Tswaing Local Municipality

Financial Statements
for the year ended 30 June 2012
Published 31 August 2012

General Information

Legal form of entity	Local municipality
Municipal demarcation code	NW382
Mayoral committee	Cllr. Mabovu AT
	Hon. Mogatusi KC
	Cllr. Mokoatsi MA
	Cllr. Tlhotlhomisang PE
	Cllr. Vos N
Speaker	Hon. Mokgethi MT
Chiefwhip	Cllr. Heneck TS
Executive Mayor	Hon. Mogatusi KC
Councillors	Cllr. Bantsejang KM
	Cllr. Dikolomela GM
	Cllr. Dirulelo SS
	Cllr. Galoitsiwe E
	Cllr. Groenewaldt B
	Cllr. Letlakane MS
	Cllr. Lobelo KM
	Cllr. Lobelo PE
	Cllr. Mabovu AT
	Cllr. Malo D
	Cllr. Malumane GM
	Cllr. Malwane DL
	Cllr. Mathiba VT
	Cllr. Meleloe KM
	Cllr. Mohubuke KV
	Cllr. Mokoatsi MA
	Cllr. Monare S
	Cllr. Motjale MA
	Cllr. Mphshapudi MP
	Cllr. Seitisho TM
	Cllr. Taljaard L
	Cllr. Tlhotlhomisang PE
	Cllr. Tsholo ST
	Cllr. van der Merwe M
	Cllr. Vis J
	Cllr. Visser C
	Cllr. Vos N
Capacity of local authority	Low capacity
Chief Finance Officer (CFO)	Mr. Maroga S
Accounting Officer	Mr. Mere KS
Registered office	Cnr. General Delareyville and Government Street
	Delareyville
	2770
Postal address	P.O. Box 24
	Delareyville
	2770

General Information

Bankers	First National Bank
Auditors	Auditor General of South Africa
Attorneys	Kgomo Mokhetle and Tlou Herman du Plessis and Sons Ranamane Phungu Inc

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

Abbreviations

DBSA	Development Bank of South Africa
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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places 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 financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The financial statements set out on pages 5 to 72, 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:

Mr. KS Mere
Municipal Manager

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in my opinion require any further comment.

2. Going concern

We draw attention to the fact that at 30 June 2012, the municipality had accumulated deficits of R (12,850,662) and that the municipality's total liabilities exceed its assets by R (12,850,662).

The 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 ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

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 financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year are disclosed in the appropriate notes to the financial statements.

6. Accounting Officer

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

Name
Mr. KS Mere

7. Auditors

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

Tswaing Local Municipality
Financial Statements for the year ended 30 June 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Assets			
Current Assets			
Inventories	6	556,220	604,919
Other receivables from non-exchange transactions	7	85,100	75,887
Consumer receivables	8	27,329,718	1,845,950
Cash and cash equivalents	9	2,408,459	9,812,155
		30,379,497	**12,338,911**
Non-Current Assets			
Property, plant and equipment	3	47,441,123	32,190,371
Intangible assets	4	4,159	6,238
Other financial assets	5	621,409	556,202
		48,066,691	**32,752,811**
Total Assets		**78,446,188**	**45,091,722**
Liabilities			
Current Liabilities			
Other financial liabilities	10	-	18,486
Finance lease obligation	11	-	38,315
Payables from exchange transactions	14	40,842,051	38,363,962
VAT payable	15	5,172,108	6,218,210
Consumer deposits	16	1,190,170	1,162,909
Unspent conditional grants and receipts	12	34,384,696	19,527,508
Bank overdraft	9	-	6,408,924
		81,589,025	**71,738,314**
Non-Current Liabilities			
Other financial liabilities	10	16,225	17,531
Provisions	13	9,691,600	9,327,816
		9,707,825	**9,345,347**
Total Liabilities		**91,296,850**	**81,083,661**
Net Assets		**(12,850,662)**	**(35,991,939)**
Net Assets			
Accumulated surplus		(12,850,662)	(35,991,939)

Statement of Financial Performance

Figures in Rand	Note(s)	2012	Restated 2011
Revenue			
Property rates	18	8,720,409	5,931,558
Service charges	19	45,040,564	35,688,007
Rental of facilities and equipment	32	364,960	384,954
Fines		47,580	850,105
Licences and permits		1,348,461	1,229,164
Government grants & subsidies	20	80,831,748	71,794,261
Other income	21	2,169,973	1,483,165
Interest received - investment	27	323,477	424,364
Dividends received - investment	27	26,499	4,081
Total Revenue		**138,873,671**	**117,789,659**
Expenditure			
Personnel	24	(49,400,564)	(54,700,172)
Remuneration of councillors	25	(6,881,598)	(6,129,222)
Depreciation and amortisation	29	(697,153)	(2,214,305)
Finance costs	30	(3,993)	(13,303)
Debt impairment	26	-	(11,923,974)
Repairs and maintenance		(2,193,317)	(3,491,565)
Bulk purchases	34	(33,207,516)	(22,873,632)
Contracted services	33	(2,180,842)	(6,841,450)
Loss on disposal of assets		-	(9,514,088)
General expenses	22	(21,232,618)	(17,727,022)
Total Expenditure		**(115,797,601)**	**(135,428,733)**
Fair value adjustments	28	65,207	43,977
Surplus (deficit) for the year		**23,141,277**	**(17,595,097)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	(15,229,795)	(15,229,795)
Adjustments		
Correction of errors (see note 47)	(3,167,047)	(3,167,047)
Balance at 01 July 2010 as restated	**(18,396,842)**	**(18,396,842)**
Changes in net assets		
Surplus for the year	(17,595,097)	(17,595,097)
Total changes	(17,595,097)	(17,595,097)
Opening balance as previously reported	(29,761,183)	(29,761,183)
Adjustments		
Correction of errors (see note 47)	(6,230,756)	(6,230,756)
Balance at 01 July 2011 as restated	**(35,991,939)**	**(35,991,939)**
Changes in net assets		
Surplus for the year	23,141,277	23,141,277
Total changes	23,141,277	23,141,277
Balance at 30 June 2012	**(12,850,662)**	**(12,850,662)**

Cash Flow Statement

Figures in Rand	Note(s)	2012	Restated 2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		30,038,206	29,246,529
Grants		95,688,935	78,951,087
Interest income		323,477	424,364
Dividends received		26,499	4,081
Other receipts		2,169,973	3,947,388
		128,247,090	112,573,449
Payments			
Employee costs		(56,282,162)	(60,829,394)
Suppliers		(56,951,774)	(37,435,273)
Finance costs		(3,993)	(13,303)
Other payments		-	(6,841,450)
		(113,237,929)	(105,119,420)
Net cash flows from operating activities	35	**15,009,161**	**7,454,029**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(15,945,826)	(7,832,340)
Proceeds from sale of property, plant and equipment	3	-	1,195,001
Purchase of financial assets		-	(300,000)
Net cash flows from investing activities		**(15,945,826)**	**(6,937,339)**
Cash flows from financing activities			
Proceeds from other financial liabilities		-	4,707
Repayment of other financial liabilities		(19,792)	-
Finance lease payments		(38,315)	(89,547)
Net cash flows from financing activities		**(58,107)**	**(84,840)**
Net increase/(decrease) in cash and cash equivalents		**(994,772)**	**431,850**
Cash and cash equivalents at the beginning of the year		3,403,231	2,971,381
Cash and cash equivalents at the end of the year	9	**2,408,459**	**3,403,231**

Accounting Policies

1. Presentation of Financial Statements

The 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 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. All figures have been rounded to the nearest Rand.

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

These accounting policies are consistent with the previous period.

1.1 Transfer of functions between municipalities under common control

Definitions

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

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

Accounting Policies

1.1 Transfer of functions between municipalities under common control (continued)

Accounting by the municipality as acquirer

Initial recognition and measurement

As of the transfer date, the municipality recognises the purchase consideration paid to the transferor and all the assets acquired and liabilities assumed in a transfer of functions. The assets acquired and liabilities assumed are measured at their carrying amounts.

If, prior to the transfer of functions, the transferor was not applying the accrual basis of accounting, the transferor changes its basis of accounting to the accrual basis of accounting prior to the transfer.

The consideration paid by the municipality can be in the form of cash, cash equivalents or other assets. If the consideration paid is in the form of other assets, the municipality de-recognises such assets on the transfer date at their carrying amounts.

The difference between the carrying amounts of the assets acquired, the liabilities assumed and the consideration paid to the transferor, is recognised in accumulated surplus or deficit.

Measurement period

If the initial accounting for a transfer of functions is incomplete by the end of the reporting period in which the transfer occurs, the municipality reports in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the municipality retrospectively adjust the provisional amounts recognised at the transfer date to reflect new information obtained about facts and circumstances that existed as of the transfer date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the municipality receives the information it was seeking about facts and circumstances that existed as of the transfer date or learns that more information is not obtainable. However, the measurement period does not exceed two years from the transfer date.

The municipality considers all relevant factors in determining whether information obtained after the transfer date should result in an adjustment to the provisional amounts recognised or whether that information results from events that occurred after the transfer date.

The municipality recognises an increase (decrease) in the provisional amount recognised for an asset (liability) by means of decreasing (increasing) the excess of the purchase consideration paid over the carrying amount of the assets acquired and liabilities assumed previously recognised in accumulated surplus or deficit. However, new information obtained during the measurement period may sometimes result in an adjustment to the provisional amount of more than one asset or liability.

During the measurement period, the municipality recognises adjustments to the provisional amounts as if the accounting for the transfer of functions had been completed at the transfer date. Thus, the municipality revises comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

After the measurement period ends, the municipality revises the accounting for a transfer of functions only to correct an error in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Acquisition-related costs

Acquisition-related costs are costs that the municipality incurs to affect the transfer of functions. These costs include advisory, legal, accounting and other professional or consulting fees, general administrative costs, and costs of registering and issuing debt and equity securities. The entity accounts for acquisition-related costs as expenses in the period in which the costs are incurred and the services are received, with the exception of the costs incurred to issue debt or equity securities, which are recognised in accordance with the Standard of GRAP on Financial Instruments.

Subsequent measurement

The municipality subsequently measure any assets acquired and any liabilities assumed in a transfer of functions in accordance with the applicable Standards of GRAP.

1.1 Transfer of functions between municipalities under common control (continued)

At the transfer date, the municipality classifies or designates the assets acquired and liabilities assumed as necessary to apply other Standards of GRAP subsequently. The municipality makes those classifications or designations on the basis of the terms of the binding arrangement, economic conditions, its operating or accounting policies and other relevant conditions that exist at the transfer date. An exception is that the municipality classifies the following contracts on the basis of the contractual terms and other factors at the inception of the contract (or, if the terms of the contract have been modified in a manner that would change its classification, at the date of that modification, which might be the transfer date):

- classification of a lease contract as either an operating lease or a finance lease in accordance with the Standard of GRAP on Leases.

Accounting by the municipality as transferor

Derecognition of assets transferred and liabilities relinquished

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

Until the transfer date, the municipality continues to measure these assets and liabilities in accordance with applicable Standards of GRAP.

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 accumulated surplus or deficit.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

Trade receivables / Loans and receivables

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

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. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. 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 goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment and intangible assets

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future econcomic benefits or service potential are expected to be consumed by the municipality.

Effective interest rate

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

Allowance for doubtful debts

On receivables 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 receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Biological assets that form part of an agricultural activity

The municipality recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

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

Biological assets that form part of an agricultural activity are measured at their fair value less point-of-sale costs.

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

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

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

An unconditional government grant related to a biological assets that form part of an agricultural activity measured at its fair value less costs to sell is recognised as income when the government grant becomes receivable.

1.4 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;
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

1.4 Investment property (continued)

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.

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

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.5 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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

1.5 Property, plant and equipment (continued)

Subsequent to initial measurement property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

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

Item	Average useful life
Community - Cemeteries	30 years
Community - Halls	30 years
Community - Other	20 - 30 years
Infrastructure - Roads	10 - 30 years
Infrastructure - Sewerage	15 - 20 years
Infrastructure - Water	15 - 20 years
Other - Computer software	3 - 5 years
Other - Emergency equipment	5 - 15 years
Other - Furniture and fixtures	7 - 10 years
Other - IT equipment	5 years
Other - Motor vehicles	3 - 20 years
Other - Office equipment	3 - 7 years
Other - Plant and equipment	10 - 15 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.

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

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

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

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

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An identifiable non-monetary asset without physical substance is identified as an intangible asset when it:
- is capable of being separated or divided from the municipality 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.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Subsequent to initial measurement intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

The amortisation period, residual value, if any, and the amortisation method for intangible assets are reviewed at each reporting date. If the expectations differ from previous estimates , the change is accounted for as a change in accounting estimate

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

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

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

Item	Useful life
Computer software	3 - 5 years

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

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

1.8 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

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

1.9 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.

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Consumer debtors	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at cost
Listed shares	Financial asset measured at fair value
Deposit	Financial asset measured at cost

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	**Category**
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at cost
Finance lease obligation	Financial liability measured at amortised cost
Loans	Financial liability measured at amortised cost

Accounting Policies

1.9 Financial instruments (continued)

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability, other than those subsequently measured at fair value, initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The municipality measures all other financial asset and financial liability initially at its fair value.

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

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 te 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 in the case of a financial asset.

Fair value measurement considerations

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

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

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.9 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

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

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.9 Financial instruments (continued)

Presentation

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the municipality does not offset the transferred asset and the associated liability.

1.10 Leases

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

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

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 recognised separately as an expense 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. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

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.

Any contingent rents are recognised seperately as revenue in the period in which they are received.

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.

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

Any contingent rents are recognised seperately as an expense in the period in which they are incurred.

1.11 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

1.11 Inventories (continued)

- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.13 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.

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.

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.

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

1.13 Impairment of cash-generating assets (continued)

Value in use

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

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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.

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.

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets (continued)

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 municipality 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.

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

Identification

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

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

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

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

1.14 Impairment of non-cash-generating assets (continued)

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

1.15 Employee benefits

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 municipality during a reporting period, the municipality recognises 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 municipality 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 of GRAP 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 municipality measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality 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 municipality has no realistic alternative but to make the payments.

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

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

When an employee has rendered service to the municipality during a reporting period, the municipality recognises 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, the municipality recognises 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 of GRAP 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

1.15 Employee benefits (continued)

Long-term service awards

The municipality has an obligation to provide long-service allowance benefits to all its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is on the current conditions of service), is entitled to a leave days allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service.

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

A constructive obligation to restructure arises only when the municipality:
- 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

1.16 Provisions and contingencies (continued)

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

A possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or

A present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or
- the amount of the obligation cannot be measured with suffcient reliability.

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

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 municipality considers 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 municipality tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

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.

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

1.17 Revenue from exchange transactions

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.

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

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

Interest

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

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

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

1.18 Revenue from non-exchange transactions

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.

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.

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.

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 criteria, conditions or obligations have not been met, a liability is recognised.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

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 a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

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 municipality.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economiic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured relaibly: and
- there has been complaince with the relevant legal requirements.

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

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

1.19 Investment income

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

Accounting Policies

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.13 and 1.14. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 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.

1.24 Irregular expenditure

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

Accounting Policies

1.25 Offsetting

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

1.26 Budget information

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

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.28 Capital commitments

Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statements of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been rewarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

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

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

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

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

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

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

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

The impact of the interpretation is not material.

IGRAP 3: Determining Whether an Arrangement Contains a Lease

This Interpretation of the Standards of GRAP does not apply to arrangements that are, or contain, leases excluded from the scope of the Standard of GRAP on Leases (as revised in 2010).

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

- how to determine whether an arrangement is, or contains, a lease as defined in the Standard of GRAP on Leases (as revised in 2010);
- when the assessment or a reassessment of whether an arrangement is, or contains, a lease should be made; and
- if an arrangement is, or contains, a lease, how the payments for the lease should be separated from payments for any other elements in the arrangement.

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

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

The impact of the interpretation is not material.

IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This Interpretation of the Standards of GRAP applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds that have both of the following features:

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

- the assets are administered separately (either by being held in a separate legal entity or as segregated assets within another entity); and
- a contributor’s right to access the assets is restricted.

Notes to the Financial Statements

2. New standards and interpretations (continued)

A residual interest in a fund that extends beyond a right to reimbursement, such as a right to distributions once all the decommissioning has been completed or on winding up the fund, may be an equity instrument within the scope of the Standard of GRAP on Financial Instruments and is not within the scope of this Interpretation of the Standards of GRAP.

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

- how should a contributor account for its interest in a fund?
- when a contributor has an obligation to make additional contributions, for example, in the event of the liquidation of another contributor, how should that obligation be accounted for?

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

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

The impact of the interpretation is not material.

IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies

This Interpretation of the Standards of GRAP provides guidance on how to apply the requirements of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) in a reporting period in which a municipality identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and the municipality therefore restates its financial statements in accordance with the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010).

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

- how should the requirement '… stated in terms of the measuring unit current at the reporting date' in paragraph .10 of the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010) be interpreted when an entity applies the Standard of GRAP?
- a contributor's right to access the assets is restricted.

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

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

The impact of the interpretation is not material.

IGRAP 6: Loyalty Programmes

This Interpretation of the Standards of GRAP is not applicable to the municipality.

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

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

There is no impact of the interpretation on adoption.

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

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

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

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

The impact of the interpretation is not material.

IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions

This Interpretation applies to the accounting for revenue and associated expenses by municipalities that undertake the construction of assets in exchange transactions directly or through subcontractors. The construction of assets entered into by municipalities where funding to support the construction activity will be provided by an appropriation or similar allocation of general government revenue or by aid or grant funds are excluded from the scope of this Interpretation of the Standards of GRAP.

Agreements in the scope of this Interpretation of the Standards of GRAP are agreements for the construction of assets in exchange transactions. In addition to the construction of assets in exchange transactions, such agreements may include the delivery of other goods or services.

The Interpretation of the Standards of GRAP addresses two issues:
- is the agreement within the scope of the Standard of GRAP on Construction Contracts (as revised in 2010) or the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010)?
- when should revenue from the construction of assets in exchange transactions be recognised?

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

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

The impact of the interpretation is not material.

IGRAP 9: Distributions of Non-cash Assets to Owners

This Interpretation of the Standards of GRAP is not applicable to the municipality.

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

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

There is no impact of the interpretation on adoption.

IGRAP 10: Assets Received from Customers

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

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

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

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

The Interpretation of the Standards of GRAP addresses the following issues:
- is the definition of an asset met?
- if the definition of an asset is met, how should the received item of property, plant and equipment be measured on initial recognition?

Notes to the Financial Statements

2. New standards and interpretations (continued)

- if the item of property, plant and equipment is measured at fair value on initial recognition, how should the resulting credit be accounted for?
- how should the entity account for a receipt of cash from its customer?

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

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

The impact of the interpretation is not material.

IGRAP 13: Operating Leases – Incentives

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

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

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

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

The impact of the interpretation is not material.

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

A municipality may enter into a transaction or a series of structured transactions (an arrangement) with an unrelated party or parties (an investor) that involves the legal form of a lease. For example, a municipality may lease assets to an investor and lease the same assets back, or alternatively, legally sell assets and lease the same assets back. The form of each arrangement and its terms and conditions can vary significantly.

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

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

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

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

The impact of the interpretation is not material.

IGRAP 15: Revenue – Barter Transactions Involving Advertising Services

A municipality (seller) may enter into a barter transaction to provide advertising services in exchange for receiving other services from its customer (customer). Advertisements may be displayed on the Internet or poster sites, broadcast on the television or radio, published in magazines or journals, or presented in another medium. An example could be where a municipality offers advertising services to local businesses in its community newsletters in exchange for repairs and maintenance services provided by those businesses. These repair and maintenance services may, for example, take the form of repairing and maintaining office buildings or motor vehicles owned by the municipality.

In some cases, no cash or other consideration is exchanged between the municipality and other entity. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

Notes to the Financial Statements

2. New standards and interpretations (continued)

A seller that provides advertising services in the course of its ordinary activities recognises revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) from a barter transaction involving advertising when, amongst other criteria, the services exchanged are dissimilar in terms of paragraph .18 in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) and the amount of revenue can be measured reliably in terms of paragraph .20(a) in the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010). This Interpretation of the Standards of GRAP only applies to an exchange of dissimilar services. An exchange of similar advertising services is not a transaction that generates revenue under the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010).

The issue is under what circumstances can a seller reliably measure revenue at the fair value of advertising services received or provided in a barter transaction.

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

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

The impact of the interpretation is not material.

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

The revision resulted in various terminology and definition changes.

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

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

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, and the use of transitions provision in the accounting policy.

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

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

The impact of the amendment is not material.

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

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

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

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of municipal entities, particularly those on another basis of accounting, has been deleted.

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

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

The revision resulted in various terminology and definition changes.

Paragraphs added to changes in accounting policies

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

Selection of accounting policies

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

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

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

The impact of the amendment is not material.

GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates

Terminology changes:

Where reference has been made to the net realisable values of inventories, current replacement cost has also been included to allow for the appropriate valuation of inventories where they are distributed as part of a non-exchange transaction. Reference to ‘trade’ receivables has been amended to ‘receivables’.

Monetary items:

Paragraph .15 clarifies that child support grants are ‘payables’, and not just ‘obligations’ in terms of the current requirements of the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets.

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

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

The impact of the amendment is not material.

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

The revision resulted in various terminology and definition changes.

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

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

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

The impact of the amendment is not material.

GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies

Certain terminology changes:

- the reference to ‘current cost’ in paragraph .30 has been deleted, and
- where reference has been made to ‘net realisable value’, ‘current replacement cost’ has been added.

Notes to the Financial Statements

2. New standards and interpretations (continued)

Net monetary position:
References to ‘surplus’ or ‘deficit’ have been changed, throughout the document, to ‘gain’ or ‘loss’.

Interpretations:
Text included in this Standard of GRAP from IFRIC Interpretation 7 on Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies has been deleted.

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

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

The impact of the amendment is not material.

GRAP 11 (as revised 2010): Construction Contracts

The revision resulted in certain terminology changes:

Other amendments:
- an example has been added to clarify when a municipality acts as a contractor in a construction contract arrangement.
- the example in paragraph .11 has been deleted as it is inappropriate for the South African public sector, and
- the explanatory text relating to ‘contractors’ has been amended to clarify that a municipality can be a contractor if it performs construction related activities itself or through subcontractors.

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

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

The impact of the amendment is not material.

GRAP 12 (as revised 2010): Inventories

The revision resulted in various terminology and definition changes.

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

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

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

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

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

The impact of the amendment is not material.

GRAP 13 (as revised 2010): Leases

The revision resulted in various terminology and definition changes.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

The impact of the amendment is not material.

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

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

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

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

The impact of the amendment is not material.

GRAP 16 (as revised 2010): Investment Property

The revision resulted in various terminology and definition changes.

Recognition of investment property:
- additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 that outlines the recognition criteria for investment property.
- this Standard of GRAP includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard of GRAP, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted.
- the measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably; and
- additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property.

Disclosure:
Municipalities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

The impact of the amendment is not material.

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

The revision resulted in various terminology and definition changes.

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

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

Depreciable amount and depreciation period:
An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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

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

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

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

The impact of the amendment is not material.

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

The revision resulted in certain terminology changes.

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

The impact of the amendment is not material.

GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations

The revision resulted in various terminology and definition changes.

Scope:
Paragraph .07 has been added to clarify the application of other Standards of GRAP to assets classified as non-current assets (or disposal groups) held for sale.

Plan to sell the controlling interest in a controlled entity:

- the Standard of GRAP has been amended to clarify that a municipality that is committed to a sales plan involving loss of control in a controlled municipal entity shall classify all the assets and liabilities of that controlled municipal entity as held for sale when the required criteria are met, and
- the Standard of GRAP has been amended to clarify that a municipality that is committed to a sales plan involving loss of control of a controlled municipal entity shall disclose the information required when the controlled municipal entity is a disposal group that meets the definition of a discontinued operation.

Examples included in Appendix:
An additional example has been included regarding sale expected to be completed within one year.

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

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

The impact of the amendment is not material.

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is not material.

GRAP 24: Presentation of Budget Information in the Financial Statements

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

A comparable basis means that the budget and financial statements:

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 103: Heritage Assets

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

A heritage asset should be recognised as an asset only if:

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

The Standard of GRAP requires judgment in applying the initial recognition criteria to the specific circumstances surrounding the municipality and the assets.

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

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

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

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

The carrying amount of a heritage asset should be derecognised:
- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is not material.

GRAP 21: Impairment of Non-cash-generating Assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- depreciated replacement cost approach;
- restoration cost approach; or
- service units approach.

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

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

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is not material.

GRAP 26: Impairment of Cash-generating Assets

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

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

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

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

A municipality assesses 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, a municipality estimates the recoverable amount of that asset.

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is not material.

GRAP 25: Employee Benefits

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The Standard of GRAP requires a municipality to recognise:

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

The Standard of GRAP states the recognition, measurement and disclosure requirements of:

- short-term employee benefits;
  - all short-term employee benefits;
  - short-term compensated absences;
  - bonus, incentive and performance related payments;
- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The major difference between this Standard of GRAP and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This Standard of GRAP requires a municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occured.

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The impact of the standard is not material.

GRAP 104: Financial Instruments

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

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

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

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

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practice or legislation.

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

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

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

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

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

A municipality derecognises a financial asset, or the specifically identified cash flows of an asset, when:
- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

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

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

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

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

The adoption of this standard has not had a material impact on the results of the municipality, but has resulted in less disclosure than would have previously been provided in the financial statements.

GRAP 27: Agriculture

This Standard of GRAP replaces the previous Standard of GRAP on Agriculture (GRAP 101) due to the IPSASB that has issued an IPSAS on Agriculture (IPSAS).

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

There is no impact of the standard on adoption.

GRAP 31: Intangible Assets

This Standard of GRAP replaces the previous Standard of GRAP on Intangible Assets (GRAP 102) due to the IPSASB that has issued an IPSAS on Intangible Assets (IPSA 31).

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

The municipality has early adopted the standard for the first time in the 2012 financial statements.

There is no impact of the standard on adoption.

2.3 Standards and interpretations issued, but not yet effective

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

GRAP 105: Transfers of Functions Between Entities Under Common Control

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard of GRAP is to establish accounting principles for the acquirer and transferor in a transfer of functions between municipalities under common control.

A transfer of functions between municipalities under common control is a reorganisation and/or reallocation of functions between municipalities that are ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities under common control, the assets and liabilities should be recognised (by the acquirer) at their carrying amounts and should be derecognised (by the transferor) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the carrying amounts of assets and liabilities should be recognised in accumulated surplus / (deficit).

Specific disclosures are required when there is a transfer of functions between municipalities under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 106: Transfers of Functions Between Entities not Under Common Control

The objective of this Standard of GRAP is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

A transfer of functions between municipalities not under common control is a reorganisation and/or reallocation of functions between municipalities that are not ultimately controlled by the same entity before and after a transfer of functions.

In the event of a transfer of functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair values and should be derecognised (by the acquiree) at their carrying amounts.

The difference between amount of consideration paid or received, if any, and the fair value of assets acquired and liabilities assumed or carrying amounts of assets transferred and liabilities relinquished should be recognised in surplus / (deficit).

For transfer of functions between municipalities not under common control there are some specific recognition and measurement principles and exceptions to the recognition and measurement principles.

Specific disclosures are required when there is a transfer of functions between municipalities not under common control.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this amendment is currently being assessed.

GRAP 107: Mergers

The objective of this Standard of GRAP is to establish accounting principles for the combined municipality and combining municipalities in a merger.

A merger is where a new combined municipality is started, no acquirer can be identified and the combining municipalities do not have any control over the municipality.

In the event of a merger, the assets and liabilities should be recognised (by the combined municipality) at their carrying amounts and should be derecognised (by the combining municipalities) at their carrying amounts.

2. New standards and interpretations (continued)

The difference between the carrying amounts of assets and liabilities should be recognised an accumulated surplus / (deficit).

Specific disclosures are required when there is a merger.

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard once it becomes effective.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

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

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

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on terms that are not no more or no less favourable than the terms it would use to conclude transactions with another municipality, entity or person are disclosed.

The Standard of GRAP sets out the requirements, inter alia, for the disclosure of:
- control;
- related party transactions; and
- remuneration of management

No effective date has yet been determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time once it becomes effective.

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

IGRAP 16: Intangible Assets - Website Costs

The Interpretation deals with the treatment of a municipality's own website. The guidance on website costs was previously included in the Standard of GRAPon Intangible Assets.

It concludes that a municipality's own website that arises from development and is for internal or external access is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets.

A website arising from development will be recognised as an intangible asset if, and only if, in addition to complying with the general requirements described in the Standard of GRAP on Intangible Assets for recognition and initial measurement, a municipality can satisfy the requirements in paragraph .54 in the Standardof GRAP on Intangible Assets, which in particular requires a municipality to be able to demonstrate howits website will generate probable future economic benefits or service potential.

If a municipality is not able to demostrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefitsor service potential, all expenditure on developing such a website will be recognised as an expense when incurred.

A website that is recognised as an intangible asset under this Interpretation will be measured after initial recognition by applying the requirements in the Standard of GRAP on Intangible Assets.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

Improvements to Standards of GRAP

The following Standards of GRAP have been amended as part of the ASB's Improvements Project for 2011:

- GRAP 1;
- GRAP 3;
- GRAP 7;
- GRAP 9;
- GRAP 12;
- GRAP 13;
- GRAP 16; and
- GRAP 17.

The changes made will have no significant impact, except for the following:

A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).

A requirement to include transaction costs on initial recognition of an investment in an associate under equity method, has been included in the Standard of Grap Investment in Associates.

Changes were made to the Standard of GRAP on Investment Property (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the assessment of significant use of an investment property has been clarified.

Changes were made to the Standard of GRAP on Property, Plant and Equipment (as revised in 2010) to ensure the consistent application of the principle where assets are acquired in exchange for non-monetary assets when the exchange transaction lacks commercial substance. Furthermore the requirement to disclose property, plant and equipment that were temporarily idle, has been clarified.

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

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

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

2.4 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:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which a municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of a municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality’s overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by a municipality within a particular region.

No effective date has yet been determined by the Minister of Finance.

Notes to the Financial Statements

2. New standards and interpretations (continued)

The municipality expects to adopt the standard once it becomes effective.

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

3. 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	13,436,615	-	13,436,615	12,198,741	-	12,198,741
Furniture and fixtures	1,447,134	(458,054)	989,080	1,447,134	(305,369)	1,141,765
Motor vehicles	1,885,949	(808,264)	1,077,685	1,885,949	(538,842)	1,347,107
Office equipment	303,221	(148,856)	154,365	303,221	(99,237)	203,984
IT equipment	279,649	(167,789)	111,860	279,649	(111,860)	167,789
Infrastructure	21,455,505	-	21,455,505	10,630,869	-	10,630,869
Community	8,608,508	-	8,608,508	4,725,192	-	4,725,192
Plant and equipment	2,102,635	(497,981)	1,604,654	2,102,635	(331,987)	1,770,648
Emergency equipment	7,127	(4,276)	2,851	7,127	(2,851)	4,276
Total	**49,526,343**	**(2,085,220)**	**47,441,123**	**33,580,517**	**(1,390,146)**	**32,190,371**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	12,198,741	1,237,874	-	13,436,615
Furniture and fixtures	1,141,765	-	(152,685)	989,080
Motor vehicles	1,347,107	-	(269,422)	1,077,685
Office equipment	203,984	-	(49,619)	154,365
IT equipment	167,789	-	(55,929)	111,860
Infrastructure	10,630,869	10,824,636	-	21,455,505
Community	4,725,192	3,883,316	-	8,608,508
Plant and equipment	1,770,648	-	(165,994)	1,604,654
Emergency equipment	4,276	-	(1,425)	2,851
	32,190,371	**15,945,826**	**(695,074)**	**47,441,123**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Disposals**	**Restatement**	**Depreciation**	**Total**
Land	8,824,802	3,373,939	-	-	-	12,198,741
Furniture and fixtures	2,052,409	9,720	(250,084)	(246,612)	(423,668)	1,141,765
Motor vehicles	5,525,635	-	(243,635)	(2,692,166)	(1,242,727)	1,347,107
Office equipment	633,770	5,566	(67,385)	(220,297)	(147,670)	203,984
IT equipment	391,510	-	(46,285)	(61,700)	(115,736)	167,789
Infrastructure	8,331,736	2,299,133	-	-	-	10,630,869
Community	12,532,235	2,137,107	(9,944,150)	-	-	4,725,192
Plant and equipment	1,191,731	6,875	(113,670)	952,907	(267,195)	1,770,648
Emergency equipment	78,940	-	(43,880)	(16,942)	(13,842)	4,276
	39,562,768	**7,832,340**	**(10,709,089)**	**(2,284,810)**	**(2,210,838)**	**32,190,371**

Figures in Rand	2012	2011

3. Property, plant and equipment (continued)

Pledged as security

At year end no assets have been pledged as security.

Assets subject to finance lease (Net carrying amount)

At year end no assets were subject to finance lease.

4. Intangible assets

	2012			2011		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	10,396	(6,237)	4,159	10,396	(4,158)	6,238

Reconciliation of intangible assets - 2012

	Opening balance	**Amortisation**	**Total**
Computer software	6,238	(2,079)	4,159

Reconciliation of intangible assets - 2011

	Opening balance	**Restatement**	**Amortisation**	**Total**
Computer software	8,993	710	(3,465)	6,238

5. Other financial assets

	2012	2011
At fair value		
Listed shares	321,409	256,202
At cost		
Deposit - Eskom Sewerage Plant	300,000	300,000
Total other financial assets	**621,409**	**556,202**
Non-current assets		
At fair value	321,409	256,202
At cost	300,000	300,000
	621,409	**556,202**

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

Notes to the Financial Statements

Figures in Rand	2012	2011

6. Inventories

Consumable stores	-	40,931
Maintenance materials	549,131	556,374
Fuel (diesel, petrol)	7,089	7,614
	556,220	**604,919**

Included in the Fuel (diesel, petrol) inventory balance is inventory write off due to potential stock losses amounting to R400 000 (see note 22).

7. Other receivables from non-exchange transactions

Other	85,100	75,887

8. Consumer receivables

Gross balances		
Rates	24,444,267	18,887,834
Electricity	5,835,265	23,005,089
Water	44,300,898	17,287,457
Sewerage	41,701,442	37,195,646
Refuse	32,413,577	26,560,756
Sundry	329,155	604,053
Other	68,375	68,375
Interdepartmental receivables	(2,264,152)	(2,264,152)
	146,828,827	**121,345,058**
Less: Provision for debt impairment		
Rates	(19,592,258)	(18,259,799)
Electricity	(4,677,007)	(22,240,152)
Water	(35,507,492)	(16,712,636)
Sewerage	(33,424,010)	(35,958,862)
Refuse	(25,979,718)	(25,677,590)
Sundry	(263,820)	(583,968)
Other	(54,804)	(66,101)
	(119,499,109)	**(119,499,108)**
Net balance		
Rates	4,852,009	628,035
Electricity	1,158,258	764,937
Water	8,793,406	574,821
Sewerage	8,277,432	1,236,784
Refuse	6,433,859	883,166
Sundry	65,335	20,085
Other	13,571	2,274
Interdepartmental receivables	(2,264,152)	(2,264,152)
	27,329,718	**1,845,950**
Rates		
Current (0 -30 days)	137,307	241,001
31 - 60 days	109,943	45,325
61 - 90 days	83,125	18,424
>91 days	4,521,634	323,285
	4,852,009	**628,035**

Notes to the Financial Statements

Figures in Rand	2012	2011

8. Consumer receivables (continued)

	2012	2011
Electricity		
Current (0 -30 days)	32,778	293,536
31 - 60 days	26,245	55,205
61 - 90 days	19,843	22,440
>91 days	1,079,392	393,756
	1,158,258	**764,937**
Water		
Current (0 -30 days)	248,845	220,581
31 - 60 days	199,251	41,484
61 - 90 days	150,650	16,863
>91 days	8,194,660	295,893
	8,793,406	**574,821**
Sewerage		
Current (0 -30 days)	234,244	474,602
31 - 60 days	187,560	89,257
61 - 90 days	141,810	36,282
>91 days	7,713,818	636,643
	8,277,432	**1,236,784**
Refuse		
Current (0 -30 days)	182,072	338,905
31 - 60 days	145,786	63,737
61 - 90 days	110,226	25,908
>91 days	5,995,775	454,616
	6,433,859	**883,166**
Sundry		
Current (0 -30 days)	1,849	7,707
31 - 60 days	1,480	1,450
61 - 90 days	1,119	589
>91 days	60,887	10,339
	65,335	**20,085**
Other		
Current (0 -30 days)	384	872
31 - 60 days	308	164
61 - 90 days	232	67
>91 days	12,647	1,171
	13,571	**2,274**
Interdepartmental receivables		
Current (0 -30 days)	-	(2,264,152)
> 365 days	(2,264,152)	-
	(2,264,152)	**(2,264,152)**

Notes to the Financial Statements

Figures in Rand	2012	2011

8. Consumer receivables (continued)

Summary of receivables by customer classification

Consumers		
Current (0 -30 days)	4,189,943	3,364,980
31 - 60 days	2,556,116	2,052,839
61 - 90 days	2,542,858	2,042,192
>91 days	132,386,130	106,320,456
	141,675,047	113,780,467
Less: Provision for debt impairment	(115,304,618)	(112,049,593)
	26,370,429	**1,730,874**
Industrial/ commercial		
Current (0 -30 days)	146,405	109,678
31 - 60 days	89,316	66,910
61 - 90 days	88,853	66,563
>91 days	4,625,846	3,465,388
	4,950,420	3,708,539
Less: Provision for debt impairment	(4,028,982)	(3,652,122)
	921,438	**56,417**
National and provincial government		
Current (0 -30 days)	6,014	114,040
31 - 60 days	3,669	69,571
61 - 90 days	3,650	69,210
>91 days	190,027	3,603,231
	203,360	3,856,052
Less: Provision for debt impairment	(165,508)	(3,797,393)
	37,852	**58,659**
Total		
Current (0 -30 days)	4,342,363	3,588,698
31 - 60 days	2,649,101	2,189,320
61 - 90 days	2,635,361	2,177,965
>91 days	137,202,001	113,389,075
	146,828,826	121,345,058
Less: Provision for debt impairment	(119,499,108)	(119,499,108)
	27,329,718	**1,845,950**
Less: Provision for debt impairment		
>91 days	(119,499,109)	(119,499,108)
Reconciliation of debt impairment provision		
Balance at beginning of the year	(119,499,109)	(107,575,135)
Contributions to provision	-	(11,923,973)
	(119,499,109)	**(119,499,108)**

Figures in Rand	2012	2011

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2012	2011
Cash on hand	3,971	2,102
Bank balances	771,922	-
Short-term deposits	1,632,566	9,810,053
Bank overdraft	-	(6,408,924)
	2,408,459	**3,403,231**
Current assets	2,408,459	9,812,155
Current liabilities	-	(6,408,924)
	2,408,459	**3,403,231**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
First National Bank - Current Account - 52050012816	782,227	(98,508)	(2,823,233)	773,115	(6,406,946)	(9,965,815)
First National Bank - Credit Card - 88127100031008001	(5,029)	(1,982)	(3,532)	(5,029)	(1,978)	(3,532)
First National Bank - TMT Call Account - 62093258369	-	30,674	116,172	30,674	30,674	116,172
First National Bank - Delareyville Call Account - 61205002481	3,489	3,454	3,420	3,489	3,454	3,420
First National Bank - Housing Development Call Account - 62055030789	5,666	5,610	5,554	5,666	5,610	5,554
First National Bank - Savings Account - 4210102061	165,027	165,027	57,037	165,027	165,027	57,037
First National Bank - Money Market Account - 62263163752	1,427,710	9,605,288	5,615,853	1,427,710	9,605,288	5,615,853
Total	**2,379,090**	**9,709,563**	**2,971,271**	**2,400,652**	**3,401,129**	**(4,171,311)**

10. Other financial liabilities

	2012	2011
At amortised cost		
DBSA loans	16,225	36,017
Non-current liabilities		
At amortised cost	16,225	17,531
Current liabilities		
At amortised cost	-	18,486
	16,225	**36,017**

Figures in Rand	2012	2011

11. Finance lease obligation

Minimum lease payments due		
- within one year	-	39,148
	-	39,148
less: future finance charges	-	(832)
Present value of minimum lease payments	**-**	**38,316**
Present value of minimum lease payments due		
- within one year	-	38,316

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 5 years and the average effective borrowing rate was 9% (2011: 9%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MSIG Grant	1,402,827	1,293,510
FMG Grant	1,230,331	367,437
Letsopa Library Grant	792,482	792,482
LG Seta Grant	363,432	51,228
MIG Grant	27,563,278	14,395,266
NWPG Clean Community Project Grant	1,227,585	1,227,585
DLGTA Grant	79,645	1,400,000
LG Water Project Grant	294,886	-
INEP Grant	1,410,946	-
Community Library Grant	19,284	-
	34,384,696	**19,527,508**

Movement during the year

Balance at the beginning of the year	19,527,508	12,370,682
Additions during the year	95,688,935	35,747,362
Income recognition during the year	(80,831,747)	(23,700,213)
Transferred to payables during the year	-	(4,890,323)
	34,384,696	**19,527,508**

See note 20 for reconciliation of grants from National/Provincial Government.

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

Figures in Rand	2012	2011

13. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	9,327,816	363,784	9,691,600

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Environmental rehabilitation	8,824,802	503,014	9,327,816

The environmental rehabilitation provision represents management's best estimate of the municipality's legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at the prevailing inflation rate.

14. Payables from exchange transactions

Trade payables	10,088,246	14,373,460
Payments received in advance	9,337,514	2,072,323
Retentions	581,253	581,253
Accrued leave pay	4,279,777	6,538,250
Accrued bonus	1,238,853	1,239,916
Other payables	15,316,408	13,558,760
	40,842,051	**38,363,962**

15. VAT payable

Tax payables	5,172,108	6,218,210

The municiplaity pays VAT on the receipt basis.

16. Consumer deposits

Electricity and water	1,190,170	1,162,909

17. Revenue

Property rates	8,720,409	5,931,558
Service charges	45,040,564	35,688,007
Rental of facilities & equipment	364,960	384,954
Fines	47,580	850,105
Licences and permits	1,348,461	1,229,164
Government grants & subsidies	80,831,748	71,794,261
	136,353,722	**115,878,049**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	45,040,564	35,688,007
Rental of facilities & equipment	364,960	384,954
Licences and permits	1,348,461	1,229,164
	46,753,985	**37,302,125**

Notes to the Financial Statements

Figures in Rand	2012	2011

17. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	8,720,409	5,931,558
Fines	47,580	850,105
Transfer revenue		
Government grants & subsidies	80,831,748	71,794,261
	89,599,737	**78,575,924**

18. Property rates

Rates received

Residential	8,720,409	5,931,558

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R 45,000 (2011: R 35,000) is applied to property valuations to determine assessment rates. Rebates of 5% (2011: 5%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being 30 November 2011 (30 November 2010). Interest at 14% per annum (2011: 14%) and a collection fee of 5% (2011: 5%), is levied on rates outstanding two months after due date.

19. Service charges

Sale of electricity	26,870,797	21,244,470
Sale of water	6,308,136	3,384,430
Sewerage and sanitation charges	10,777,121	10,084,344
Refuse removal	934,831	856,961
Connections	149,679	117,802
	45,040,564	**35,688,007**

Figures in Rand	2012	2011

20. Government grants and subsidies

Equitable share	51,116,000	48,094,048
MSIG Grant	680,683	713,391
NMMDM Grant	4,636,927	12,867,362
FMG Grant	387,107	1,797,486
Letsopa Library Grant	-	86,239
LG Seta Grant	67,918	46,702
MIG Grant	7,799,988	7,430,618
NWPG Clean Community Project Grant	-	758,415
INEP Grant	7,782,054	-
Community Library Grant	340,716	-
DLGTA Grant	1,320,355	-
MRSC Grant	6,700,000	-
	80,831,748	**71,794,261**

Equitable Share

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

MSIG Grant

Balance unspent at beginning of year	1,293,510	1,256,901
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(680,683)	(713,391)
	1,402,827	**1,293,510**

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

The grant is intended to assist the Municipality in building in house capacity to perform their functions and stabilise institutional and governance systems as required in the the Municipal Systems Act (MSA) and related legislation, policies and local government turnaround strategy.

NMMDM Grant

Current-year receipts	4,636,927	12,867,362
Conditions met - transferred to revenue	(4,636,927)	(12,867,362)
	-	**-**

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

The grant is intended to provide specific finance for basic municipal services, such as water and sanitation for poor communities.

FMG Grant

Balance unspent at beginning of year	367,437	914,923
Current-year receipts	1,250,000	1,250,000
Conditions met - transferred to revenue	(387,106)	(1,797,486)
	1,230,331	**367,437**

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

The grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Letsopa Library Grant

Figures in Rand	2012	2011

20. Government grants and subsidies (continued)

Balance unspent at beginning of year	792,482	878,721
Conditions met - transferred to revenue	-	(86,239)
	792,482	**792,482**

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

The grant is intended to provide the municipality with capital finance for the building of Letsopa Community Library.

LG Seta Grant

Balance unspent at beginning of year	51,228	-
Current-year receipts	380,122	60,000
Conditions met - transferred to revenue	(67,918)	(8,772)
	363,432	**51,228**

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

The grant is intended to provide the municipality with finance for skills development and training of the council management and employees.

Letsopa Ext 5 Housing Development Grant

Balance unspent at beginning of year	-	3,476,688
Transferred to payables	-	(3,476,688)
	-	**-**

Conditions not met - transferred to payables.

The grant is intended to provide specific capital finance for the development of 583 fully serviced residential erven with top structures to Letsopa Ext 5 Housing Project as proposed and more fully described in the Developer's application and the annexure thereto.

Kopela Housing Development Grant

Balance unspent at beginning of year	-	1,451,565
Transfered to payables	-	(1,451,565)
	-	**-**

Conditions not met - transferred to payables.

The grant is intended to provide specific capital finance for the development of 500 fully serviced residential erven with VIP toilets to Kopela Rural Housing Project.

MIG Grant

Balance unspent at beginning of year	14,395,266	4,391,884
Current-year receipts	20,968,000	17,434,000
Conditions met - transferred to revenue	(7,799,988)	(7,430,618)
	27,563,278	**14,395,266**

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

The grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Notes to the Financial Statements

Figures in Rand	2012	2011

20. Government grants and subsidies (continued)

NWPG Clean Community Project Grant

Balance unspent at beginning of year	1,227,585	-
Current-year receipts	-	1,986,000
Conditions met - transferred to revenue	-	(758,415)
	1,227,585	**1,227,585**

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

The grant is intended for the Delareyville Cleaning Up Project.

DLGTA Grant

Balance unspent at beginning of year	1,400,000	-
Current-year receipts	-	1,400,000
Conditions met - transferred to revenue	(1,320,355)	-
	79,645	**1,400,000**

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

The grant is intended to be utilised by the municipality to purchase the Service Delivery Vehicles.

LG Water Project Grant

Current-year receipts	294,886	-

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

The grant is intended to be utilised by the municipality to identify and replace/rehabilitate faulty water and electricity meters.

INEP Grant

Current-year receipts	9,193,000	-
Conditions met - transferred to revenue	(7,782,054)	-
	1,410,946	**-**

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

The grant is intended to be utilised by the municipality to implement the Intergrated National Electrification Program to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastrusture in order to improve quality of supply.

Community Library Grant

Current-year receipts	360,000	-
Conditions met - transferred to revenue	(340,716)	-
	19,284	**-**

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

The grant is intended to be utilised by the municipality to provide the municipality with finance for the operation and administration of community libraries.

Notes to the Financial Statements

Figures in Rand	2012	2011

21. Other income

Other income	1,124,158	150,752
Town planning fees	76,820	250,046
Cemetary fees	200,037	151,725
Commissions received	768,958	930,642
	2,169,973	**1,483,165**

22. General expenses

Advertising	334,414	82,955
Auditors remuneration	810,876	1,390,872
Bank charges	455,498	311,279
Legal fees	4,056,256	3,448,822
Entertainment	60,105	220,493
Fines and penalties	94,752	-
Inventory write off	1,106,881	-
Insurance	869,094	732,454
Lease rentals on operating lease	-	1,570,987
License fees - fleet	-	73,909
Medical expenses	300	-
License fees - other	95,162	19,662
Refunds	4,165	-
Fuel and oil	829,883	1,500,878
Postage and courier	11,907	-
Printing and stationery	4,874,648	502,906
Protective clothing	445	3,093
Security (guarding of municipal property)	111,425	1,962
MFA learnership project	-	384,305
Subscriptions and membership fees	134,335	431,447
Telephone and fax	1,966,045	1,899,416
Mayoral projects	84,837	86,469
Training	366,291	466,689
Travel - local	351,711	361,162
Material and stock	68,269	102,765
Library grant	6,551	72,104
Loose tools	1,913	16,226
Reference books and periodicals	-	7,497
Council contribution indigents services	741,486	1,908,840
Council contribution pensioners medical	612,026	523,510
Indigent funerals	-	8,125
IDP	150	202,660
Laboratory charges	14,700	26,221
Work creation	2,128,633	41,099
Workmens compensation fund	-	316,000
Traffic management technologies fees	432,689	824,087
Town planning expenses	-	1,542
Strategic planning	-	106,009
Public health education	16,168	14,912
Public participation	591,003	65,665
	21,232,618	**17,727,022**

23. Operating surplus (deficit)

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

Operating lease charges

Equipment		
• Contractual amounts	-	1,570,987

Figures in Rand	2012	2011

23. Operating surplus (deficit) (continued)

Loss on sale of property, plant and equipment	-	(9,514,088)
Depreciation on property, plant and equipment	697,153	2,214,305
Employee costs	56,282,162	60,829,394

24. Employee related costs

Basic	30,342,204	32,823,620
Bonus	2,208,570	2,548,655
Medical aid - municipality contributions	2,656,209	2,485,578
UIF	313,050	303,282
SDL	452,274	412,201
Post-employment benefits - pension - defined contribution plan	6,383,405	6,252,772
Travel, motor car, accommodation, subsistence and other allowances	1,635,230	1,485,209
Overtime payments	2,257,997	1,671,635
Housing benefits and allowances	417,290	418,729
Group life - municipality contributions	149,740	122,596
Other employee related costs	341,551	2,928,371
	47,157,520	**51,452,648**

Remuneration of municipal manager: Mere KS / More M

Annual remuneration	135,000	277,500
Travel, motor car, accommodation, subsistence and other allowances	102,997	396,848
Contributions to UIF, medical and pension funds	-	4,441
Other employee related costs	-	43,167
	237,997	**721,956**

Remuneration of chief finance officer: Maroga S / Pelele SM

Annual remuneration	251,114	559,444
Travel, motor car, accommodation, subsistence and other allowances	102,997	353,299
Contributions to UIF, medical and pension funds	62,310	67,585
Other employee related costs	-	24,984
	416,421	**1,005,312**

Remuneration of executive director - Corporate services: Yende AT / Monaheng NO

Annual remuneration	410,914	239,844
Travel, motor car, accommodation, subsistence and other allowances	205,994	148,814
Contributions to UIF, medical and pension funds	71,773	71,294
Other employee related costs	54,751	11,659
	743,432	**471,611**

Remuneration of executive director - Community services: Ramphele TM

Annual remuneration	319,600	319,600
Travel, motor car, accommodation, subsistence and other allowances	102,997	198,557
Contributions to UIF, medical and pension funds	-	4,962
	422,597	**523,119**

Figures in Rand	2012	2011

24. Employee related costs (continued)

Remuneration of executive director - Technical services: Breytenbach HJ

Annual remuneration	319,600	319,600
Travel, motor car, accommodation, subsistence and other allowances	102,997	200,940
Contributions to UIF, medical and pension funds	-	4,986
	422,597	**525,526**

25. Remuneration of councillors

Executive Mayor: Mogatusi KC	593,008	414,604
Mayoral Committee Members (See General Information page)	1,332,565	692,964
Speaker: Mokgethi MT	476,515	331,451
Councillors (See General Information page)	4,076,087	4,082,692
Councillors' pension and medical aid contributions (See General Information page)	403,423	607,511
	6,881,598	**6,129,222**

In-kind benefits

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

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

26. Debt impairment

Contributions to debt impairment provision	-	11,923,974

27. Investment revenue

Dividend revenue		
Listed financial assets - local	26,499	4,081
Interest revenue		
Bank	323,477	424,364
	349,976	**428,445**

28. Fair value adjustments

Other financial assets		
• Other financial assets (At fair value)	65,207	43,977

29. Depreciation and amortisation

Property, plant and equipment	697,153	2,214,305

30. Finance costs

Bank	3,993	13,303

Notes to the Financial Statements

Figures in Rand	2012	2011

31. Auditors' remuneration

Fees	810,876	1,390,872

32. Rental of facilities, equipment and land

Facilities, equipment and land		
Rental of facilities	290,316	258,026
Rental of equipment	604	219
Rental of land	74,040	126,709
	364,960	**384,954**

33. Contracted services

Valuation roll	273,262	2,027,898
Professional services	1,907,580	4,813,552
	2,180,842	**6,841,450**

34. Bulk purchases

Electricity	32,540,992	22,240,601
Water	666,524	633,031
	33,207,516	**22,873,632**

35. Cash generated from operations

Surplus (deficit)	23,141,277	(17,595,097)
Adjustments for:		
Depreciation and amortisation	697,153	2,214,305
Loss on disposal of asset	-	9,514,088
Fair value adjustments	(65,207)	(43,977)
Debt impairment	-	11,923,974
Movements in provisions	363,784	503,014
Changes in working capital:		
Inventories	48,699	1,126,469
Other receivables from non-exchange transactions	(9,213)	-
Consumer receivables	(25,483,768)	(12,373,036)
Payables from exchange transactions	2,478,089	5,498,064
VAT	(1,046,102)	(515,476)
Unspent conditional grants and receipts	14,857,188	7,156,826
Consumer deposits	27,261	44,875
	15,009,161	**7,454,029**

Notes to the Financial Statements

Figures in Rand	2012	2011

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment - infrastructure	45,934,319	12,005,771

This committed expenditure relates to plant and equipment and will be financed by government grants.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	-	1,015,843
- in second to fifth year inclusive	-	354,006
	-	**1,369,849**

Operating lease payments represent rentals payable by the municipality for certain of its office properties and equipment. Leases are non cancellable and negotiated for an average term of five years and rentals escalates at 15% per year. No contingent rent is payable.

37. Related parties

Relationships	
Accounting Officer	See accounting officer's report note
Chief financial officer	See general information page
Executive directors	Yende AT (Corporate Services) Breytenbach HJ (Technical Services) Ramphele TM (Community Services)
Mayoral committee	See general information page
Speaker	See general information page
Chiefwhip	See general information page
Mayor	See general information page
Councillors	See general information page

38. Comparative figures

Certain comparative figures may have been reclassified.

39. Risk management

Liquidity risk

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

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.

Figures in Rand	2012	2011

39. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents 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.

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

Financial instrument	**2012**	**2011**
Trade and other receivables	27,329,718	1,845,950

These balances represent the maximum exposure to credit risk.

40. Going concern

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

41. Unauthorised expenditure

Unauthorised expenditure	11,233,941	18,207,010

Current year unauthorised expenditure relates to unbudgeted bulk purchases and salaries of councillors and no disceplinary or criminal proceedings were taken by council.

Prior year unauthorised expenditure relates to unbudgeted expenditure and no disciplinary or criminal proceedings were taken by council.

42. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	466,820	75,918

Current year fruitless and wasteful expenditure relates to penalty and interest on late monthy returns and payments to DBSA, VAT, Eskom and Auditor General.

Prior year fruitless and wasteful expenditure relates to penalty interest on late monthy returns and payments to the Municipal employees pension fund ito Section 28(2)(a) and (b) of the Fund.

43. Irregular expenditure

Opening balance	-	882,946
Add: Irregular expenditure - current year	129,322	491,005
Less: Amounts condoned	-	(1,373,951)
	129,322	**-**

Analysis of expenditure awaiting condonation per age classification

Current year	129,322	-

Details of irregular expenditure – current year

Non compliance to Supply Chain Management Policy	129,322

Notes to the Financial Statements

Figures in Rand	2012	2011

43. Irregular expenditure (continued)

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Overpayments made to councillors due to incorrect application of upper limits		1,373,951

Details of irregular expenditure not recoverable (not condoned)

Non compliance to Supply Chain Management Policy	129,322

44. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2012	2011
Opening balance	2,420,686	810,856
Understatement of opening balance	-	24,236
Current year audit fee	-	1,585,594
Amount paid - current year	(810,876)	-
	1,609,810	**2,420,686**

PAYE and UIF

	2012	2011
Opening balance	5,183,995	5,194,964
Current year payroll deductions	-	6,417,360
Amount paid - current year	-	(6,428,329)
	5,183,995	**5,183,995**

Pension and Medical Aid Deductions

	2012	2011
Opening balance	1,483,215	323,376
Current year payroll deductions and council contributions	-	14,607,620
Amount paid - current year	-	(13,447,781)
	1,483,215	**1,483,215**

VAT

	2012	2011
VAT payable	5,172,108	6,218,210

VAT output payables and VAT input receivables are shown in note 15.

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

Notes to the Financial Statements

Figures in Rand	2012	2011

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

Councillors' arrear consumer accounts

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. Mogatusi K	170	3,217	3,387
Cllr. van der Merwe M	20,472	29,865	50,337
Cllr. Mathiba V	511	14,778	15,289
Cllr. Malwane D	2,347	9,158	11,505
Cllr. Motjale M	525	13,587	14,112
Cllr. Mokwatsi A	547	12,262	12,809
Cllr. Tsholo S	550	9,711	10,261
Cllr. Heneck T	547	513	1,060
Cllr. Malumane M	547	28,081	28,628
Cllr. Galoitsiwe E	414	19,546	19,960
Cllr. Letlakane S	414	19,265	19,679
Cllr. Mohubuke K	414	22,731	23,145
Cllr. Mabovu T	547	25,812	26,359
	28,005	**208,526**	**236,531**

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. Prior period errors

Irregular expenditure which relates to over payments made to councillors because of incorrect application of the upper limits of payments to councillors during 2010 and 2011 that was incorrectly disclosed as "Trade receivables from non-exchange transactions", whilst it should have been recognised in surplus/(deficit) of the respective year. The irregular expenditure was subsequently condoned in the current year and the prior year accounting records adjusted, requiring the below prior period error adjustment and disclosure.

Accrual for leave pay was incorrectly calculated and understated during 2011, requiring below prior period error adjustment and disclosure.

A physical asset verification was performed during the current year with regards to Other Assets resulting in the restatement of the fixed asset register, requiring below prior period error adjustment and disclosure.

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

	2012	2011
Statement of financial position		
Property, plant and equipment	-	(2,284,101)
Trade receivables from non-exchange transactions		(1,373,951)
Accrued leave pay		(2,572,704)
Opening Accumulated Surplus or Deficit		3,167,047
Statement of Financial Performance		
Remuneration of councillors		491,005
Personnel		2,572,704

Notes to the Financial Statements

Figures in Rand	2012	2011

48. Reconciliation between budget and statement of financial performance

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

Net surplus (deficit) per the statement of financial performance	23,141,277	(17,595,097)