THABAZIMBI LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

General Information

Legal form of entity	Local Municipality
Municipal Council Menbers	
Executive Mayor	Cllr. P.A. Mosito
Speaker	Cllr. S.G. Matsietsa
Chief Whip	Cllr.M.D. Tlhabadira
Ward Councillors	Cllr. B.N. Maguga Cllr. M.L. Sikhwari Cllr. D.R. Daniels Cllr. S.A. Khumalo Cllr. D.A. Moatshe Cllr. F. Loots Cllr. S.G. Lerumo Cllr. R.C. Du Preez Cllr. K.R. Mokwena Cllr. P. Strydom Cllr. M. Moselane Cllr. J.M. Fischer
Council committee members	
Mayoral Committee	Cllr. P.A. Mosito Cllr. S.G. Matsietsa Cllr. D.M. Tlhabadira
Executive Committee	Cllr. T. Mkansi Cllr. M.E. Semadi Cllr. L.H. Joubert
Community and Social Services Committee	Cllr. L.H. Joubert (Chairperson) Cllr. F. Loots Cllr. S.G. Lerumo Cllr. J.M. Fischer Cllr. B.N. Maguga
Infrastructure Planning and Economic Development Committee	Cllr. T. Mkansi (Chairperson) Cllr. M.L. Sikhwari Cllr. D.R. Daniels Cllr. D.A. Moatshe Cllr. R.C. Du Preez Cllr. K.R. Mokwena Cllr. M. Moselane
Finance and Institutional Development & Transformation committee	Cllr. M.E. Semadi (Chairperson) Cllr. S.A. Khumalo Cllr. P. Strydom
Representatives of the District Council	Cllr. A.R. Ramogale Cllr. S.E. Sikwane Cllr. P.A. Scruton

General Information

Grading of local authority	Low capacity municipality
Accounting Officer	Adv. M. Ntsoane
Chief Finance Officer (CFO)	Mr T.B. Mothogoane
Registered office	7 Rietbok street Thabazimbi 0380
Postal address	Private bag X 530 Thabazimbi 0380
Bankers	ABSA Bank Limited
Auditors	Auditor General South Africa
Telephone number	014 777 1525
Fax number	014 777 1531
Email	info@thabazimbi.org.za
Website	www.thabazimbi.gov.za

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

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Abbreviations

ASB	Accounting Standards Board
COID	Compensation for Occupational Injuries and Diseases
D.W.A.F.	Department of Water Affairs and Forestry
DBSA	Development Bank of South Africa
EPWPIG	Expanded Public Works Programme Incentive Grant
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
INEP	Integrated National Electrification Programme
IMFO	Institute of Municipal Finance Officers
ASA	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
LG SETA	Local Goverment Sector Education Training Programme
MEC	Member of the Executive Council
ME's	Municipal Entities
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployeement Insurance Fund
VAT	Value Added Taxation
WCA	Workman's Compensation Act

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The annual financial statements set out on pages 6 to 48, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed by him:

Adv. M. Ntsoane
Municipal Manager(Accounting Officer)
Thabazimbi

31 August 2012

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2012.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 8,369,753 (2011: deficit R 11,785,434).

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 South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and 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	Nationality
Adv. M. Ntsoane	South African

6. Corporate governance

General

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

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Chair person and chief executive

The Chairperson is an independent councilor (as defined by the Code) with responsibilities divided so that no individual has unfettered powers of discretion.

Audit committee

Mr I.W. Modisha was the chairperson of the audit committee. The committee met 10 times during the financial year toreview matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, the municipality must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the municipality constituted the municipal entities' Audit Committees, National Treasury policy requires that municipalities should appoint further members of the municipality's audit committees who are not councillors of the municipal entity onto the audit committee.

Accounting Officer's Report

Internal audit

The municipality has employed a chief internal auditor for the year under review.

Mr. P.H. Makhuvha

7. Bankers

The municipality banks primarily with ABSA Bank Limited.

8. Auditors

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

Statement of Financial Position

Figures in Rand	Notes	2012	2011
Assets			
Current Assets			
Cash and cash equivalents	12	3,087,875	4,457,678
Consumer debtors	11	50,419,305	9,096,017
Inventories	8	2,321,937	2,571,418
Trade and other receivables from exchange transactions	9	1,346,182	5,142,301
VAT receivable	10	-	9,990,934
Total Current Assets		**57,175,299**	**31,258,348**
Non-Current Assets			
Biological assets	2	568,941	568,941
Intangible assets	5	1,293,571	103,621
Investment property	3	15,474,001	15,474,001
Other financial assets	6	2,764,168	3,074,503
Property, plant and equipment	4	905,416,785	903,671,202
Total Non-Current Assets		**925,517,466**	**922,892,268**
Total Assets		**982,692,765**	**954,150,616**
Liabilities			
Current Liabilities			
Consumer deposits	18	3,232,999	3,104,524
Operating lease liability		-	328,163
Other financial liabilities	13	2,009,734	1,183,305
Provisions	15	12,684,456	11,201,560
Trade and other payables from exchange transactions	16	54,546,511	53,202,709
Unspent conditional grants and receipts	14	15,148,245	2,483,331
VAT payable	17	2,120,740	-
Total Current Liabilities		**89,742,685**	**71,503,592**
Non-Current Liabilities			
Other financial liabilities	13	6,498,948	7,796,026
Provisions	15	6,596,862	6,555,125
Retirement benefit obligation	7	17,955,339	14,766,691
Total Non-Current Liabilities		**31,051,149**	**29,117,842**
Total Liabilities		**120,793,834**	**100,621,434**
Net Assets		**861,898,931**	**853,529,182**
Net Assets			
Accumulated surplus		861,898,931	853,529,182

Statement of Financial Performance

Figures in Rand	Notes	2012	2011
Revenue			
Discount received		4,689	-
Government grants and subsidies	22	79,486,100	81,954,778
Income from agency services		2,937,112	5,889,994
Interest received - investment	28	227,802	268,753
Other income		10,309,845	11,391,590
Property rates	20	14,720,533	15,833,554
Rental of facilities and equipment		214,512	498,382
Service charges	21	130,096,201	76,786,616
Total Revenue		**237,996,794**	**192,623,667**
Expenditure			
Bulk purchases	33	(57,759,136)	(42,977,569)
Debt impairment	27	(22,625,444)	(12,913,814)
Depreciation and amortisation	29	(19,890,593)	(19,755,367)
Finance costs	30	(4,040,781)	(2,220,630)
General Expenses	24	(20,902,240)	(31,003,471)
Grants and subsidies paid		(2,545,855)	(970,867)
Personnel	25	(66,903,045)	(61,837,205)
Remuneration of councillors	26	(5,503,147)	(4,678,384)
Repairs and maintenance		(29,636,835)	(28,170,563)
Total Expenditure		**(229,807,076)**	**(204,527,870)**
Gain on disposal of assets and liabilities		180,035	118,769
Surplus/(deficit) for the year		**8,369,753**	**(11,785,434)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**865,314,616**	**865,314,616**
Changes in net assets		
Surplus for the year	(11,785,434)	(11,785,434)
Total changes	(11,785,434)	(11,785,434)
Balance at 01 July 2011	**853,529,178**	**853,529,178**
Changes in net assets		
Surplus for the year	8,369,753	8,369,753
Total changes	8,369,753	8,369,753
Balance at 30 June 2012	**861,898,931**	**861,898,931**

Notes

Cash Flow Statement

Figures in Rand	Notes	2012	2011
Cash flows from operating activities			
Receipts			
Rates		14,854,421	11,838,981
Service charges		97,192,440	75,598,183
Grants		93,358,437	86,481,097
Interest income		227,802	268,753
Other receipts		5,870,245	23,179,348
Total receipts		211,503,345	197,366,362
Payments			
Employee costs		(72,406,090)	(66,676,894)
Suppliers		(113,619,871)	(110,801,098)
Finance costs		(4,040,781)	(2,220,630)
Total payments		(190,066,742)	(179,698,622)
Net cash flows from operating activities	34	**21,436,603**	**17,667,740**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(21,636,177)	(4,237,786)
Proceeds from sale of property, plant and equipment	4	180,035	118,769
Purchase of other intangible assets	5	(1,189,950)	-
Proceeds from sale of financial assets		310,335	(221,369)
Proceeds from sale of other asset		-	(596,946)
Net cash flows from investing activities		**(22,335,757)**	**(4,937,332)**
Cash flows from financing activities			
Decrease in other financial liabilities		(470,649)	(610,417)
Finance lease payments		-	(207,487)
Net cash flows from financing activities		**(470,649)**	**(817,904)**
Net increase/(decrease) in cash and cash equivalents		**(1,369,803)**	**11,912,504**
Cash and cash equivalents at the beginning of the year		4,457,678	(7,454,826)
Cash and cash equivalents at the end of the year	12	**3,087,875**	**4,457,678**

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 year.

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.

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. In addition, goodwill is tested on an annual basis for impairment.

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 7 and 15 - 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 7.

Effective interest rate

The municipality used the prime interest rate +2% 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 Biological assets

An entity shall recognise a biological assets or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

The fair value of milk is determined based on market prices in the local area.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

An unconditional government grant related to a biological assets measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

Accounting Policies

1.3 Investment property

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

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

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

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

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

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

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

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

1.4 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.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

Property, plant and equipment is carried at 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.

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

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

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

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

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

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

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

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 and available in the asset management policy of the municipality.

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

Accounting Policies

1.4 Property, plant and equipment (continued)

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

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

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

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

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

1.5 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Accounting Policies

1.6 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Accounting Policies

1.6 Financial instruments (continued)

Held to maturity

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

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

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

Gains and losses

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

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

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Accounting Policies

1.6 Financial instruments (continued)

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.7 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

Accounting Policies

1.8 Inventories

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

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

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

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

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

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

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

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

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

1.9 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.9 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goodsor services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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 entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.9 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.10 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.10 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

Accounting Policies

1.10 Provisions and contingencies (continued)

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 and .

If the related asset is measured using the revaluation model:

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

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

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

1.11 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

1.11 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

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.

1.12 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

1.12 Revenue from non-exchange transactions (continued)

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.

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:
- 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.

Accounting Policies

1.13 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.

1.14 Investment income

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

1.15 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.

1.16 Comparative figures

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

1.17 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.

1.18 Fruitless and wasteful expenditure

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

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

1.19 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

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

Accounting Policies

1.21 Offsetting

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

1.22 Investments

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

1.23 Conditional grants and receipts

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

2. Biological assets

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Other biological assets	568,941	-	568,941	568,941	-	568,941

Reconciliation of biological assets - 2012

	Opening balance	Total
Other biological assets	568,941	568,941

Reconciliation of biological assets - 2011

	Opening balance	Total
Other biological assets	568,941	568,941

Non - Financial information

Quantities of each biological asset		
Wild animals	419	419

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

3. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	15,474,001	-	15,474,001	15,474,001	-	15,474,001

Reconciliation of investment property - 2012

	Opening balance	**Total**
Investment property	15,474,001	15,474,001

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	15,474,001	15,474,001

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.

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

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

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

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

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Infrastructure	1,473,925,273	(625,541,019)	848,384,254	1,473,925,273	(612,871,418)	861,053,855
Community	22,103,783	(3,899,421)	18,204,362	19,597,263	(3,457,345)	16,139,918
Other property, plant and equipment	33,897,727	(18,430,701)	15,467,026	33,891,428	(11,651,785)	22,239,643
Work in progress	23,361,143	-	23,361,143	4,237,786	-	4,237,786
Total	**1,553,287,926**	**(647,871,141)**	**905,416,785**	**1,531,651,750**	**(627,980,548)**	**903,671,202**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Depreciation**	**Total**
Infrastructure	861,053,855	-	(12,669,601)	848,384,254
Community	16,139,918	2,506,520	(442,076)	18,204,362
Other property, plant and equipment	22,239,643	6,300	(6,778,917)	15,467,026
Work in progress	4,237,786	19,123,357	-	23,361,143
	903,671,202	**21,636,177**	**(19,890,594)**	**905,416,785**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Depreciation	Total
Infrastructure	873,723,455	-	-	(12,669,600)	861,053,855
Community	16,531,863	-	-	(391,945)	16,139,918
Other property, plant and equipment	28,933,465	-	-	(6,693,822)	22,239,643
Work in progress	8,389,318	4,237,786	(8,389,318)	-	4,237,786
	927,578,101	**4,237,786**	**(8,389,318)**	**(19,755,367)**	**903,671,202**

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Intangible assets	1,293,571	-	1,293,571	103,621	-	103,621

Reconciliation of intangible assets - 2012

	Opening balance	**Additions**	**Total**
Intangible assets	103,621	1,189,950	1,293,571

Reconciliation of intangible assets - 2011

	Opening balance	**Total**
Intangible assets	103,621	103,621

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 are:

IFMS Munsoft System	R 1,169,950.00
Munsoft Disaster Recovery Back-up Module	R 20,000.00

Figures in Rand		2012	2011

6. Other financial assets

Loans and receivables

ABSA Bank Limited: Fixed Deposit		157,733	149,410
The above fixed deposit investment with detail as below:			
Start date:	2012/06/16		
Maturity date	2012/07/17		
Investment amount:	R 157,733.00		
Interest rate:	5.1%p/a		
Sanlam Investment: Market Investment		66,003	501,524
The above money market collective investment schemes with the detail as below:			
Fund unit balance:	R 66,003		
Price per unit (c):	100c		
Market value (Rc) at 30/06/2012	R 66,003		
Old Mutual: Investment Fund		2,540,432	2,423,569
The above fixed deposit investment with the detail as below:			
Investment reference number:	13543332		
Commencement date:	2009/09/30		
Price per Unit (c):	R142.125		
		2,764,168	**3,074,503**

Non-current assets		
Loans and receivables	2,764,168	3,074,503

7. Employee benefit obligations

Defined benefit plan

The GRAP 25 Statement sets out the measurement recognition and disclosure requirements in accounting for postretirement "defined benefit" plans. It is recommended that the Municipality consult with their auditors in determining the appropriate approach for reflecting the results of this valuation in their Financial Statements.

Post retirement benefit plan

The Municipality offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

In estimating the liability for post-employment health care benefits a number of assumptions are required. GRAP 25 Statement places the responsibility on management to set these assumptions as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

7. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(14,766,691)	(10,252,501)
Net actuarial gains or losses not recognised	(3,188,648)	(4,400,641)
Prior year error	113,549	(113,549)
Undefined Difference	**(113,549)**	**-**
Net liability	**(17,955,339)**	**(14,766,691)**

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

Opening balance	8,084,318	1,635,463
Net expense recognised in the statement of financial performance	3,188,648	6,448,855
Closing balance	**11,272,966**	**8,084,318**

Net expense recognised in the statement of financial performance

Current service cost	1,044,530	727,242
Prior error	-	1,635,463
Interest cost	1,284,463	(927,529)
Actuarial (gains)/losses	1,007,411	2,976,107
Transitional Liability Recognised	-	2,154,260
Expected return on plan assets	(147,756)	(116,688)
Total included in employee related costs	**3,188,648**	**6,448,855**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.49 %	8.74 %
Health care cost inflation rate	7.16 %	7.28 %
Net effective discount rate	1.24 %	1.37 %

Key demographic assumptions used at the report date:

Average retirement age	63.00	63.00
Continuation of membership at retirement:	95.00%	95.00%
Proportion assumed married at retirement:	95.00%	95.00%
Proportion of eligible current non-member employees joining the scheme by retirement:	30.00%	30.00%
Mortality during employment:	SA85-90	
Mortality post-retirement:	PA 90-1	PA 90-1

8. Inventories

Stock on hand	2,321,937	2,571,418

9. Trade and other receivables from exchange transactions

Trade debtors	(2,252)	(1,458)
Prepayments	-	4,599,290
Other receivables	1,348,434	544,469
	1,346,182	**5,142,301**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

10. VAT receivable

VAT	-	9,990,934

11. Consumer debtors

Gross balances		
Rates	14,754,049	14,887,937
Electricity	16,735,092	4,553,485
Water	54,469,599	18,269,316
Sewerage	6,245,419	6,589,989
Refuse	8,359,506	5,051,978
Other	44,622,321	31,938,740
	145,185,986	**81,291,445**
Less: Provision for debt impairment		
Rates	(12,785,962)	(12,967,071)
Electricity	(1,799,177)	(4,437,217)
Water	(33,680,314)	(14,044,037)
Sewerage	(6,555,379)	(5,816,773)
Refuse	(4,937,093)	(4,485,961)
Other	(35,008,756)	(30,444,369)
	(94,766,681)	**(72,195,428)**
Net balance		
Rates	1,968,087	1,920,866
Electricity	14,935,915	116,268
Water	20,789,285	4,225,279
Sewerage	(309,960)	773,216
Refuse	3,422,413	566,017
Other	9,613,565	1,494,371
	50,419,305	**9,096,017**
Rates		
Current (0 -30 days)	1,371,960	660,623
31 - 60 days	332,317	490,653
61 - 90 days	263,810	446,612
91 - 120 days	-	322,978
	1,968,087	**1,920,866**
Electricity		
Current (0 -30 days)	14,040,653	192,821
31 - 60 days	336,547	(256,211)
61 - 90 days	558,715	397,847
91 - 120 days	-	(218,189)
	14,935,915	**116,268**
Water		
Current (0 -30 days)	18,119,856	1,927,580
31 - 60 days	1,300,587	899,431
61 - 90 days	1,368,842	891,567
91 - 120 days	-	506,701
	20,789,285	**4,225,279**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

11. Consumer debtors (continued)

Sewerage		
Current (0 -30 days)	(1,163,211)	198,431
31 - 60 days	328,416	202,317
61 - 90 days	312,499	197,052
91 - 120 days	212,336	175,416
	(309,960)	**773,216**
Refuse		
Current (0 -30 days)	865,228	153,757
31 - 60 days	228,373	131,548
61 - 90 days	214,725	151,387
91 - 120 days	2,114,087	129,325
	3,422,413	**566,017**
Other (specify)		
Current (0 -30 days)	4,154,570	643,463
31 - 60 days	836,124	234,052
61 - 90 days	220,261	286,385
91 - 120 days	4,445,276	330,471
Undefined Difference	**(42,666)**	**-**
	9,613,565	**1,494,371**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(72,195,428)	(48,513,897)
Contributions to provision	(22,571,253)	(23,681,531)
	(94,766,681)	**(72,195,428)**

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,174	34,334
Bank balances	3,085,701	4,423,344
	3,087,875	**4,457,678**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
ABSA Bank Limited - Cheque Account - 1580000009	1,416,103	519,520	4,730	3,018,913	4,356,218	(11,031,041)
ABSA Bank Limited - Cheque Account (RDP) - 40858303004	66,844	66,967	287,753	66,788	67,126	287,753
Total	**1,482,947**	**586,487**	**292,483**	**3,085,701**	**4,423,344**	**(10,743,288)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Other financial liabilities

Held at amortised cost		
Devlopment Bank of South Africa	8,508,682	8,979,331
Non-current liabilities		
At amortised cost	6,498,948	7,796,026
Current liabilities		
At amortised cost	2,009,734	1,183,305
	8,508,682	**8,979,331**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	15,148,245	2,483,331

15. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Difference	Additions	Utilised during the year	Total
Provision for landfill site	6,555,125	(122,526)	530,276	(366,013)	6,596,862
Long service awards	2,928,408	-	1,376,851	-	4,305,259
Provision for leave pay	6,616,198	-	-	(1,571,467)	5,044,731
13th cheque bonus	1,656,954	-	933,066	-	2,590,020
Stores	-	-	744,446	-	744,446
	17,756,685	**(122,526)**	**3,584,639**	**(1,937,480)**	**19,281,318**

Reconciliation of provisions - 2011

	Opening Balance	Difference	Additions	Utilised during the year	Total
Provision for landfill site	6,432,599	122,526	122,526	(122,526)	6,555,125
Long service awards	2,497,179	-	431,229	-	2,928,408
Provision for leave pay	5,141,809	-	1,474,389	-	6,616,198
13th cheque bonus	1,017,486	-	639,468	-	1,656,954
	15,089,073	**122,526**	**2,667,612**	**(122,526)**	**17,756,685**

Non-current liabilities	6,596,862	6,555,125
Current liabilities	12,684,456	11,201,560
	19,281,318	**17,756,685**

16. Trade and other payables from exchange transactions

Trade payables	51,911,228	50,343,660
Deposits received	2,635,283	2,859,049
	54,546,511	**53,202,709**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

17. VAT payable

VAT	2,120,740	-

18. Consumer deposits

Water and lights	3,232,999	3,104,524

19. Revenue

Property rates	14,720,533	15,833,554
Service charges	130,096,201	76,786,616
Rental of facilities and equipment	214,512	498,382
Income from agency services	2,937,112	5,889,994
Government grants and subsidies	79,486,100	81,954,778
	227,454,458	**180,963,324**

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

Service charges	130,096,201	76,786,616
Rental of facilities and equipment	214,512	498,382
Income from agency services	2,937,112	5,889,994
	133,247,825	**83,174,992**

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

Taxation revenue		
Property rates	14,720,533	15,833,554
Transfer revenue		
Goverment grants and subsidies	79,486,100	81,954,778
	94,206,633	**97,788,332**

20. Property rates

Rates received

Residential	6,184,634	8,274,920
Commercial	4,230,909	2,641,821
State	197,966	1,006,154
Small holdings and farms	4,107,024	3,910,659
	14,720,533	**15,833,554**

Valuations

Residential	4,236,618,437	4,236,618,437
Commercial	2,836,112,578	2,836,112,578
State	146,681,900	146,681,900
Municipal	61,509,000	61,509,000
Small holdings and farms	262,485,300	262,485,300
	7,543,407,215	**7,543,407,215**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2007 to 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Service charges

Sale of electricity	49,655,532	32,324,481
Sale of water	61,720,303	29,566,947
Sewerage and sanitation charges	10,788,854	8,284,690
Refuse removal	7,931,512	6,610,498
	130,096,201	**76,786,616**

22. Government grants and subsidies

Equitable share	52,832,014	48,296,109
Municipal Infrastructure Grant (MIG)	23,152,942	26,408,669
Local Goverment Financial Management Grant (FMG)	1,500,000	1,500,000
Municipal Systems Improvement Program Grant (MSIG)	790,000	750,000
Integrated National Electrification Program Grant (INEP)	1,211,144	5,000,000
	79,486,100	**81,954,778**

Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	2,483,331	-
Current-year receipts	34,750,000	28,892,000
Conditions met - transferred to revenue	(22,473,762)	(26,408,669)
Unspent portion - INEP	388,676	-
	15,148,245	**2,483,331**

Local Goverment Financial Management Grant (FMG)

Current-year receipts	1,500,000	1,500,000
Conditions met - transferred to revenue	(1,491,761)	(1,500,000)
Other	(8,239)	-
	-	**-**

Municipal Systems Improvement Program Grant (MSIG)

Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(789,742)	(750,000)
Other	(258)	-
	-	**-**

Integrated National Electrification Program Grant (INEP)

Current-year receipts	1,600,000	5,000,000
Conditions met - transferred to revenue	(1,211,144)	(5,000,000)
Other	(388,856)	-
	-	**-**

23. Other revenue

Discount received	4,689	-
Other income	10,309,845	11,391,590
	10,314,534	**11,391,590**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. General expenses

Advertising	80,030	300,707
Auditors remuneration	1,961,444	2,071,951
Bank charges	103,116	116,418
Cleaning	168,708	305,563
Community development and training	44,580	389,803
Consulting and professional fees	6,078,871	14,454,221
Consumables	(415,376)	132,377
Delegates fees	18,539	111,964
Entertainment	435,569	321,552
Insurance	1,056,090	1,136,228
Lease rentals on operating lease	1,128,470	1,023,831
Magazines, books and periodicals	-	490
Motor vehicle expenses	2,168,274	3,276,571
Other expenses	41,286	30,842
Postage and courier	163,260	201,735
Printing and stationery	680,888	1,192,073
Promotions and sponsorships	200	635,290
Protective clothing	418,263	61,445
Refuse	(15,555)	161,491
Security	372,486	251,508
Sewerage and waste disposal	(72)	119,160
Subscriptions and membership fees	510,531	55,954
Telephone and fax	2,288,915	2,240,256
Training	820,461	490,436
Travel - local	1,857,399	1,760,959
Stock Losses	849,499	160,646
Operating leases	86,364	-
	20,902,240	**31,003,471**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Employee related costs

Basic	37,342,318	33,450,989
Bonus	2,785,144	3,204,307
Medical aid - company contributions	2,347,363	2,179,927
UIF	388,541	333,865
WCA	(1,567)	74,705
SDL	-	345,345
Leave pay provision charge	(769,782)	431,542
Post-employment benefits - Pension - Defined contribution plan	9,404,084	8,203,645
Travel, motor car, accommodation, subsistence and other allowances	4,399,346	3,710,486
Overtime payments	4,035,690	4,426,015
13th Cheques	933,066	-
Provident fund	1,013,238	566,160
Industrial council	16,458	16,106
	61,893,899	**56,943,092**

Remuneration of Municipal manager

Annual remuneration	811,265	805,303
Travel, cellphone and other allowances	95,264	137,305
Contributions to UIF, Medical and Pension Funds	3,599	3,700
	910,128	**946,308**

Remuneration of Chief finance officer

Annual remuneration	661,478	623,614
Travel, cellphone and other allowances	165,431	139,200
Contributions to UIF, Medical and Pension Funds	7,978	2,893
	834,887	**765,707**

Remuneration of Technical services manager

Annual remuneration	711,873	660,930
Travel, cellphone and other allowances	194,777	186,889
Contributions to UIF, Medical and Pension Funds	8,686	3,149
	915,336	**850,968**

Remuneration of Corporate services manager

Annual remuneration	650,000	628,000
Travel, cellphone and other allowances	96,562	141,275
Contributions to UIF, Medical and Pension Funds	43,887	70,165
	790,449	**839,440**

Remuneration Community and sosial services manager

Annual remuneration	568,459	529,000
Travel, cellphone and other allowances	130,353	133,630
Contributions to UIF, Medical and Pension Funds	12,104	10,993
	710,916	**673,623**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Employee related costs (continued)

Remuneration Planning and development manager

Annual remuneration	680,000	652,026
Travel, cellphone and other allowances	167,430	163,200
Contributions to UIF, Medical and Pension Funds	-	2,841
	847,430	**818,067**

26. Remuneration of councillors

Major	636,767	577,429
Speaker	628,646	474,887
Councillors	4,237,734	3,626,068
	5,503,147	**4,678,384**

27. Debt impairment

Debt impairment	22,625,444	12,913,814

28. Investment revenue

Interest revenue		
Bank	227,802	268,753

29. Depreciation and amortisation

Property, plant and equipment	19,890,593	19,755,367

30. Finance costs

Finance cost	4,040,781	2,220,630

31. Auditors' remuneration

Fees	1,961,444	2,071,951

32. Rental of facilities and equipment

Premises		
Premises	211,434	495,712
Facilities and equipment		
Rental of equipment	3,078	2,670
	214,512	**498,382**

33. Bulk purchases

Electricity	39,021,312	30,916,381
Water	18,737,824	12,061,188
	57,759,136	**42,977,569**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

34. Cash generated from operations

Surplus (deficit)	8,369,753	(11,785,434)
Adjustments for:		
Depreciation and amortisation	19,890,593	19,755,367
Loss on sale of assets and liabilities	(180,035)	(118,769)
Debt impairment	22,625,444	12,913,814
Movements in operating lease assets and accruals	(328,163)	328,163
Movements in retirement benefit assets and liabilities	3,188,648	4,400,641
Movements in provisions	1,524,633	2,667,612
Changes in working capital:		
Inventories	249,481	(68,278)
Trade and other receivables from exchange transactions	3,796,119	1,101,556
Consumer debtors	(63,948,732)	(34,822,207)
Trade and other payables from exchange transactions	1,343,815	19,228,252
VAT	12,111,658	1,522,207
Unspent conditional grants and receipts	12,664,914	2,483,331
Consumer deposits	128,475	61,485
	21,436,603	**17,667,740**

35. Commitments

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1,556,040	1,072,994
- in second to fifth year inclusive	1,920,226	2,334,129
	3,476,266	**3,407,123**

36. Related parties

Relationships

Accounting Officer	Refer to Accounting Officers report
Municipal Gratuity Fund	Post Employment benefit plan for employees of Thabazimbi.
Department of Transport	Fellow entity
Former councillor	Irvan Keyser

Related party transactions

Licence Commission earned		
Department of Transport	539,851	-
Department of Transport		
Balance owed	6,481,151	5,634,429
Rent paid		
Irvan Keyser	249,477	210,422

Figures in Rand	2012	2011

37. Prior period errors

Water Inventory was not recognised in terms of GRAP 12
Property plant and Equipment was not recognised in terms of GRAP 17
Biological Assets were not recognised in terms of GRAP 101 & GRAP 104

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

Statement of financial position		
Water inventory	-	69,099
Property Plant and Equipment Revaluations	-	1,427,624,272
Property Plant and Equipment Amortisation	-	(600,201,818)
Biological Assets Fair value adjustment	-	568,941
Statement of Financial Performance		
Reversal of Overstatement of expenses prior year	-	(2,228,585)

38. Comparative figures

Certain comparative figures have been reclassified.

39. 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 director 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 13, cash and cash equivalents disclosed in note 12, 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 director, return capital to director, issue new shares or sell assets to reduce debt.

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

There are no externally imposed capital requirements.

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

Liquidity risk

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

Interest rate risk

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Risk management (continued)

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.

40. 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.

41. Unauthorised expenditure

Unauthorised expenditure	-	64,048,022

42. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	808,659	78,587

43. Irregular expenditure

Opening balance	52,500	31,095,544

Figures in Rand	2012	2011

44. Additional disclosure in terms of Municipal Finance Management Act

Councillors' arrear consumer accounts

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. P.A. Scruton	4,577	3,000	7,577
Cllr. M. Moselane	2,621	-	2,621
Cllr. T.D. Molefe	557	1,787	2,344
	7,755	**4,787**	**12,542**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. A.S. Khumalo	-	(179)	(179)
Cllr. C.S. Sikwane	-	(147)	(147)
Cllr. D.A. Moatshe	-	(5)	(5)
Cllr. N.D. Tlhabadira (Chief Whip)	-	727	727
Cllr. P.A. Mosito (Mayor)	-	(799)	(799)
Cllr. R.A. Ramogale	-	(976)	(976)
Cllr. S.G. Lerumo	-	(76)	(76)
Cllr. M.L. Moselane	-	2,974	2,974
Cllr. T.D. Molefe	-	516	516
Cllr. V.S Mothoa (Speaker)	-	17,856	17,856
	-	**19,891**	**19,891**