dr.jsmlm

Dr JS Moroka Local Municipality

DR JS Moroka Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	Local municipality
Mayor	GT Mthimunye

General Information

Councillors	Cllr. SP APHANE Cllr. DM BOPAPE Cllr. KJ BOSHOMANE Cllr. AD KHOZA Cllr. AN KOMAPE Cllr. PF KUTU Cllr. BR LAMOLA Cllr. MM LEBELO Cllr. TB LEGONG Cllr. MS LEGONG Cllr. YL LELAKA Cllr. NA MABASO Cllr. SB MABENA Cllr. TL MADONSELA Cllr. MS MAGANEDISA Cllr. BS MAGOELE Cllr. BE MAHAMBA Cllr. TT MAHLANGU Cllr. JM MAHLANGU Cllr. DP MAHLANGU Cllr. JS MAHLANGU Cllr. WV MAHLANGU Cllr. SR MAJA Cllr. LF MAKHOBELA Cllr. CD MALEBE Cllr. BM MALEFO Cllr. MT MALULEKE Cllr. NM MANGANYE Cllr. RN MAOKA Cllr. JM MAROTA Cllr. MJ MASHAO Cllr. MW MASHISHI Cllr. LP MASIMULA Cllr. JN MASOGA Cllr. MJ MASOMBUKA Cllr. OM MATLALA Cllr. MN MATLALA Cllr. DM MDLULI Cllr. FM MNGUNI Cllr. NG MOGANO Cllr. JT MOKHABELA Cllr. MS MOKOELE Cllr. JN MSIZA Cllr. FS MTHIMUNYE Cllr. GT MTHIMUNYE Cllr. JN MTHOMBENI Cllr. EN NDALA Cllr. AZ NDLOVU Cllr. SL NKADIMENG Cllr. SE NKOANE Cllr. MS NTLAILANE Cllr. SM PHAAHLA Cllr. MM RANKAPOLE Cllr. PG RATSOMA Cllr. J SEGALAGALA Cllr. ME SEKANKA Cllr. JM SEKWALA Cllr. KN SETLHAKO Cllr. RB SHABALALA Cllr. MM SHABANGU Cllr. GJ SKOSANA Cllr. SN SKOSANA

General Information

	Cllr. TF MAZIBUKO Cllr. DM MDLULI Cllr. LZ SIBIYA Cllr. PG RATSOMA Cllr. IM MASOMBUKA Cllr. J KABINDE Cllr. NM MATIMELANE Cllr. JN MASOGA Cllr. GL MTSWENI Cllr. JM SEKWALA Cllr. MJ NKADIMENG Cllr. SE NKOANE Cllr. LF MAKHOBELA Cllr. WS NKABINDE Cllr. VM MALOKA Cllr. TS MABENA Cllr. SA MAHLANGU
Grading of local authority	Low capacity municipality
Accounting Officer	Mr BTJ. Mabena
Chief Finance Officer (CFO)	Mr LJ Burger
Registered office	A2601/3 Bongimfundo Street Siyabuswa 0472
Business address	Private Bag x4012 Siyabuswa 0472
Postal address	Private Bag x4012 Siyabuswa 0472
Bankers	Absa Bank
Auditors	Auditor General of South Africa

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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 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 45, which have been prepared on the going concern basis, were approved by the on 31 August 2011 and were signed on its behalf by:

BTJ. Mabena
Acting Municipal Manager

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 surplus of the municipality was R 93 467 797 (2010: surplus R 54 291 702).

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 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.

5. Accounting Officer

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

Name
BTJ. Mabena

6. Bankers

The municipality banks primarily with ABSA Bank Limited.

7. Auditors

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

8. Public Private Partnership

In accordance with the Public Private Partnership agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	6	4 264 227	3 790 423
Other financial assets	5	14 911 957	19 276 597
Trade and other receivables from exchange transactions	7	4 423 299	2 628 438
VAT receivable	8	16 379 293	23 579 232
Consumer debtors	9	7 153 678	3 042 782
Cash and cash equivalents	10	109 224 056	38 751 897
		156 356 510	**91 069 369**
Non-Current Assets			
Property, plant and equipment	3	1 466 736 928	1 415 499 535
Intangible assets	4	147 911	147 911
		1 466 884 839	**1 415 647 446**
Total Assets		**1 623 241 349**	**1 506 716 815**
Liabilities			
Current Liabilities			
Other financial liabilities	11	-	105 966
Finance lease obligation		290 398	290 398
Trade and other payables from exchange transactions	14	38 360 422	30 283 041
		38 650 820	**30 679 405**
Non-Current Liabilities			
Other financial liabilities	11	3 510 314	3 967 803
Unspent conditional grants and receipts	12	15 363 305	-
Provisions	13	9 627 038	9 447 094
		28 500 657	**13 414 897**
Total Liabilities		**67 151 477**	**44 094 302**
Net Assets		**1 556 089 872**	**1 462 622 513**
Net Assets			
Accumulated surplus		1 556 089 873	1 462 622 514

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue	15	316 866 786	298 109 200
Other income		3 697 037	2 316 611
Operating expenses		(257 296 949)	(253 232 859)
Operating surplus/(deficit)	21	**63 266 874**	**47 192 952**
Investment revenue	25	30 242 438	7 235 341
Finance costs	27	(41 515)	(136 591)
Surplus/(deficit) for the year		**93 467 797**	**54 291 702**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	314 188 989	314 188 989
Adjustments		
Change in accounting policy	1 094 141 823	1 094 141 823
Balance at 01 July 2009 as restated	**1 408 330 812**	**1 408 330 812**
Changes in net assets		
Surplus for the year	54 291 702	54 291 702
Total changes	54 291 702	54 291 702
Opening balance as previously reported	382 918 732	382 918 732
Adjustments		
Fundamental errors affecting net assets	1 073 470 003	1 073 470 003
Prior year adjustments	6 233 341	6 233 341
Balance at 01 July 2010 as restated	**1 462 622 076**	**1 462 622 076**
Changes in net assets		
Surplus for the year	93 467 797	93 467 797
Total changes	93 467 797	93 467 797
Balance at 30 June 2011	**1 556 089 873**	**1 556 089 873**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		23 870 402	19 544 119
Grants		297 688 353	252 502 038
Interest income		30 242 438	7 235 341
Other receipts		13 475 450	13 757 933
		365 276 643	293 039 431
Payments			
Employee costs		(80 934 029)	(67 727 539)
Suppliers		(116 322 738)	(135 082 444)
Finance costs		(41 515)	(136 591)
Other payments		(12 667 807)	(10 366 570)
		(209 966 089)	(213 313 144)
Net cash flows from operating activities	30	**155 310 554**	**79 726 287**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(89 544 905)	(108 399 254)
Proceeds from sale of property, plant and equipment	3	905 326	175 721
Proceeds from sale of financial assets		4 364 640	11 152 699
Infrastructure transfer		-	37 632 910
Net cash flows from investing activities		**(84 274 939)**	**(59 437 924)**
Cash flows from financing activities			
Repayment of other financial liabilities		(563 456)	(86 583)
Net cash flows from financing activities		**(563 456)**	**(86 583)**
Net increase/(decrease) in cash and cash equivalents		**70 472 159**	**20 201 780**
Cash and cash equivalents at the beginning of the year		38 751 897	18 550 116
Cash and cash equivalents at the end of the year	10	**109 224 056**	**38 751 896**

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.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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

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 13 - Provisions.

Useful lives of waste and water network and other assets

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

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 .

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.

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 . The transitional provision expires on 30 June 2012.

Accounting Policies

1.2 Investment property (continued)

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 .

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.

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.

1.3 Property, plant and equipment (continued)

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.

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

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

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

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

Item	Average useful life
Land	Indifinite
Buildings	15 - 25 years
Plant and machinery	3 - 10 years
Furniture and fixtures	3 - 6 years
Motor vehicles	5 years
Office equipment	4 - 6 years
IT equipment	3 years
Computer software	3 years
Infrastructure	2 -30 years

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.

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 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 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 3.

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),

Accounting Policies

1.3 Property, plant and equipment (continued)

- 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.

1.5 Leases

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

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.

1.5 Leases (continued)

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

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

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

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

Operating leases - lessee

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

1.6 Inventories

Inventories 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.

Transitional provision

The municipality changed its accounting policy for inventories 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 inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where inventories was acquired through a transfer of functions, the municipality is not required to measure that inventories for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and inventories has accordingly been recognised at provisional amounts, as disclosed in 6.

Until such time as the measurement period expires and inventories is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),

1.6 Inventories (continued)

- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.7 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

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.

Accounting Policies

1.7 Impairment of cash-generating assets (continued)

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.

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.

1.8 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.

Accounting Policies

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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

Accounting Policies

1.9 Share capital / contributed capital

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

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

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

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

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

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

Accounting Policies

1.11 Provisions and contingencies (continued)

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.

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 31.

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 1.7 and 1.8.

If the related asset is measured using the revaluation model:

1.11 Provisions and contingencies (continued)

- 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.

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 13.

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.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

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.

1.13 Revenue from non-exchange transactions

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

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

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

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.

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:

Accounting Policies

- 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.

1.14 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.

1.15 Investment income

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

1.16 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.

1.17 Comparative figures

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

1.18 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.

1.19 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

1.20 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 95the 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.

1.21 Use of estimates

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

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 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

1.25 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.

1.26 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.

1.27 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.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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:

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

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

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

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Plant and machinery	7 672 458	(1 782 724)	5 889 734	5 670 121	(1 765 486)	3 904 635
Furniture and fixtures	8 956 238	(2 539 326)	6 416 912	8 512 418	(1 853 266)	6 659 152
Motor vehicles	31 787 117	(11 987 079)	19 800 038	33 493 839	(11 987 079)	21 506 760
Office equipment	7 165 187	(2 047 250)	5 117 937	6 147 644	(1 578 994)	4 568 650
Infrastructure	1 568 902 633	(140 303 296)	1 428 599 337	1 482 836 427	(104 957 581)	1 377 878 846
Other property, plant and equipment	8 280	(1 677)	6 603	8 779	(1 677)	7 102
Tools and loose gear	909 324	(2 957)	906 367	974 772	(382)	974 390
Total	**1 625 401 237**	**(158 664 309)**	**1 466 736 928**	**1 537 644 000**	**(122 144 465)**	**1 415 499 535**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Depreciation**	**Total**
Plant and machinery	3 904 635	2 002 337	(17 238)	5 889 734
Furniture and fixtures	6 659 152	443 820	(686 060)	6 416 912
Motor vehicles	21 506 760	-	(1 706 722)	19 800 038
Office equipment	4 568 650	1 017 543	(468 256)	5 117 937
Infrastructure	1 377 878 846	86 066 205	(35 345 714)	1 428 599 337
Other property, plant and equipment	7 102	-	(499)	6 603
Tools and loose gear	974 390	15 000	(83 023)	906 367
	1 415 499 535	**89 544 905**	**(38 307 512)**	**1 466 736 928**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Other changes, movements**	**Depreciation**	**Total**
Plant and machinery	2 095 715	2 017 763	-	(208 843)	3 904 635
Furniture and fixtures	4 463 173	2 530 514	-	(334 535)	6 659 152
Motor vehicles	19 934 961	3 278 521	-	(1 706 722)	21 506 760
Office equipment	2 176 916	2 597 040	-	(205 306)	4 568 650
Infrastructure	1 364 101 517	97 000 365	(37 632 910)	(45 590 126)	1 377 878 846
Other property, plant and equipment	7 322	279	-	(499)	7 102
Tools and loose gear	-	974 772	-	(382)	974 390
	1 392 779 604	**108 399 254**	**(37 632 910)**	**(48 046 413)**	**1 415 499 535**

Other information

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.

4. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Other intangible assets	264 931	(117 020)	147 911	264 931	(117 020)	147 911

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Total
Other intangible assets	147 911	147 911

Other information

A brief description of significant intangible assets controlled by the municipality but not recognised as assets because they did not meet the recognition criteria in this Standard or because they were acquired or generated before the version of IAS 38 Intangible Assets issued in 1998 was effective.

Intangible assets with indefinite lives:

The useful life of “x trade mark” in considered indefinite. It is not bound by any expiry period as there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the municipality.

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain intangible assets with a carrying value of R 147 911 (2010: R 147 911) was recognised at provisional amounts. Carrying amounts of intangible assets carried at provisional amounts are as follows:

Due to initial adoption of GRAP 102

Website	147 911	147 911

Steps taken to establish the values of intangible assets recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The municipality will use the services of an accredible service provider which will assist in determining the valuation of the Website.

The date at which full compliance with GRAP 102 is expected, is 30 June 2012.

5. Other financial assets

Investments held		
Stanlib Collective Investments: Unit Trusts (Acc No 1005687)	14 911 957	19 276 597

Details of the investment is as follows:
Start date 01/07/2009
Maturity date Indefinite
Original investment amount R30,426,364.39
Additional investment amounts R8,875,883.05
Withdrawals R-20,398,446.10
Fund (Unit) balance R17,695,491.43
Price per Unit (c) 107.58
Market value (Rc) at 30/06/2010 R19,037,217.29
Average Annualized Yield 0.0747

Current assets		
Loans and receivables	14 911 957	19 276 597

Reconciliation of available-for-sale financial assets measured at level 3

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Other financial assets (continued)

6. Inventories

Consumable stores	4 264 227	3 790 423

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 of R 4 264 227 (2010: R -) was recognised at provisional amounts. Carrying amounts of inventories carried at provisional amounts are as follows:

Due to initial adoption of GRAP 12

Consumable goods	4 264 227	3 790 423

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 wit 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	4 174 732	2 379 871
Employee costs in advance	247 067	247 067
Deposits	1 500	1 500
	4 423 299	**2 628 438**

8. VAT receivable

VAT	16 379 293	23 579 232

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Consumer debtors

Gross balances		
Rates	6 881 137	6 636 522
Water	41 652 034	23 974 349
Sewerage	11 121 773	10 217 705
Refuse	11 302 839	10 750 374
Other (Interest and other major items)	26 330 402	26 127 429
	97 288 185	**77 706 379**
Less: Provision for debt impairment		
Rates	(7 312 175)	(6 345 496)
Water	(37 977 993)	(23 068 697)
Sewerage	(10 293 647)	(9 727 323)
Refuse	(10 410 880)	(10 214 076)
Other (specify)	(24 139 812)	(25 308 005)
	(90 134 507)	**(74 663 597)**
Net balance		
Rates	(431 038)	291 026
Water	3 674 041	905 652
Sewerage	828 126	490 382
Refuse	891 959	536 298
Other (Interest and other major items)	2 190 590	819 424
	7 153 678	**3 042 782**

Rates	**2011**
Current (0 -30 days)	(63 999)
31 - 60 days	(36 306)
61 - 90 days	2 539
91 - 120 days	(30 614)
121 - 365 days	(302 658)
	(431 038)
Water	
Current (0 -30 days)	141 031
31 - 60 days	59 522
61 - 90 days	79 287
91 - 120 days	58 740
121 - 365 days	3 335 461
	3 674 041
Sewerage	
Current (0 -30 days)	37 085
31 - 60 days	14 509
61 - 90 days	13 870
91 - 120 days	13 512
121 - 365 days	749 150
	828 126

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Consumer debtors (continued)

Refuse		
Current (0 -30 days)		89 608
31 - 60 days		14 834
61 - 90 days		14 125
91 - 120 days		13 665
121 - 365 days		759 727
		891 959

Other (specify)		
Current (0 -30 days)		124 338
31 - 60 days		63 510
61 - 90 days		72 913
91 - 120 days		55 098
121 - 365 days		1 874 731
		2 190 590

Reconciliation of debt impairment provision		
Balance at beginning of the year	(74 663 597)	(57 796 606)
Contributions to provision	4 452 228	(16 866 991)
Debt impairment written off against provision	(19 923 138)	-
	(90 134 507)	**(74 663 597)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	3 200	3 200
Bank balances	109 220 856	38 748 697
	109 224 056	**38 751 897**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	**30 June 2010**	**30 June 2009**	**30 June 2011**	**30 June 2010**	**30 June 2009**
Absa Bank	29 138 062	665 903	56 715	-	-	56 715
First National Bank	24 000 000	11 000 000	10 701 571	-	-	10 701 571
Standard Bank	20 621 284	13 621 284	5 000 000	7 270 456	5 000 822	5 000 000
Nedbank	25 461 510	13 461 510	3 042 636	3 407 099	3 234 229	3 042 636
People's Bank	10 000 000	-	-	3 416 605	5 386 233	-
Petty Cash	3 200	3 200	3 200	3 200	3 200	3 200
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
Total	**109 224 056**	**38 751 897**	**18 804 122**	**14 097 360**	**13 624 484**	**18 804 122**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Other financial liabilities

Held at amortised cost

Other financial liabilities	3 510 314	4 073 769
Non-current liabilities		
At amortised cost	3 510 313	3 967 803
Current liabilities		
At amortised cost	-	105 966
	3 510 313	**4 073 769**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG Grant	15 363 305	-

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 17 for reconciliation of grants from National/Provincial Government.

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

13. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Siyabuswa landfill	5 995 933	114 208	6 110 141
Libangeni landfill	3 451 161	65 736	3 516 897
	9 447 094	**179 944**	**9 627 038**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Total
Siyabuswa landfill	-	5 995 933	5 995 933
Libangeni landfill	-	3 451 161	3 451 161
	-	**9 447 094**	**9 447 094**

The municipality has two landfills for which we have made the calculations. The calculations of the closure costs have been based on an estimated 20 years remaining life and a discount rate of 7% {CPI plus 2%}. We have also calculated the provisions that would have been included in the 2010 financial statements if the same methodology would have been used and the remaining life would have been the only different variable.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Trade and other payables from exchange transactions

Trade payables	35 982 611	28 145 836
Other payables	2 072 482	2 072 482
Deposits received	77 861	55 064
Employee related costs	227 468	9 659
	38 360 422	**30 283 041**

15. Revenue

Property rates	2 009 562	1 844 379
Service charges	20 959 718	19 544 119
Rental of facilities & equipment	898 159	587 412
Interest received – trading	7 849 821	6 035 482
Licences and permits	2 824 478	3 149 770
Government grants & subsidies	282 325 048	266 948 038
	316 866 786	**298 109 200**

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

Service charges	20 959 718	19 544 119
Rental of facilities & equipment	898 159	587 412
Interest received – trading	7 849 821	6 035 482
Licences and permits	2 824 478	3 149 770
	32 532 176	**29 316 783**

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

Taxation revenue		
Property rates	2 009 562	1 844 379
Transfer revenue		
Levies	282 325 048	266 948 038
	284 334 610	**268 792 417**

16. Property rates

Rates received

	893 361	45 541
Commercial	102 845	145 625
State	1 008 933	1 646 571
Small holdings and farms	4 423	6 642
	2 009 562	**1 844 379**

17. Service charges

Sale of water	18 199 029	14 794 279
Sewerage and sanitation charges	107 622	2 338 187
Refuse removal	2 653 067	2 411 653
	20 959 718	**19 544 119**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Government grants and subsidies

Equitable share	180 529 090	146 274 038
Municipal Infrastructure Grant	60 569 695	65 005 000
Financial Management Grant	3 000 000	2 750 000
MSIG Grant	750 000	500 000
Dwarf Grant	37 476 263	52 419 000
	282 325 048	**266 948 038**

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

Current-year receipts	75 933 000	65 005 000
Conditions met - transferred to revenue	(60 569 695)	(65 005 000)
	15 363 305	**-**

Conditions still to be met - remain liabilities (see note 12).

Financial Management Grant

Current-year receipts	3 000 000	2 750 000
Conditions met - transferred to revenue	(3 000 000)	(2 750 000)
	-	**-**

Municipal Systems Improvement Program Grant

Current-year receipts	750 000	500 000
Conditions met - transferred to revenue	(750 000)	(500 000)
	-	**-**

Dwarf Grant

Current-year receipts	37 476 263	2 750 000
Conditions met - transferred to revenue	(37 476 263)	(2 750 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 12).

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.

19. Other revenue

Other income	2 791 711	2 140 890

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. General expenses

Accounting fees	92 663	-
Advertising	1 137 708	794 211
Auditors remuneration	1 359 016	1 460 458
Bank charges	155 062	106 642
Cleaning	1 597 034	2 200 795
Computer expenses	19 182	65 715
Consulting and professional fees	1 618 531	250 631
Entertainment	697 060	951 301
Insurance	1 545 556	1 003 331
Conferences and seminars	644 531	121 600
IT expenses	-	799 022
Lease rentals on operating lease	1 645 184	825 415
Medical expenses	-	9 352
Motor vehicle expenses	8 030 097	3 134 797
Postage and courier	13 992	5 714
Printing and stationery	3 958 516	1 442 966
Protective clothing	386 203	215 286
Security (Guarding of municipal property)	6 987 918	4 768 661
Telephone and fax	3 556 561	2 005 537
Training	1 413 567	1 779 633
Travel - local	3 507 922	2 968 530
Uniforms	4 340	82 962
General expenses	11 609 579	8 366 070
Delegates expenditure	4 312 948	2 333 817
Licence fees paid	14 533 797	10 130 190
Landfill	179 944	9 447 094
Chemicals	4 571 727	5 000 000
	73 578 638	**60 269 730**

21. Operating surplus/(deficit)

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

Operating lease charges		
Premises		
• Contractual amounts	384 704	24 141
Equipment		
• Contractual amounts	1 260 480	801 274
	1 645 184	**825 415**

Gain on sale of property, plant and equipment	905 326	175 721
Depreciation on property, plant and equipment	38 226 627	48 046 412
Employee costs	93 602 922	77 859 106

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Employee related costs

Basic	51 114 995	41 532 109
Bonus	3 772 999	3 006 606
Medical aid - company contributions	3 266 959	3 329 128
UIF	515 793	457 007
WCA	223 151	324 155
SDL	688 509	557 380
Post-employment benefits - Pension - Defined contribution plan	9 957 549	8 608 032
Travel, motor car, accommodation, subsistence and other allowances	5 054 671	4 352 184
Overtime payments	3 822 716	3 281 813
Housing benefits and allowances	1 429 947	1 100 204
Bargaining council levy	21 958	19 036
Group life contributions	40 685	63 178
	79 909 932	**66 630 832**

Remuneration of municipal manager

Annual Remuneration	1 916 379	1 726 228
Backpay	44 553	-
Lumpsum	1 040 346	-
Contributions to UIF, Medical and Pension Funds	145 330	-
Benefits and allowances	86 989	235 839
Undefined Difference	**(135 628)**	**-**
	3 097 969	**1 962 067**

Remuneration of chief finance officer

Annual Remuneration	1 153 554	796 076
Backpay	36 755	-
Lumpsum	14 259	-
Contributions to UIF, Medical and Pension Funds	39 965	-
Benefits and allowances	273 213	162 797
	1 517 746	**958 873**

23. Remuneration of councillors

Executive Major	1 067 049	850 022
Speaker	-	-
Councillors	8 010 226	7 457 312
	9 077 275	**8 307 334**

24. Debt impairment

Contributions to debt impairment provision	19 923 138	16 866 991

25. Investment revenue

Interest revenue		
Unlisted financial assets	29 390 080	6 545 793
Bank	852 358	689 548
	30 242 438	**7 235 341**

26. Depreciation and amortisation

Property, plant and equipment	38 226 627	48 046 412

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

27. Finance costs

Non-current borrowings	41 515	84 725
Bank	-	51 866
	41 515	**136 591**

28. Auditors' remuneration

Fees	1 359 016	1 460 458

29. Grants and subsidies paid

Other subsidies		
Indigent grants	6 237 627	4 886 873

30. Cash generated from operations

Surplus	93 467 797	54 291 702
Adjustments for:		
Depreciation and amortisation	38 226 627	48 046 412
Loss on sale of assets and liabilities	(905 326)	(175 721)
Debt impairment	19 923 138	16 866 991
Movements in provisions	179 944	9 447 094
Other non-cash items	80 448	-
Changes in working capital:		
Inventories	(473 804)	395 961
Trade and other receivables from exchange transactions	(1 794 861)	16 550 707
Consumer debtors	(24 034 034)	(17 195 316)
Trade and other payables from exchange transactions	8 077 381	(5 559 269)
VAT	7 199 939	(14 077 208)
Unspent conditional grants and receipts	15 363 305	(28 865 066)
	155 310 554	**79 726 287**

31. Contingencies

There is no reimbursement from any third parties for potential obligations of the municipality.

Unfilled conditions and other contingencies attaching to government grants related to agricultural activity.

32. 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

33. Prior period errors

Below is a detail split of items reclassified and corrected as per prior period errors relating to incorrect classification of amounts and certain prior period amount errors. The errors found were reclassified retrospectively.

The correction of the error(s) results in adjustments as follows as per financial statement description:

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

Figures in Rand	2011	2010

33. Prior period errors (continued)

Statement of financial position

Net assets	-	(19 449 495)
Non Current Assets - Employee costs	237 408	-
Non-current liabilities	18 150 937	-
Housing development fund	-	3 510 313
Cash and cash equivalents	18 150 937	-
Infrastructure assets application of GRAP	2 167 611 826	-
Statement of Financial Performance		
Other expenses	237 408	-

34. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member 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 , , , , 11, cash and cash equivalents disclosed in note 10, 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 member, return capital to member, issue new shares or sell assets to reduce 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.

35. Going concern

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	3 510 313	4 073 769

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.

37. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

Detailed Income statement

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	16	2 009 562	1 844 379
Service charges	17	20 959 718	19 544 119
Rental of facilities and equipment		898 159	587 412
Interest received (trading)		7 849 821	6 035 482
Licences and permits		2 824 478	3 149 770
Government grants & subsidies	18	282 325 048	266 948 038
Other income		2 791 711	2 140 890
Interest received - investment	25	30 242 438	7 235 341
Total Revenue		**349 900 935**	**307 485 431**
Expenditure			
Employee cost	22	(84 525 647)	(69 551 772)
Remuneration of councillors	23	(9 077 275)	(8 307 334)
Depreciation and amortisation	26	(38 226 627)	(48 046 412)
Finance costs	27	(41 515)	(136 591)
Debt impairment	24	(19 923 138)	(16 866 991)
Repairs and maintenance		(25 727 997)	(45 303 747)
Grants and subsidies paid	29	(6 237 627)	(4 886 873)
General Expenses	20	(73 578 638)	(60 269 730)
Total Expenditure		**(257 338 464)**	**(253 369 450)**
Gain on disposal of assets and liabilities		905 326	175 721
Surplus for the year		**93 467 797**	**54 291 702**

The supplementary information presented does not form part of the annual financial statements and is unaudited