive allowances	330	-
Cellphone allowance	16 030	-
	438 899	**-**

Remuneration of chief whip

Salary	271 626	-
Car Allowance	102 568	-
Contributions to UIF, Medical and Pension Funds	43 466	-
Cellphone allowance	16 963	-
	434 623	**-**

Remuneration of executive councillor

Figures in Rand	2011	2010

24. Remuneration of councillors (continued)

Salary	539 731	-
Car Allowance	212 246	-
Contributions to UIF, Medical and Pension Funds	88 104	-
Cellphone allowance	36 028	-
	876 109	**-**

25. Administrative expenditure

Administration and management fees - third party	87 321	75 391

26. Debt impairment

Debt impairment	5 737 263	2 403 439

27. Investment revenue

Interest revenue		
Unlisted financial assets	687 612	702 838
Bank and investments	310 841	269 027
Interest charged on trade and other receivables	-	1 934 982
Interest received - other	2 788 515	-
	3 786 968	**2 906 847**

28. Depreciation and amortisation

Property, plant and equipment	32 575 115	32 025 007

29. Finance costs

Bank and long term loans	43 385	3 660
Other interest paid	1 156 808	1 249 548
	1 200 193	**1 253 208**

30. Auditors' remuneration

Fees	2 233 106	1 237 846

31. Operating lease

The operating leases are in respect of photocopiers and two properties utilised in the operations of the Municipality.The leases are structured as pure operating equipment not machine specific and based on the current load and requirements of the Municipality. The leases are short term leases and for future leases not subject to escalation.
The business equipment are tested annualy for capitalisation requirements but does not qualify to be capitalised at this stage.

2011 in Statement of Financial Performance	793 400	596 233

The following is a schedule by years of minimum future rentals on non-cancelable oprating leases as of June 2010:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

31. Operating lease (continued)

Heading		
< than 1 year until 30 June 2011 or 2010	760 046	783 278
> than One year < 5 years	727 890	1 473 743
	1 487 936	**2 257 021**

32. Grants and subsidies paid

Other subsidies		
Indigent grants	54 332	56 557
Upgrading Indigent Register	213 368	114 383
Group co ID 4	1 539 000	-
Revenue enhancement strategy	519 941	368 969
Services: Free & Subsidised	536 801	522 906
	2 863 442	**1 062 815**

33. Bulk purchases

Electricity	14 656 946	11 349 489

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

34. Cash generated from operations

(Deficit) surplus	(5 691 589)	8 958 034
Adjustments for:		
Depreciation and amortisation	32 575 115	32 025 007
Gain on sale of assets and liabilities	110 826	-
Debt impairment	5 737 263	2 403 439
Movements in operating lease assets and accruals	(5 563)	-
Movements in retirement benefit assets and liabilities	231 518	5 451 644
Prior Period Non Cash	5 062 681	(5 300 733)
Capital Work in Process - Non Cash	-	714 120
Provision For Medical Aid and Long Leave Bonus	(4 116 348)	(6 763 328)
Changes in working capital:		
Inventories	398 965	72 933
Trade and other receivables from exchange transactions	(770 863)	(358 526)
Other receivables from non-exchange transactions	197 900	(197 900)
Consumer debtors	(6 122 667)	(2 432 099)
Trade and other payables from exchange transactions	1 346 919	8 313 025
VAT	1 378 516	(1 650 874)
Unspent conditional grants and receipts	(6 074 146)	2 565 350
Consumer deposits	(9 566)	73 051
	24 248 961	**43 873 143**

35. Contingencies

Contingent liabilities

Contingent assets

36. Related parties

Relationships

Accounting Officer	Refer to accounting officer's report note
Post employment benefit plan for employees of entity and/or other related parties	Municipal Gratuity Fund
The water and sanitation functions are demarcated in the Demarcation Act by the Local Municipality on behalf of the District Municipality.	Refer note below
The agreement is structured as an agency principal relationship with the District Municipality being the water service authority	Refer note below
UIF is deductible for all councillor's from 01 July 2009	Refer note below

Related party balances

Loan accounts - Owing (to) by related parties		
Sekhukhune District municipality: Receivables	110 380 374	108 629 748
Other		
Sekhukhune District Municipality: Agency fees	2 065 614	4 352 994
Council - UIF	-	25 682
SARS Payable On Fringe Benefit	(20 839)	-
Council - Salaris short paid	(30 727)	(30 727)
Council - Salaries over paid	6 505	6 505
Employee - Rental fringe benefit	28 914	7 355

Figures in Rand	2011	2010

37. Prior period errors

The following prior year errors were identified and adjusted retrospectively:
Corrected in 2009/2010 finacial year

- Water and santiation assets were previously not recognised according to the Municpal Structures Act, as assets were reconginsed by the Ephraim Mogale Local Municipality instead of the Greater Sekhuhune District Municipality.
- Debtor were raised for assets, expenditure and income to be transfered to the District Municipality
- The Capital replacement fund reserve and the Township development fund were not cashed back correctly in terms of GRAP 1.

Corrected in 2010/2011 finacial year

- The implementation of Employee Benefit Provisions in terms of GRAP 19 the nett effect of the implementation is that the opening accumulated surplus and provision for leave change with R 6 763 505 - the amounts indicated effect R 1 311 861 is on Trade and Other payables from exchange items and Retirement Benefit Obligations amounting to R 5 451 644

- The opening balance of interest received is adjusted with additional interest received to the amount of R 16 549 - this also resulted in an adjustment of R 16 549 on the trade and other receivables from exchange transactions.

-The consumer deposits included an amount of R 82 292 for Guarantees. This was incorrect as the Guarantees does not form part of the trail balance but is only a disclosure item

- The clearing of suspense accounts have resulted in R 605 218 in additional 2010 traffic fine income this also resulted in an adjustment of R 16 549 on the trade and other receivables from exchange transactions.

- The additional new infrustructure items that were found in terms of the implementation of GRAP 17 resulted in an adjustment of R 704 410 809 for the 2010 and R 729
- The additional depreciation allocated to the new assted foun impacted with an amount of R 25 072 105 in 2010 and 2011
- The UIF payable by Councillors was previously mapped to Employee costs and was remapped to Councillor renumeration. The reallocation amounts to R 60 426 on the statement of financial performance.

The correction of the error(s) results in adjustments as follows:

Statement of financial position		
Accumulated surplus	(705 149 843)	(754 939 716)
Trade and other receivables from exchange transactions	621 767	-
Property, plant and equipment	679 338 703	704 410 809
Investment Property	56 670 645	56 670 645
	-	-
Trade payables Consumer Deposits	-	(82 292)
Trade and other payables Leave bonusses	-	(1 311 861)
Retirement benefit obligations	-	(5 451 644)
Trade and other receivables -	-	621 767
		754 939 716
Statement of Financial Performance		
Traffic Fine Revenue	-	(605 218)
Interest Received	-	(16 549)
Employee costs	-	(60 427)
Councillor Renumeration	-	60 427
Depreciation	25 072 105	25 072 105
		24 450 338

Cash flow statement

Figures in Rand	2011	2010

38. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes 12, cash and cash equivalents disclosed in note 11, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the municipality may adjust the amount of dividends paid to members, return capital to members, issue new shares or sell assets to reduce debt.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

There are no externally imposed capital requirements.

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

Liquidity risk

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

Interest rate risk

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

39. Going concern

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

40. Unauthorised expenditure

Unauthorised expenditure	-	4 579 537

Non compliance to MFMA S29(1),(2) and (3)

Figures in Rand	2011	2010

41. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	45 741	10 638

Non compliance to the SCM policy and non compliance to the Basic conditions to employment Act 1997.

42. Irregular expenditure

Opening balance	2 257 144	9 164
Add: Irregular Expenditure - current year	-	2 247 980
	2 257 144	**2 257 144**

Details of irregular expenditure not recoverable (not condoned)

Non-compliance with section 38 of the DORA act, resulting in irregular expenditure	2 257 144

43. Commitments

Councillors' arrear consumer accounts

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

30 June 2011	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
	-	1	1

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

Contract commitments

Through inspection of the contract register commitments amounting to R13 878 124.58 are outstanding as at 30 June 2011.

44. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	7 493 725	7 958 556

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

45. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix E(1) for the comparison of actual operating expenditure versus budgeted expenditure.

46. Additional Note

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA @ 15.00%	10993-103	30/09/2017	1 744 440	-	138 795	1 605 645	-	-
DBSA @ 14.25%	11022-102	30/09/2017	857 226	-	70 074	787 152	-	-
DBSA @ 16.50%	13291-103	31/03/2020	1 045 778	-	46 437	999 341	-	-
DBSA @ 16.50%	13292-102	30/09/2021	273 413	-	11 283	262 130	-	-
DBSA @ 16.50%	13293-103	30/09/2019	4 037 697	-	198 240	3 839 457	-	-
			7 958 554	**-**	**464 829**	**7 493 725**	**-**	**-**
Total external loans								
Development Bank of South Africa			7 958 554	-	464 829	7 493 725	-	-
			7 958 554	**-**	**464 829**	**7 493 725**	**-**	**-**

Ephraim mogale local municipality
Appendix E(1)

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2010 Bud. Amt Rand	Current year 2010 Act. Bal. Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	9 459 734	10 565 300	(1 105 566)	(10.5)	
Service charges	29 041 375	28 337 440	703 935	2.5	
Rental of facilities and equipment	146 426	116 597	29 829	25.6	
Fines	956 250	214 137	742 113	346.6	
Licences and permits	8 384 900	3 640 355	4 744 545	130.3	
Government grants & subsidies	84 377 900	85 784 358	(1 406 458)	(1.6)	
Recoveries	-	134 531	(134 531)	(100.0)	
Other income	834 382	873 780	(39 398)	(4.5)	
Interest received - investment	3 204 848	998 453	2 206 395	221.0	
Interest received - other	-	2 788 515	(2 788 515)	(100.0)	
	136 405 815	133 453 466	2 952 349	2.2	
Expenses					
Personnel	(38 294 536)	(34 314 708)	(3 979 828)	11.6	
Remuneration of councillors	(7 855 384)	(6 678 681)	(1 176 703)	17.6	
Administration	(170 077)	(87 321)	(82 756)	94.8	
Depreciation	-	(32 575 115)	32 575 115	(100.0)	
Impairment	(4 417 922)	-	(4 417 922)	-	
Finance costs	(1 418 000)	(1 200 192)	(217 808)	18.1	
Debt impairment	-	(5 737 263)	5 737 263	(100.0)	
Repairs and maintenance - General	(6 402 011)	(3 299 603)	(3 102 408)	94.0	
Bulk purchases	(15 620 321)	(14 656 946)	(963 375)	6.6	
Grants and subsidies paid	(1 183 000)	(2 863 442)	1 680 442	(58.7)	
General Expenses	(55 643 579)	(37 620 956)	(18 022 623)	47.9	
	(131 004 830)	(139 034 227)	8 029 397	(5.8)	
Other revenue and costs	-	(110 826)	110 826	(100.0)	
Net surplus/ (deficit) for the year	5 400 985	(5 691 587)	11 092 572	(194.9)	