ELIAS MOTSOALEDI LOCAL MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2012

General Information

Legal form of entity	Local Municipality Lim 472
Chief Whip	Cllr TM Phahlamohlaka (Chief Whip)
Mayor	Cllr WM Matemane
Councillors	Cllr R Alberts Cllr MZ Buta Cllr RSA Kabinie Cllr JP Kotze Cllr TJ Lepota Cllr MF Madihlaba Cllr MF Rakoena Cllr MM Maepa Cllr AB Mahlangu Cllr J Mahlangu Cllr MD Mahlangu Cllr NN Mahlangu Cllr TS Mahlangu Cllr KS Mahlase Cllr MW Ramphisa Cllr MN Malatji Cllr MS Malekane Cllr AM Maloba Cllr DS Mamaila Cllr MS Marapi Cllr MS Maselela Cllr EM Masemola Cllr HS Mashifane Cllr MS Mashilo Clr MP Mokane Cllr SM Mathale Cllr JL Mathebe Cllr MK Tshoshane Cllr GD Matjomane Cllr MS Matlala Cllr CD Matsepe Cllr TS Matsepe Cllr MP Matshipa Cllr ST Matsomane Cllr Sh Mehlape Cllr CT Mhlanga Cllr I Mkhaliphi Cllr TN Mmutle Cllr VV Moganedi Cllr FM Mogotji Cllr MJ Mohlala Cllr MP Mokgabudi Cllr MT Mokganyetji Cllr OE Motau Cllr MG Motlafe

General Information

	Cllr DM Mzinyane Cllr ME Nduli Cllr SF Nkosi Cllr TJ Ntuli Cllr ML Phala Cllr A Phatlane Cllr RJ Podile Cllr JJ Skosana Cllr SL Skosana Cllr SO Somo Cllr MD Tladi Cllr LH Tshoma Cllr MS Tshoma
Grading of local authority	Medium Capacity Municipality
Accounting Officer	Ms MM Mtsweni (from 01 May 2012)
Chief Finance Officer (CFO)	Mr R Palmer (Acting)
Accounting Officer	Ms MM Mtsweni (from 01 May 2012)
Business address	Civic Centre Groblersdal 0470
Postal address	PO Box 48 Groblersdal 0470
Bankers	ABSA Bank Limited
Auditors	Auditor General Polokwane
Published	31 August 2012

Index

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

The annual financial statements set out on pages 6 to 58, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Ms MM Mtsweni (from 01 May 2012)
Municipal Manager

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2012.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year no meetings were held.

Name of member	Number of meetings attended
ST Kholong (Chairperson)	0
T Gafane	0
FJ Mudau	0
R Nke	0
B Mohlamme	0

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal control was not entirely effective for the year under review. During the year under review, several deficiencies in the system of internal control and/or deviations from there from were reported by the internal auditors and the Auditor-General South Africa. In certain instances, the matters reported previously have not been fully and satisfactorily addressed.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The audit committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Officer of the municipality during the year under review.

Evaluation of annual financial statements

The audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management’s response thereto;
- reviewed changes in accounting policies and practices (delete if not applicable);
- reviewed the entities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

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

Internal audit

The internal audit function has been outsourced to a Service provider.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

_____

Chairperson of the Audit Committee

Date: _____

Accounting Officer's Report

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

1. Review of activities

Main business and operations

Net surplus of the municipality was R 24 441 656 (2011: surplus R 30 224 913). The deficit was due to the transfer of water and sanitation related assets. The assets was donated to the Sekhukhune District Municipality free of charge. The amount of the donated assets was R 404 655 598.

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.

The municipality for the financial period under review started experiencing cashflow problems due to commitments on prior year capital projects not funded and under collection of consumer debtors.

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

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

Name
Ms MM Mtsweni (from 01 May 2012)

Mr MM Kgwale - Acting (01 July 2011 to 30 April 2012)

6. Bankers

The municipality banks primarily with ABSA Bank Limited.

7. Auditors

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

8. Public Private Partnership

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

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

During the financial period under review 30 June 2012 Elias Motsoaledi Local Municipality did not enter into any Public Private Partnership agreements.

9. Additional Note

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	9	1 867 647	1 733 913
Receivables from exchange transactions	10	16 747 974	21 154 664
VAT receivable	11	5 143 890	4 974 911
Consumer debtors	12	12 740 703	8 156 794
Cash and cash equivalents	13	7 475 792	35 853 324
		43 976 006	**71 873 606**
Non-Current Assets			
Biological assets that form part of an agricultural activity	4	94 000	94 000
Investment property	5	17 927 400	17 927 400
Property, plant and equipment	6	688 104 112	643 445 163
Intangible assets	7	29 416 153	-
		735 541 665	**661 466 563**
Total Assets		**779 517 671**	**733 340 169**
Liabilities			
Current Liabilities			
Payables from exchange transactions	17	41 412 317	20 128 342
Consumer deposits	18	3 205 959	3 031 424
Unspent conditional grants and receipts	15	893 629	1 108 335
		45 511 905	**24 268 101**
Non-Current Liabilities			
Other financial liabilities	14	-	2 764 323
Retirement benefit obligation	8	24 001 186	20 989 322
Long service leave provisions	16	1 590 456	1 345 952
		25 591 642	**25 099 597**
Total Liabilities		**71 103 547**	**49 367 698**
Net Assets		**708 414 124**	**683 972 471**
Net Assets			
Accumulated surplus		708 414 125	683 972 469

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	20	11 033 275	10 705 580
Service charges	21	50 459 587	39 126 500
Rental of facilities and equipment		811 249	683 186
Income from agency services	37	3 190 671	3 193 989
Traffic Fines		1 031 214	2 408 020
Licences and permits		5 370 418	4 267 692
Government grants & subsidies	22	146 306 000	128 528 257
Other income		2 870 630	2 708 508
Interest received	29	4 924 875	5 736 659
Gains on disposal of assets		3 581 372	-
Total Revenue		**229 579 291**	**197 358 391**
Expenditure			
Personnel	26	(62 672 270)	(58 102 775)
Remuneration of councillors	27	(12 170 374)	(11 037 762)
Administration		(1 032 617)	(2 039 345)
Depreciation and amortisation	30	(32 123 821)	(23 409 613)
Finance costs	31	(286 676)	(277 125)
Debt impairment	28	(6 783 000)	(3 158 821)
Repairs and maintenance		(8 767 550)	(7 592 972)
Bulk purchases	33	(40 739 042)	(29 029 167)
Grants and subsidies paid		(2 551 645)	(2 368 998)
Loss on disposal of assets		-	(1 884 652)
General Expenses	24	(37 061 132)	(28 286 786)
Total Expenditure		**(204 188 127)**	**(167 188 016)**
(Loss)/gain on actuarial valuation - Long Service Benefits		(949 508)	54 538
Surplus/(deficit) for the year		**24 441 656**	**30 224 913**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 019 000 612	1 019 000 612
Adjustments		
Correction of errors	(18 166 880)	(18 166 880)
Change in accounting policy	57 068 981	57 068 981
Prior year adjustments	(404 155 157)	(404 155 157)
Balance at 01 July 2010 as restated	**653 747 556**	**653 747 556**
Changes in net assets		
Surplus for the year	30 224 913	30 224 913
Total changes	30 224 913	30 224 913
Opening balance as previously reported	1 093 747 879	1 093 747 879
Adjustments		
Correction of errors	(5 619 840)	(5 619 840)
Prior year adjustments	(404 155 570)	(404 155 570)
Balance at 01 July 2011 as restated	**683 972 469**	**683 972 469**
Changes in net assets		
Surplus for the year	24 441 656	24 441 656
Total changes	24 441 656	24 441 656
Balance at 30 June 2012	**708 414 125**	**708 414 125**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Fines		1 031 214	2 408 020
Sale of goods and services		66 837 209	77 995 496
Grants		146 306 000	128 113 220
Interest income		4 924 875	5 736 659
Other receipts		3 681 879	3 391 695
Licences and Permits		5 370 418	4 267 692
		228 151 595	221 912 782
Payments			
Employee costs		(74 792 898)	(68 140 536)
Suppliers		(75 118 168)	(66 468 530)
Finance costs		(286 676)	(277 125)
		(150 197 742)	(134 886 191)
Net cash flows from operating activities	34	**77 953 853**	**87 026 591**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(106 523 522)	(101 261 928)
Proceeds from sale of property, plant and equipment	6	3 905 968	-
Net cash flows from investing activities		**(102 617 554)**	**(101 261 928)**
Cash flows from financing activities			
Repayment of other financial liabilities		(3 713 831)	(1 851 795)
Net cash flows from financing activities		**(3 713 831)**	**(1 851 795)**
Net increase/(decrease) in cash and cash equivalents		**(28 377 532)**	**(16 087 132)**
Cash and cash equivalents at the beginning of the year		35 853 324	51 940 455
Cash and cash equivalents at the end of the year	13	**7 475 792**	**35 853 323**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy

1.1 Transfer of functions between entities not under common control

Definitions

An acquirer is the municipality that obtains control of the acquiree or transferor.

Carrying amount of an asset or liability is the amount at which an asset or liability is recognised in the statement of financial position.

Control is the power to govern the financial and operating policies of another municipality so as to benefit from its activities.

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an municipality's objectives, either by providing economic benefits or service potential.

A merger is the establishment of a new combined entity in which none of the former entities obtains control over any other and no acquirer can be identified.

Transfer date is the date on which the acquirer obtains control of the function and the transferor loses control of that function.

A transfer of functions is the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another municipality.

A transferor is the municipality that relinquishes control of a function.

Common control - For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity.

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

- Input: Any resource that creates, or has the ability to create, outputs when one or more processes are applied to it.
- Process: Any system, standard, protocol, convention or rule that when applied to an input or inputs, creates or has the ability to create outputs.
- Output: The result of inputs and processes applied to achieve and improve efficiency. This may be in the form of achieving service delivery objectives, or the delivery of goods and/or services.

Accounting Policies

1.1 Transfer of functions between entities not under common control (continued)

Identifying the acquirer and transferor

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

Determining the acquirer includes a consideration of, amongst other things, which of the entities involved in the transfer of functions initiated the transaction or event, the relative size of the entities, as well as whether the assets or revenue of one of the entities involved in the transaction or event significantly exceed those of the other entities. If no acquirer can be identified, the transaction or event is accounted for in terms of the Standard of GRAP on Mergers.

Determining the transfer date

The acquirer and the transferor identify the transfer date, which is the date on which the acquirer obtains control and the transferor loses control of that function.

All relevant facts and circumstances are considered in identifying the transfer date.

Assets acquired [transferred] and liabilities assumed [relinquished]

The derecognition of assets and liabilities, is subject to the following conditions:

The assets transferred and the liabilities relinquished are part of what had been agreed in terms of the binding arrangement (if applicable), rather than the result of separate transactions.

Determining what is part of the transfer of functions transaction

Where the municipality and the acquirer have a pre-existing relationship before or when negotiations for a transfer of functions began, or where a binding arrangement is entered into during the negotiations that are separate from a transfer of functions, any amounts that are not part of what were transferred in a transfer of functions are identified. This policy only applies to the consideration received and the assets transferred and liabilities relinquished in a transfer of functions as governed by the terms and conditions of the binding arrangement.

The following factors are considered, which are neither mutually exclusive nor individually conclusive, to determine whether a transaction is part of a transfer or function or whether the transaction is separate:

- the reasons for the transaction
- the timing of the transaction

Accounting by the entity as transferor

Derecognition of assets transferred and liabilities relinquished

As of the transfer date, the municipality derecognises from its annual financial statements, all the assets transferred and liabilities relinquished in a transfer of functions at their carrying amounts.

On the transfer date, the municipality measured these assets and liabilities in accordance with applicable Standards of GRAP. The liability for payment by the aquirer was recognised as a debtor. The nett asset value is indicated in the financial statements after the assets were transferred in the current year on a donation basis

The consideration received from the acquirer can be in the form of cash, cash equivalents or other assets. If the consideration received is in the form of other assets, the municipality measures such assets at their fair value on the transfer date in accordance with the applicable Standard of GRAP. The difference between the carrying amounts of the assets transferred, the liabilities relinquished and the consideration received from the acquirer is recognised in surplus or deficit.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty

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

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

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

The impairment for trade receivables is calculated on a portfolio risk 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.

Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Allowance for slow moving, damaged and obsolete stock

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

Fair value estimation

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

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

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

Impairment testing

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

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

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

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 16 - Provisions.

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 8.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows.

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, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

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

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

Fair value

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

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

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

Accounting Policies

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.

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.

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

Item	Average useful life
Land	Indefinite
Buildings	30 years
Plant and machinery	5 - 15 years
Furniture and fixtures	7 - 10 years
Motor vehicles	3 -20 years
Office equipment	3 - 5 years
IT equipment	3 - 6 years
Computer software	3 - 5 years
Infrastructure	5 - 30 years
Community	5 - 30 years
Other property, plant and equipment	5 - 30 years

Accounting Policies

1.4 Property, plant and equipment (continued)

Other equipment	5- 25 years
Specialised vehicles	10 years
Tools and loose gear	5 years

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

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

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

The depreciation charge for each period is recognisedon the straight line basis 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 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.

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.

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

1.5 Intangible assets (continued)

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

1.6 Financial instruments

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Financial instruments (continued)

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

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

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

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.

Accounting Policies

1.7 Leases (continued)

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

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.

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.

Accounting Policies

1.8 Inventories (continued)

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

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

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

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

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

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

Identification

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

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

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

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.10 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

1.10 Employee benefits (continued)

- 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.

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 goods or 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.

Accounting Policies

1.10 Employee benefits (continued)

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.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects 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 obligation.

Accounting Policies

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Accounting Policies

1.10 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Accounting Policies

1.10 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.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Accounting Policies

1.10 Employee benefits (continued)

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.11 Provisions and contingencies

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

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

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

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

1.11 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 arrangement.

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

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 or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 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.

Accounting Policies

1.11 Provisions and contingencies (continued)

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.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

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

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

1.13 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

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

Measurement

Accounting Policies

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

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

Transfers

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

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

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

Fines

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

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

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

1.14 Turnover

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

1.15 Investment income

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

1.16 Borrowing costs

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

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

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Accounting Policies

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

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

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

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

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

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

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

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

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

1.21 Use of estimates

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

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

Accounting Policies

1.23 Offsetting

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

1.24 Investments

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

1.25 Conditional grants and receipts

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

1.26 Segmental information

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

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

1.27 Budget information

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

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

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements.

The Statement of comparative and actual information have been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 48.

Comparative information is not required.

1.28 Consumer Deposits

Consumer Deposits represents funds received by the municipality as security for payment of consumer accounts. The amount represent the actual cash received and can either be paid back or set off against an consumer account. The gross un utilised deposit amount is indicated. No interest is paid to the consumers on the deposits held by the municipality.

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- GRAP 24.

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

3.2 Standards and Interpretations early adopted

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

3.3 Standards and interpretations issued, but not yet effective

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

3.4 Standards and interpretations not yet effective or relevant

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

4. Biological assets that form part of an agricultural activity

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets - Consumable 1	94 000	-	94 000	94 000	-	94 000

5. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	17 927 400	-	17 927 400	17 927 400	-	17 927 400

Reconciliation of investment property - 2012

	Opening balance	Total
Investment property	17 927 400	17 927 400

Reconciliation of investment property - 2011

Figures in Rand	2012	2011

5. Investment property (continued)

	Opening balance	Total
Investment property	17 927 400	17 927 400

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.

6. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	205 221 181	-	205 221 181	205 221 181	-	205 221 181
Buildings	53 096 734	(11 391 590)	41 705 144	51 430 614	(8 555 189)	42 875 425
Infrastructure	365 626 338	(84 367 593)	281 258 745	315 004 703	(70 858 242)	244 146 461
Community	54 516 757	(8 357 910)	46 158 847	51 523 615	(6 420 799)	45 102 816
Other property, plant and equipment	134 809 586	(81 053 831)	53 755 755	119 250 818	(70 508 472)	48 742 346
Capital Work In Progress	60 004 441	-	60 004 441	56 716 015	-	56 716 015
Leased Assets	640 918	(640 919)	(1)	640 919	-	640 919
Total	**873 915 955**	**(185 811 843)**	**688 104 112**	**799 787 865**	**(156 342 702)**	**643 445 163**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Land	205 221 181	-	-	-	-	-	205 221 18
Buildings	42 875 425	1 666 120	-	-	-	(2 836 401)	41 705 14
Infrastructure	244 146 461	26 365 139	-	24 256 496	-	(13 509 351)	281 258 74
Community	45 102 816	2 993 142	-	-	-	(1 937 111)	46 158 84
Other property, plant and equipment	48 742 346	15 494 681	(2 979 279)	3 043 366	2 654 680	(13 200 039)	53 755 75
Other property, plant and equipment # 1	56 716 015	60 004 440	-	(56 716 014)	-	-	60 004 44
Leased Asset	640 919	-	-	-	-	(640 920)	(
	643 445 163	**106 523 522**	**(2 979 279)**	**(29 416 152)**	**2 654 680**	**(32 123 822)**	**688 104 11**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Transfers	Depreciation Adjustments	Depreciation	Total
Land	205 221 181	-	-	-	-	205 221 181
Buildings	43 926 811	232 621	1 556 065	21 225	(2 861 297)	42 875 425
Motor vehicles	-	136 498	(136 498)	-	-	-
Infrastructure	227 058 096	48 849 356	(22 063 633)	1 113 154	(10 810 512)	244 146 461
Community	46 698 973	262 575	-	-	(1 858 732)	45 102 816
Other property, plant and equipment	43 291 000	16 768 591	(2 303 794)	(6 268 632)	(2 744 819)	48 742 346
Capital Work In Progress	-	33 724 946	22 991 069	-	-	56 716 015
Leased Assets	(603 213)	1 244 132	-	-	-	640 919
Tools and loose gear	-	43 209	(43 209)	-	-	-
	565 592 848	**101 261 928**	**-**	**(5 134 253)**	**(18 275 360)**	**643 445 163**

Figures in Rand	2012	2011

6. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2012

	Included within Infrastructure	Total
Opening balance	56 716 014	56 716 014
Additions/capital expenditure	60 004 440	60 004 440
Transferred to completed items	(56 716 014)	(56 716 014)
	60 004 440	**60 004 440**

Reconciliation of Work-in-Progress 2011

	Included within Infrastructure	Total
Additions/capital expenditure	33 724 947	33 724 947
Other movements [Prior Year Reclassification]	22 991 068	22 991 068
	56 716 015	**56 716 015**

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.

7. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Intangible assets under development	29 416 153	-	29 416 153	-	-	-

Reconciliation of intangible assets - 2012

	Opening balance	Transfers	Total
Intangible assets under development	-	29 416 153	29 416 153

Reconciliation of intangible assets - 2011

Other information

The intangible asset was recognised due to the significant cost to increase the power supply connection to the Municipality. This additions created an increase in the rights of the Municipality and it will increase the potential revenue and service delivery of the Municipality. The assets procured will remain the property of Escom. The intangible asset will annually be reviewed for depreciation. The amount indicated is the cost as this is the first year of completion.

8. Employee benefit obligations

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

Figures in Rand	2012	2011

8. Employee benefit obligations (continued)

Carrying value		
Present value of the Post Employment Medical Health Care obligation	(20 989 322)	(20 989 322)
Net actuarial gains or losses not recognised	(1 008 266)	-
Current Service Cost	(984 097)	-
Interest Charge	(1 783 025)	-
Benefits Paid Out Against the fund	763 524	-
Net liability	**(24 001 186)**	**(20 989 322)**

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

Opening balance	20 989 322	17 513 894
Net expense recognised in the statement of financial performance	3 011 864	3 475 428
Closing balance	**24 001 186**	**20 989 322**

Net expense recognised in the statement of financial performance

Current service cost	984 097	771 094
Past service cost	-	1 532 426
Interest cost	1 783 025	1 846 740
Actuarial (gains) losses	1 008 266	-
Paid out to current members	(763 524)	(674 832)
Total Employee Benefits Costs Paid	**3 011 864**	**3 475 428**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	1 008 266	1 846 740

Key assumptions used

Assumptions used at the reporting date:

Discount rates used: Long service awards	7.10 %	- %
Discounted rates used: General salary inflation	5.90 %	- %
Discounted rates used: Net effective - Long service awards	1.13 %	- %
Discounted rates used: Post employment benefits	7.86 %	- %
Inflation rate: Post employment health care	6.85 %	- %
Discounted rate: Net effective - Post employment benefits	0.95 %	- %

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

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

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

Other assumptions

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

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

Defined contribution plan

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Employee benefit obligations (continued)

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

9. Inventories

Consumable stores	1 867 647	1 733 913

10. Receivables from exchange transactions

Trade debtors	998 790	495 741
Sekhukhune Debtor	15 651 666	20 566 405
Write off Debtor: to be authorised by council	97 518	92 518
	16 747 974	**21 154 664**

Service level agreement between the District Municipality (water services authority) and the local municipality (water services provider).

11. VAT receivable

VAT receivable	5 143 890	4 974 911

The amount reflecting on the above mentioned balances is a net result of the consolidated VAT control account, VAT input and VAT output votes.

12. Consumer debtors

Gross balances		
Rates	8 915 259	6 664 531
Electricity	11 532 877	5 940 240
Refuse	1 346 569	1 107 702
Other - (Interest and other major items)	8 010 192	4 735 409
	29 804 897	**18 447 882**
Less: Provision for debt impairment		
Rates	(5 213 502)	(5 137 702)
Electricity	(5 955 921)	(1 061 505)
Refuse	(809 447)	(682 624)
Other - (Interest and other major items)	(5 085 324)	(3 409 257)
	(17 064 194)	**(10 291 088)**
Net balance		
Rates	3 701 757	1 526 829
Electricity	5 576 956	4 878 735
Refuse	537 122	425 078
Other - (Interest and other major items)	2 924 868	1 326 152
Total net consumer debtors balance	**12 740 703**	**8 156 794**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Consumer debtors (continued)

Rates		
Current (0 -30 days)	958 876	729 665
31 - 60 days	547 100	227 347
61 - 90 days	327 705	71 258
91 - 120 days	288 990	48 807
121 - 365 days	2 009 910	180 056
> 365 days	4 782 679	269 696
	8 915 260	**1 526 829**
Electricity		
Current (0 -30 days)	3 700 938	2 955 135
31 - 60 days	1 804 392	1 071 553
61 - 90 days	760 180	294 309
91 - 120 days	751 877	131 980
121 - 365 days	3 477 060	253 512
> 365 days	1 038 430	172 246
	11 532 877	**4 878 735**
Refuse		
Current (0 -30 days)	201 253	177 571
31 - 60 days	94 420	64 887
61 - 90 days	42 362	21 354
91 - 120 days	31 008	12 104
121 - 365 days	183 259	45 997
> 365 days	794 267	103 165
	1 346 569	**425 078**
Other		
Current (0 -30 days)	1 230 607	477 295
31 - 60 days	678 100	266 187
61 - 90 days	419 797	101 739
91 - 120 days	372 253	79 589
121 - 365 days	1 753 823	95 243
> 365 days	3 555 612	306 099
	8 010 192	**1 326 152**

Summary of debtors by customer classification - 2012

Consumers	
Current (0 -30 days)	2 931 177
31 - 60 days	1 534 520
61 - 90 days	735 391
91 - 120 days	658 119
121 - 365 days	3 322 526
> 365 days	5 822 607
	15 004 340
Less: Provision for debt impairment	(8 330 268)
	6 674 072

Figures in Rand	2012	2011

12. Consumer debtors (continued)

Industrial/ commercial		
Current (0 -30 days)		2 821 893
31 - 60 days		1 483 674
61 - 90 days		724 676
91 - 120 days		675 431
121 - 365 days		3 656 877
> 365 days		3 777 568
		13 140 119
Less: Provision for debt impairment		(7 865 744)
		5 274 375
National and provincial government		
Current (0 -30 days)		338 605
105816.75		105 817
61 - 90 days		89 977
91 - 120 days		110 578
121 - 365 days		444 649
> 365 days		570 812
		1 660 438
Less: Provision for debt impairment		(7 865 744)
		(6 205 306)
Total		
Current (0 -30 days)		6 091 675
31 - 60 days		3 124 011
61 - 90 days		1 550 044
91 - 120 days		1 444 128
121 - 365 days		7 424 052
> 365 days		10 170 988
		29 804 898
Less: Provision for debt impairment		(17 064 195)
		12 740 703
Less: Provision for debt impairment		
Current (0 -30 days)		(1 912 568)
31 - 60 days		(1 271 453)
61 - 90 days		(851 913)
91 - 120 days		(879 259)
121 - 365 days		(5 104 754)
> 365 days		(7 044 247)
		(17 064 194)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(10 291 087)	(7 132 266)
Contributions to provision	(6 783 000)	(3 159 545)
Debt impairment written off against provision	9 893	723
	(17 064 194)	**(10 291 088)**

Consumer debtors impaired

As of 30 June 2012, consumer debtors of R 28 804 897 (2011: R18 447 882) were impaired and provided for.

Figures in Rand	2012	2011

12. Consumer debtors (continued)

The amount of the provision was - R17 064 198.82 on 30 June 2012 (2011: -R10 291 088).The basis of the calculation of debt impairement is based on the Risk Assesment required in terms of GRAP 19.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	807	3 019
Bank balances	7 474 985	35 850 305
	7 475 792	**35 853 324**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	30 June 2011	30 June 2012	30 June 2011
ABSA BANK - Cheque Account (Acc no 900000049	6 452 692	11 955 442	141 071	9 815 684
ABSA BANK - Cheque (PHP) (Acc no 4058848103)	317 253	313 317	317 253	313 317
Absa Bank Limited Call Account (Acc no 4068316809)	452 994	382 934	452 994	55 792
Absa Bank Limited 90 Days (Acc no2068908040)	-	2 000 000	-	2 000 000
Investec Asset Management: Corporate Money Market Fund (Acc No 338545/763175)	-	6 287 060	-	6 287 060
Sanlam Investment Management: Corporate Money Market Fund (Acc No GGMKON)	300 311	7 847 857	300 311	7 847 857
Stanlib (Standard Bank Corporate Money Market)	6 081 109	10 000 000	6 081 109	10 000 000
Total	**13 604 359**	**38 786 610**	**7 292 738**	**36 319 710**

14. Other financial liabilities

Held at amortised cost

Short term portion financial lease	-	2 764 323
Terms and conditions		

Non-current liabilities

At amortised cost	-	2 764 323

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal System Improvement Grant (MSIG)	-	(13 777)
Land Affairs Grant	466 250	466 250
DPLG/PHP Housing Grant	427 379	422 639
Ward Committee Grant	-	(96 777)
EPWP Grant	-	330 000
	893 629	**1 108 335**

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

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

Figures in Rand	2012	2011

15. Unspent conditional grants and receipts (continued)

See note 22 for reconciliation of grants from Provincial Government.

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

16. Long service leave provisions

Reconciliation of long service leave provisions - 2012

	Opening Balance	Current Service Cost	Benefit Vestings	Interest Cost	Actuarial Loss / (Gain)	Total
Provision for leave	1 345 952	197 526	(124 695)	105 736	65 937	1 590 456

Reconciliation of long service leave provisions - 2011

	Opening Balance	Current Service Cost	Benefit Vestings	Interest Cost	Actuarial Loss / (Gain)	Total
Provision for leave	1 265 319	224 048	(184 738)	95 861	(54 538)	1 345 952

17. Payables from exchange transactions

Trade payables	24 400 778	7 828 540
Accrued leave pay	4 691 801	3 997 161
Accrued bonus	1 537 673	1 314 293
Retention fees	10 782 065	6 988 348
	41 412 317	**20 128 342**

18. Consumer deposits

Deposits held	3 205 959	3 031 424

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Revenue

Property rates	11 033 275	10 705 580
Service charges	50 459 587	39 126 500
Rental of facilities & equipment	811 249	683 186
Income from agency services	3 190 671	3 193 989
Fines	1 031 214	2 408 020
Licences and permits	5 370 418	4 267 692
Government grants & subsidies	146 306 000	128 528 257
Other income 1	2 870 630	2 708 508
Interest received - investment	4 924 875	5 736 659
	225 997 919	**197 358 391**

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

Service charges	50 459 587	39 126 500
Rental of facilities & equipment	811 249	683 186
Income from agency services	3 190 671	3 193 989
Licences and permits	5 370 418	4 267 692
	59 831 925	**47 271 367**

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

Taxation revenue		
Property rates	11 033 275	10 705 580
Fines	1 031 214	2 408 020
Transfer revenue		
Levies	146 306 000	128 528 257
	158 370 489	**141 641 857**

20. Property rates

Rates received

Property Rates Levied	16 858 060	16 460 575
Less: Income forgone	(5 824 785)	(5 754 995)
	11 033 275	**10 705 580**

Valuations

Residential	1 006 612 505	974 746 600
Commercial	1 232 108 644	1 225 564 644
State	122 224 000	110 553 000
Municipal	139 606 500	134 964 500
	2 500 551 649	**2 445 828 744**

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Service charges

Sale of Electricity	47 936 342	36 999 179
Refuse Removal	2 523 245	2 127 321
	50 459 587	**39 126 500**

22. Government grants and subsidies

Equitable Share	114 134 000	100 148 561
Municipal Infrastructure Grant (MIG)	29 037 000	23 702 076
Financial Management Grant (FMG)	1 250 000	1 000 054
Municipal System Improvement Grant (MSIG)	790 000	677 566
DME - National Electrification Grant	-	3 000 000
EPWP Grant	1 095 000	-
	146 306 000	**128 528 257**

Equitable Share

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	(440 924)
Current-year receipts	29 037 000	24 143 000
Conditions met - transferred to revenue	(29 037 000)	(23 702 076)
	-	**-**

Municipal Finance Management Grant

Balance unspent at beginning of year	-	54
Current-year receipts	1 250 000	1 000 000
Conditions met - transferred to revenue	(1 250 000)	(1 000 054)
	-	**-**

Municipal Systems Improvement Grant

Balance unspent at beginning of year	(13 777)	(86 211)
Current year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(677 566)
Transferred to expenditure	13 777	-
	-	**(13 777)**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

22. Government grants and subsidies (continued)

Land Affairs

Balance unspent at beginning of year	466 250	425 210
Current-year receipts	-	41 040
	466 250	**466 250**

DPLG Housing Grant

Balance unspent at beginning of year	422 639	891 946
Current-year receipts	4 740	-
Other	-	(469 307)
	427 379	**422 639**

The PHP / DPLG Housing grant is an administrative arrangement whereby the Municipality only administrate the funds on behalf of the DPLG. The grant is allocated on an agency principal basis with the Municipality as agent. The grant expenditure and rereceipts are thus not transfer payments that will result in revenue for the Municipality. The amount is thus not transferred to revenue and expenditures in the statement of financial position when it occurs. The account is a trust fund only.

DME - National Electrification Grant

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

Sekhukhune District

Balance unspent at beginning of year	(96 777)	(96 777)
Transferred to expenditure	96 777	-
	-	**(96 777)**

EPWP Grant

Balance unspent at beginning of year	330 000	-
Current-year receipts	765 000	330 000
Conditions met - transferred to revenue	(1 095 000)	-
	-	**330 000**

Changes in level of government grants

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

23. Other revenue

Other income	2 870 630	2 708 508

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. General expenses

Advertising	189 611	143 349
Auditors remuneration	1 992 977	1 650 505
Bank charges	189 928	148 840
Chemicals	-	31 503
Community services	2 065 459	1 289 667
Conferences and seminars	1 390 285	716 352
Consulting and professional fees	5 679 039	3 421 097
Consumables	2 308 596	1 840 993
Delegates expenditure	-	153 013
Bursaries & Pauper Burails	146 320	-
Entertainment	384 678	241 197
Fleet	11 294	-
IT expenses	391 863	87 677
Insurance	1 044 689	667 510
Lease rentals on operating lease	335 044	1 615 369
Magazines, books and periodicals	5 987	-
Motor vehicle expenses	1 015 699	1 663 382
Pest control	11 192	6 487
Postage and courier	95 419	63 704
Printing and stationery	1 689 220	1 164 683
Promotions	20 350	465 000
Protective clothing	169 429	149 642
Refuse	2 237 704	1 229 429
Security (Guarding of municipal property)	5 485 121	4 338 114
Staff welfare	784 285	-
Stock adjustment	130 211	6 555
Subscriptions and membership fees	656 460	308 754
Telephone and fax	4 656 406	4 705 576
Town planning	3 093 613	1 385 546
Training	387 768	424 730
Transport and freight	36 732	32 163
Travel - local	441 183	289 788
Uniforms	14 570	46 161
	37 061 132	**28 286 786**

25. Operating surplus/(deficit)

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

Operating lease charges		
Equipment		
• Contractual amounts	335 044	1 615 369
Gain on sale of property, plant and equipment	3 581 372	-
Actuarial (Loss) gain on employee benefit Obligation	-	(1 884 652)
Actuarial (Loss) gain on employee benefit Obligation - long service awards	-	54 538
Depreciation on property, plant and equipment	32 123 821	23 409 613
Employee costs	74 842 644	69 140 537

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Employee related costs

Basic	38 861 237	29 472 346
Bonus	338 474	942 530
Medical aid - company contributions	2 149 312	1 905 492
UIF	307 662	268 378
SDL	540 005	463 158
Leave pay provision charge	3 884 157	3 599 311
Post-employment benefits - Pension - Defined contribution plan	7 252 610	5 663 104
Overtime payments	1 163 971	1 347 363
Post Employment Medical Aid Benefits	1 019 501	1 532 426
Interest Charge Post Employment Medical Aid Benefits	984 097	771 094
Acting allowances	823 361	499 958
Transport allowance	2 510 898	2 187 544
Long Service Leave Interest Charge	197 526	224 048
Bonusses and Housing Allowances	41 990	42 094
Funeral Plan Contributions Pensioner	322	492
Termination Benefit - Municipal Manager	-	3 322 014
Termination Benefit - Chief Financial Officer	-	2 903 973
	60 075 123	**55 145 325**

Not Included in the above balances is remuneration for the following municipal employees:

Remuneration of Municipal Manager

Annual Remuneration including benefits and allowances	111 228	315 348
Car Allowance	31 666	52 500
Contributions to Pension Funds	4 418	76 301
Travelling and Subsistance	11 715	-
Contribution to Medical Aid	-	34 108
Contribution to UIFand SDL	1 572	4 606
Acting Allowance	297 742	62 567
	458 341	**545 430**

In January 2011 a settlementt package was paid to themunicipal managerr to an amount of R3 322 014. As from the period 1 January 2011 to 30 June 2012 the municipal manager was replaced with an acting officer.

Remuneration of Chief Finance Officer

Annual Remuneration including benefits and allowances	-	315 348
Car Allowance	-	59 208
Contributions to Pension Funds	-	15 767
Contribution to UIFand SDL	-	4 293
Acting Allowance	39 772	201 213
	39 772	**595 829**

In January 2011 a settlement package was paid to the chief financial officer to an amount of R2 903 973. As from the period 1 January 2011 to 30 June 2012 the chief financial officer was replaced with an acting officer.

Corporate and human resources (corporate services)

Annual Remuneration including benefits and allowances	587 599	489 696
Car Allowance	90 365	84 000
Contributions to UIF, Medical and Pension Funds	41 128	36 727
Travelling and Subsistance	16 561	1 574
Contribution to UIFand SDL	7 685	6 699
	743 338	**618 696**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

26. Employee related costs (continued)

Health, safety and social services (emergency management services)

Annual Remuneration including benefits and allowances	430 460	378 762
Car Allowance	122 400	111 000
Contributions to Pension Funds	64 402	56 814
Travelling and Subsistance	15 942	9 172
Contribution to Medical Aid	17 508	18 331
Contribution to UIFand SDL	6 484	5 906
	657 196	**579 985**

Procurements and infrastructure (planning, transport and environmental affairs)

Annual Remuneration including benefits and allowances	290 674	526 031
Car Allowance	42 000	84 000
Acting Alloance	73 200	-
Contribution to UIFand SDL	4 966	7 479
	410 840	**617 510**

Strategic Development

Annual Remuneration including benefits and allowances	99 950	-
Car Allowance	18 000	-
Contributions to UIF, Medical and Pension Funds	9 495	-
Acting Allowance	89 382	-
	216 827	**-**

Development Planning

Acting Allowance	70 833	-

27. Remuneration of councillors

Executive Mayor	617 026	585 213
Speaker	493 773	468 031
Councillors	11 059 575	9 984 548
	12 170 374	**11 037 792**

In-kind benefits

The Mayor, Speaker and three permanent Exco councillors are full-time. Each is provided with an office and secretarial support at the cost of the Council.

28. Debt impairment

Contributions to debt impairment provision	6 783 000	3 158 821

29. Investment revenue

Interest revenue		
Bank and investments	2 344 407	3 868 844
Interest charged on trade and other receivables	2 580 468	1 867 815
	4 924 875	**5 736 659**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

30. Depreciation

Property, plant and equipment	32 123 821	23 409 613

31. Finance costs

Trade and other payables	286 676	277 125

32. Auditors' remuneration

Fees	1 992 977	1 650 505

33. Bulk purchases

Electricity	40 739 042	29 029 167

34. Cash generated from operations

Surplus	24 441 656	30 224 913
Adjustments for:		
Depreciation and amortisation	32 123 821	23 409 613
(Loss) gain on sale of assets and liabilities	(3 581 372)	1 884 652
Fair value adjustments	949 508	(54 538)
Debt impairment	6 783 000	3 158 821
Movements in retirement benefit assets and liabilities	3 011 864	3 475 428
Movements in provisions	244 504	80 633
Changes in working capital:		
Inventories	(133 734)	(62 127)
Receivables from exchange transactions	4 406 690	20 291 737
Consumer debtors	(11 366 909)	(4 377 448)
Payables from exchange transactions	21 283 975	2 309 262
VAT	(168 979)	6 044 561
Unspent conditional grants and receipts	(214 706)	415 037
Consumer deposits	174 535	226 047
	77 953 853	**87 026 591**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	-	7 716 804

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

36. Contingencies

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

Figures in Rand	2012	2011

37. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Post employment benefit plan for employees and/or other related parties	Municipal Gratuity Fund
The water and sanitation functions as demarcated in the Demarcation Act is performed by the Local Municipality on behalf of the District Municipality.	
The agreement is structured as an agency principal relationship with the District Municipality being the Water Service Authority.	

Related party balances

Amounts included in Trade receivable / (Trade Payable) regarding related parties		
Sekhukhune District Municipality: Receivables	15 651 666	425 222 003
Other		
Department of Roads and Transport: License Fees	9 036 996	8 165 177
Sekhukhune District Municipality: Agency fees	3 190 671	3 193 989
Compensation to accounting officer and other key management		
Post-employment benefits - Pension - Defined contribution plan	-	9 251

38. Prior period errors

The following prior year error was identified and adjusted retrospectively:

- The Water and Sanitation assets were transferred and a related debtor was created in terms of the Municipal Assets Transfer Regulations of 2008. The Council resolved to transfer these assets free of charge to the Sekhukhune District Council - R 404 655 598.05 and was restated to the effective tansfer date of the assets in 2009/10.

- Unknown deposits received in the bank account since 2008/9 was cleared and matched to the relevant receipts. This relevant revenue were recorded and corrected to the related prior year accounts - R 1 733 238.72

- Expenditure that was not recored in the cashbook was resolved and matched to the relevant expenditure accounts. This was recoded and corrected to the related prior year accounts - R 50 524.83

- Biological Assets was never accounted for by the Municipality. A valuation was obtained and the relevant biological assets corrected to the relevant asset accounts since the effective date of the accounting standard (GRAP 17) - R 94 000

- Debtor accounts were written off during the conversion from IMFO to GRAP standards. The write off was duplicated by also writing the relevant debtors off from the fund accounting system during the conversion creation a debtor balance in credit. The relevant debtors was transferred to the sundry debtor accounts. The correction is made to correct the duplicate write off of the debtor accounts to the accumulated surplus vote as part of the conversion process. R 500 028

- Depreciation calculations for 2010/11 was reperformed due to a calculation error utililising the inccorect estimated useful life for small assets and items that was not part of the register. This resulted in additional depreciation amounting to R 5 134 253.82

These specific correction of the errors results in adjustments in the periods as indicated below:

Statement of financial position		
Equity: Reserves	410 979 877	405 845 624
Consumer Debtors	(404 155 570)	(404 155 570)
Trade and other payables	(1 784 053)	(1 784 053)
Property Plant & Equipment	(5 040 254)	(5 040 254)
	-	**(5 134 253)**

Figures in Rand	2012	2011

38. Prior period errors (continued)

-Statement of Financial Performance

Depreciation	-	5 134 254

The following prior year error was identified and adjusted retrospectively:

Statement of financial performance

Depreciation	-	5 134 254

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 members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in notes , 14, cash and cash equivalents disclosed in note 13, and equity as disclosed in the statement of financial position.

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

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

There are no externally imposed capital requirements.

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

Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Interest rate risk

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

Credit risk

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

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

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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 operating expenditure	36 146 131	10 886 830
Unauthorised capital expenditure	6 712 522	-
	42 858 653	**10 886 830**

Unauthorised operating expenditure relates amounts where actual expenditure exceeded the budgeted funds. Included in the above unauthorised expenditure is the following non-cash backed expenditure wiich consist of the following, debt impairment R4 593 382 (2012) and depreciation and asset impairment R22 307 665.

Unauthorised capital expenditure relates amounts where actual expenditure exceeds the budgeted funds.

42. Fruitless and wasteful expenditure

Fruitless and wastefull expenditure - 2010 Interest paid on late payment	-	8 448
Fruitless and wastefull expenditure - 2011 Severance Packages	-	6 225 987
Fruitless and wasteful expenditure - 2012 Interest paid on late payment	49 502	23 444
Fruitless and wasteful expenditure - 2011 IT Equipment Unsuitable and Not Completed	-	2 611 545
	49 502	**8 869 424**

Fruitless and wasteful expenditure relates to penalties and interest on the late payment of suppliers R49 502 (2012), R23 444 (2011) and R8 448 (2010).

The contracts for the Municipal Manager and Chief Financial Officer were terminated during the Financial Year 2011. Severance packages amounting to R6 225 987 had had been paid out.

Analysis of expenditure awaiting condonation per age classification

Current year	49 502	8 860 976
Prior years	8 869 424	8 448
	8 918 926	**8 869 424**

Details of fruitless and wastefull expenditure

	Condoned by Council	
Interest On Late Payments	No	78 412
Severance Packages	No	6 225 987
IT Equipment Unsuitable and Not Completed	No	2 611 545
		8 915 944

43. Irregular expenditure

Opening balance	3 245 706	3 073 413
Add: Irregular Expenditure - current year	2 281 720	172 293
	5 527 426	**3 245 706**

Analysis of expenditure awaiting condonation per age classification

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

43. Irregular expenditure (continued)

Current year	2 281 720	172 293
Prior years	3 245 706	3 073 413
	5 527 426	**3 245 706**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
2012 Payment on Security Services	Expenditure recoverable	811 379
2012 Excess payment on Internal Audit	Under investigation	878 926
2012 Excess payment on Electronic filling system	Under investigation	591 415
		2 281 720

Details of irregular expenditure condoned

	Condoned by Council	
Refuse Removal extention on month to month	No	688 040
Security Services on month to month	No	1 626 198
Insurance - One Year extention	No	759 175
		3 073 413

44. Additional disclosure in terms of Municipal Finance Management Act

SALGA Fees

Current year subscription / fee	304 985	315 590
Amount paid - current year	(304 985)	(315 590)
	-	-

PAYE and UIF

Current year subscription / fee	7 804 473	7 177 969
Amount paid - current year	(7 804 473)	(7 177 969)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	10 034 256	13 311 511
Amount paid - current year	(10 034 256)	(13 311 511)
	-	-

VAT

VAT receivable	5 143 890	4 974 911

VAT output payables and VAT input receivables are shown in note 11.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

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

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr Madihlaba MM	7 292	21 408	28 700
Cllr Kabinie RSA	1 896	7 253	9 149
Cllr Skosana JJ	2 542	-	2 542
Cllr Matsomane ST	4 231	-	4 231
Cllr Matlala MS	312	2 631	2 943
	16 273	**31 292**	**47 565**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr Madihlaba MM	5 248	17 824	23 072
Cllr Matlala MS	354	1 430	1 784
	5 602	**19 254**	**24 856**

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. No deviation was identified.

Incident		
Equipment repairs	18	-
Information technology upgrade	5	-
Upgrading of electricity services	2	-
General	24	-
	49	**-**

45. Actual operating expenditure versus budgeted operating expenditure

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

46. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix E(2) for the comparison of actual capital expenditure versus budgeted expenditure.

47. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information

2012

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Financial Performance							
	Original budget	**Budget adjustments (i.t.o. s28 and s31 of the MFMA)**	**Final budget**	**Actual outcome**	**Variance**	**Actual outcome as % of final budget**	**Actual outcome as % of original budget**
Property rates	19 185 000	17 185 000	17 185 000	11 033 275	6 151 725	64 %	58 %
Service charges	62 395 114	54 315 446	54 315 446	50 459 587	3 855 859	93 %	81 %
Investment revenue	17 058 107	17 058 107	17 058 107	4 924 875	12 133 232	29 %	29 %
Transfers recognised - operational	157 821 254	159 272 254	159 272 254	146 306 000	12 966 254	92 %	93 %
Other own revenue	8 917 138	12 987 723	12 987 723	16 855 554	(3 867 831)	130 %	189 %
Total revenue (excluding capital transfers and contributions)	**265 376 613**	**260 818 530**	**260 818 530**	**229 579 291**	**31 239 239**	**88 %**	**87 %**
Employee costs	(67 590 434)	(57 153 539)	(57 153 539)	(62 672 270)	5 518 731	110 %	93 %
Remuneration of councillors	(9 019 507)	(9 362 083)	(9 362 083)	(12 170 374)	2 808 291	130 %	135 %
Debt impairment	(2 189 617)	(2 189 618)	(2 189 618)	(6 783 000)	4 593 382	310 %	310 %
Depreciation and asset impairment	(1 832 000)	(1 832 000)	(1 832 000)	(32 123 821)	30 291 821	1 753 %	1 753 %
Finance charges	-	-	-	(286 676)	286 676	DIV/0 %	DIV/0 %
Materials and bulk purchases	(32 096 476)	(43 558 875)	(43 558 875)	(40 739 042)	(2 819 833)	94 %	127 %
Transfers and grants	(2 475 090)	(2 083 189)	(2 083 189)	(2 551 645)	468 456	122 %	103 %
Other expenditure	(40 940 511)	(44 828 044)	(44 828 044)	(47 810 807)	2 982 763	107 %	117 %
Total expenditure	**(156 143 635)**	**(161 007 348)**	**(161 007 348)**	**(205 137 635)**	**44 130 287**	**127 %**	**131 %**
Surplus/(Deficit) for the year	**109 232 978**	**99 811 182**	**99 811 182**	**24 441 656**	**75 369 526**	**24 %**	**22 %**

Notes to the Annual Financial Statements

Figures in Rand

48. Statement of comparative and actual information (continued)

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources							
Total capital expenditure	109 135 978	99 811 182	99 811 182	-	99 811 182	- %	- %
Cash flows							
Net cash from (used) operating	82 592 937	82 592 937	82 592 937	77 953 853	4 639 084	94 %	94 %
Net cash from (used) investing	(82 214 615)	(82 214 615)	(82 214 615)	(102 617 554)	20 402 939	125 %	125 %
Net cash from (used) financing	-	-	-	(3 713 831)	3 713 831	DIV/0 %	DIV/0 %
Net increase/(decrease) in cash and cash equivalents	**378 322**	**378 322**	**378 322**	**(28 377 532)**	**28 755 854**	**(7 501)%**	**(7 501)%**
Cash and cash equivalents at the beginning of the year	-	-	-	35 853 324	(35 853 324)	DIV/0 %	DIV/0 %
Cash and cash equivalents at year end	**378 322**	**378 322**	**378 322**	**7 475 792**	**(7 097 470)**	**1 976 %**	**1 976 %**

Explanation of variance refer attached annexure E(1).

Elias motsoaledi local municipality
Appendix D(1)
June 2012

Yearly

	Act. Bal. Rand	Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Gain & disposal of fixed assets	3 905 972	3 000 000	905 972	30.2	Budgeted amount was calculated on one auction, however two auctions took place during the period under review
Property rates	11 033 275	17 185 000	(6 151 725)	(35.8)	Revenue foregone not budgeted for
Service charges	50 459 587	54 315 446	(3 855 859)	(7.1)	Not exceeding 10%
Rental of facilities and equipment	811 249	719 726	91 523	12.7	More rental income recognised in 2011/12
Income from agency services	3 190 671	-	3 190 671	-	Budgeted within Service charges
Fines	1 031 214	1 013 580	17 634	1.7	Not exceeding 10%
Licences and permits	5 370 418	5 300 000	70 418	1.3	Not exceeding 10%
Government grants & subsidies	146 306 000	159 272 254	(12 966 254)	(8.1)	National Electrification & Rural Development not received as budgeted for.
Commissions received	-	25 281	(25 281)	(100.0)	Budgeted income on SDM
Other income	2 870 630	2 929 136	(58 506)	(2.0)	Not exceeding 10%
Interest received - investment	4 924 874	17 058 107	(12 133 233)	(71.1)	Incorrect budgeted amount
	229 903 890	260 818 530	(30 914 640)	(11.9)	
Expenses					
Personnel	(62 672 270)	(57 153 539)	(5 518 731)	9.7	Not exceeding 10%
Remuneration of councillors	(12 170 374)	(9 362 083)	(2 808 291)	30.0	Travel Allowance not budgeted for.
Administration	(1 032 617)	(812 560)	(220 057)	27.1	For more detail refer irregular expenditure
Depreciation	(32 123 822)	(1 832 000)	(30 291 822)	653.5	Non cashed back not fully budgeted for
Finance costs	(286 676)	-	(286 676)	-	Finance cost not budgeted for
Debt impairment	(6 783 000)	(2 189 618)	(4 593 382)	209.8	Non cashed back not fully budgeted fo
Repairs and maintenance - General	(8 767 550)	(8 470 254)	(297 296)	3.5	Not exceeding 10%
Bulk purchases	(40 739 042)	(43 558 875)	2 819 833	(6.5)	Not exceeding 10%
Grants and subsidies paid	(2 551 646)	(2 083 189)	(468 457)	22.5	Excess expenditure paid from own fundings
General Expenses	(38 010 640)	(35 545 230)	(2 465 410)	6.9	None compliance to SCM.
	(205 137 637)	(161 007 348)	(44 130 289)	27.4	
Other revenue and costs	2 631 864	3 000 000	(368 136)	(12.3)	
Net surplus/ (deficit) for the year	27 398 117	102 811 182	(75 413 065)	(73.4)	