Ditsobotla Municipality
Financial statements
for the year ended June 30, 2012

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipality
Mayoral committee	
Executive Mayor	Hon Holele LE
Councillors	Councillor Behm A
	Councillor Bogatsu T
	Councillor Dila VS
	Councillor Engelbrecht R
	Councillor Dipholo DO
	Councillor Ditlhareng KH
	Councillor Fourie JPG
	Councillor Khambula GF
	Councillor Koloko GA
	Councillor Masekoa W
	Councillor Matlaba NG
	Councillor Mathipe ML
	Councillor Matlholoa RB
	Councillor Matlhomane KE
	Councillor Matshogo AL
	Councillor Melamu TK
	Councillor Mgqamqo QE
	Councillor Mgquba MV
	Councillor Mnyakama SS
	Councillor Moeketsane S
	Councillor Mogonedi WA
	Councillor Moheta B
	Councillor Moilwa DG
	Councillor Morutse MW
	Councillor Moseki MS
	Councillor Mothibedi LH
	Councillor Mothibi ML
	Councillor Mmota MA
	Councillor Mmota ME
	Councillor Mpame DS
	Councillor Naweta F
	Councillor Ngesman AW
	Councillor Njakanjaka K
	Councillor Ntoagae PR
	Councillor Senokwane AM
	Councillor Thabane RE
	Councillor Thamaga T
	Councillor Tootla KM
	Councillor Van der Linde WG
	Councillor Vilakazi VA
Grading of local authority	Grade B
Speaker	Maitshotlo PJ

General Information

Chief Finance Officer (CFO)	Mashao MH
Accounting officer	Bhine MJ
Registered office	Civic Centre Cnr Nelson Mandela and Transvaal Street Lichtenburg North West 2740
Business address	Civic Centre Cnr Nelson Mandela and Transvaal Street Lichtenburg North West 2740
Postal address	PO Box 7 Lichtenburg 2740
Bankers	ABSA Bank
Auditors	Auditor General North West
Attorneys	Bosman & Bosman Attorneys
Municipal demarcation code	NW384
Capacity of low authority	Low

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

Abbreviations

ASB	Accounting Standards Board
AG	Office of the Auditor General
DBSA	Development Bank of South Africa
PAYE	Pay As You Earn
GRAP	Generally Recognised Accounting Practice
SARS	South African Revenue Service
VAT	Value Added Tax
FMG	Financial Management Grant
MSIG	Municipal Systems Improvement Grant
INEP	National Electricity Program Grant
MIG	Municipal Infrastructure Grant
UIF	Unemployment Insurance Act
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

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

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

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

The accounting officer acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavors 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 are of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

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

The annual 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 annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2012 and were signed on its behalf by:

Bhine MJ **Accounting Officer**	**Mashao MH** **Chief Finance Officer**

Accounting Officer's Report

The accounting officer submit their report for the year ended June 30, 2012.

1. Review of activities

Main business and operations

Ditsobotla Local Municipality is a low capacity local municipality and delivers basic services such as water, electricity and refuse removal services to the Lichtenburg region.

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

2. Going concern

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

3. Subsequent events

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

4. Accounting policies

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

5. Bankers

The municipality banks primarily with ABSA Bank.

6. Auditors

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

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	6	2,803,586	2,459,392
Other receivables	7	58,623,253	370,692
Consumer receivables	8	14,366,545	30,175,059
Long term receivables		1,558,217	1,558,217
Cash and cash equivalents	9	-	285
		77,351,601	**34,563,645**
Non-Current Assets			
Property, plant and equipment	4	76,182,596	62,223,850
Other financial assets	5	4,508,840	4,508,840
		80,691,436	**66,732,690**
Total Assets		**158,043,037**	**101,296,335**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	(2,602,012)	23,219,016
VAT payable	12	9,396,577	9,650,502
Consumer deposits	13	3,831,271	3,801,379
Unspent conditional grants and receipts	10	22,690,282	14,160,859
Bank overdraft	9	84,461,484	23,959,956
		117,777,602	**74,791,712**
Non-Current Liabilities			
Finance lease obligation		(3,130,017)	(3,130,017)
Total Liabilities		**114,647,585**	**71,661,695**
Net Assets		**43,395,452**	**29,634,640**
Net Assets			
Accumulated surplus/ (deficit)		43,395,452	29,634,640

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Discount received		36,984	220
Fees		5,436	2,232
Fines		6,452,052	6,253,434
Government grants & subsidies	17	140,338,200	93,351,154
Interest received		18,275,087	8,393,029
Licences and permits		3,269,439	3,195,411
Property rates	15	47,666,515	19,560,415
Reconnection charge		604,866	32,099
Rental of facilities and equipment		1,319,273	628,866
Service charges	16	287,340,362	130,857,848
Sundry income		2,293,162	1,848,971
Traffic Income		58,847	-
Total Revenue		**507,660,223**	**264,123,679**
Expenditure			
Administration	22	(5,284)	(5,284)
Bulk purchases	26	(133,293,681)	(62,707,753)
Debt impairment	23	(40,715,918)	(40,715,918)
General Expenses	19	(64,247,795)	(29,483,038)
Grants and subsidies paid	25	(7,415,734)	(4,010,426)
Personnel	20	(183,028,296)	(87,093,225)
Remuneration of councillors	21	(20,183,286)	(8,837,244)
Repairs and maintenance		(20,544,239)	(10,883,933)
Total Expenditure		**(469,434,233)**	**(243,736,821)**
Surplus for the year		**38,225,990**	**20,386,858**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus/ (deficit)	Total net assets
Balance at July 01, 2010	**9,247,782**	**9,247,782**
Changes in net assets		
Surplus for the year	20,386,858	20,386,858
Total changes	20,386,858	20,386,858
Balance at July 01, 2011	**5,169,462**	**5,169,462**
Changes in net assets		
Deficit for the year	38,225,990	38,225,990
Total changes	38,225,990	38,225,990
Balance at June 30, 2012	**43,395,452**	**43,395,452**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Services		350,815,391	100,672,676
Grants		148,867,623	91,151,548
Interest income		18,312,071	8,393,249
Other receipts		(68,518,974)	12,008,446
		449,476,111	212,225,919
Payments			
Employee costs		(203,211,582)	(95,930,470)
Suppliers		(268,337,135)	(78,076,693)
Other payments		(5,284)	(9,678,291)
		(471,554,001)	(183,685,454)
Net cash flows from operating activities	27	**(22,077,890)**	**28,540,465**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(13,958,746)	(37,937,366)
Movement in investments (incl. Controlled entities, JVs & Assoc)		(40,715,918)	-
Net cash flows from investing activities		**(54,674,664)**	**(37,937,366)**
Cash flows from financing activities			
Finance lease payments		-	(3,130,017)
Other non-cash item		(7,708,930)	(4,421,258)
Net cash flows from financing activities		**(7,708,930)**	**(7,551,275)**
Net increase/(decrease) in cash and cash equivalents		**(84,461,484)**	**(16,948,176)**
Cash and cash equivalents at the beginning of the year		-	(7,011,495)
Cash and cash equivalents at the end of the year	9	**(84,461,484)**	**(23,959,671)**

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.

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

1.1 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 are 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, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

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 assumption 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. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

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.

1.2 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 or fair value of the item can be measured reliably.

Accounting Policies

1.2 Property, plant and equipment (continued)

Property, plant and equipment are 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 expense it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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 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 an item of propety, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.3 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 which a 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.

1.4 Intangible assets

An identifiable non-monetary asset without physical substance is indentified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired at no cost or for a nominal cost, its cost is 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; and
- 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 expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

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

Accounting Policies

1.4 Intangible assets (continued)

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	x 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 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 difference is recognised in surplus or deficit when the intangible asset is derecognised.

1.5 Financial instruments

Classification

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

Receivables from exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

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

Accounting Policies

1.5 Financial instruments (continued)

Held to maturity

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

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

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

1.6 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 building elements, the municipality assesses the classification of each element separately.

Finance leases - lessor

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

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

Finance leases - lessee

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

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of reduction 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 separately as revenue in the period in which they are received.

Accounting Policies

1.6 Leases (continued)

Operating leases - lessee

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

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 an expense in the period in which they are incurred.

1.7 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 values as at the date of acquisition.

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

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

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

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

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value 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.

1.8 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.

Accounting Policies

1.9 Impairment of cash-generating assets

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

Identification

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

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

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

Value in use

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

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

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.

Accounting Policies

1.9 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 municipality 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.

Accounting Policies

1.9 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 there been 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.

1.10 Impairment of non-cash-generating assets

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

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

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 in 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.

Accounting Policies

1.10 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 assessess 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.

Accounting Policies

1.11 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 costs 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 measures 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.

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

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate 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, a 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 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.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

Post-employment benefit obligations are measured on a basis that reflects:

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

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

Long-term service awards

The municipality has no obligation to provide long-service benefits allowance to all of its employees. According to the rules of the long-service allowance scheme, which the municipality instituted and operates, an employee (who is in the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20,25 and 30 years of continued service.

The municipality's liability is based on the actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

1.12 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.

Accounting Policies

1.12 Provisions and contingencies (continued)

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 settling 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 a 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 a 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

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 sufficient reliability.

Contingent assets and contingent liabilities are not recognised.

Accounting Policies

1.12 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity 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 account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

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.

1.13 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.

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.

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Interest

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

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

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.

Accounting Policies

1.14 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

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

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.

1.15 Investment income

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

1.16 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 1.9 and 1.10. 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.

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and

Accounting Policies

1.18 Unauthorised expenditure (continued)

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 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 municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of the financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance

1.21 Offsetting

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

1.22 Budget information

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

1.23 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.

1.24 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 statement 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 awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

2. Changes in accounting policy

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

- IGRAP 2: Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3: Determining Whether an Arrangement Contains a Lease
- IGRAP 4: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- IGRAP 5: Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies
- IGRAP 6: Loyalty Programmes
- IGRAP 7: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8: Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9: Distributions of Non-cash Assets to Owners
- IGRAP 10: Assets Received from Customers
- IGRAP 13: Operating Leases – Incentives
- IGRAP 14: Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15: Revenue – Barter Transactions Involving Advertising Services
- GRAP 1 (as revised 2010): Presentation of Financial Statements
- GRAP 2 (as revised 2010): Cash Flow Statements
- GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors
- GRAP 4 (as revised 2010): The Effects of Changes in Foreign Exchange Rates
- GRAP 9 (as revised 2010): Revenue from Exchange Transactions
- GRAP 10 (as revised 2010): Financial Reporting in Hyperinflationary Economies
- GRAP 11 (as revised 2010): Construction Contracts
- GRAP 12 (as revised 2010): Inventories
- GRAP 13 (as revised 2010): Leases
- GRAP 14 (as revised 2010): Events After the Reporting Date
- GRAP 16 (as revised 2010): Investment Property
- GRAP 17 (as revised 2010): Property, Plant and Equipment
- GRAP 19 (as revised 2010): Provisions, Contingent Liabilities and Contingent Assets
- GRAP 100 (as revised 2010): Non-current Assets Held for Sale and Discontinued Operations
- GRAP 23: Revenue from Non-exchange Transactions
- GRAP 24: Presentation of Budget Information in the Financial Statements
- GRAP 27: Agriculture
- GRAP 31: Intangible Assets

The aggregate effect of the changes in accounting policy on the financial statements for the year ended June 30, 2011 is as follows:

3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

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

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 settling the obligation;

Notes to the Financial Statements

3. New standards and interpretations (continued)

- 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 April 01, 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 April 01, 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.

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 April 01, 2011.

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

The impact of the interpretation is not material.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 an entity 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 April 01, 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 April 01, 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 April 01, 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 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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 April 01, 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 April 01, 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 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 an entity 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 an 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?
- 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 municipality account for a receipt of cash from its customer?

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

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

The impact of the interpretation is not material.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 April 01, 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, an 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 municipality;
  - 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 April 01, 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 entities. In some other cases, equal or approximately equal amounts of cash or other consideration are also exchanged.

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).

Notes to the Financial Statements

3. New standards and interpretations (continued)

The issue is under what circumstances a seller can 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 April 01, 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, municipalities 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 April 01, 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 municipalities 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 April 01, 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 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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

- 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 entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC.
- 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 April 01, 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 April 01, 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 April 01, 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.
- Where reference has been made to 'net realisable value', 'current replacement cost' has been added.

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 April 01, 2011.

Notes to the Financial Statements

3. 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 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.
- The explanatory text relating to ‘contractors’ has been amended to clarify that an entity 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 April 01, 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 April 01, 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.

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.

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 April 01, 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 April 01, 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, 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.
- 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 April 01, 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 17 (as revised 2010): Property, Plant and Equipment

The revision resulted in various terminology and definition changes.

Scope:

Notes to the Financial Statements

3. New standards and interpretations (continued)

- 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 municipality 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.
- 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.
- the requirement to disclose the cost basis for revaluated assets was removed.

Amendments to be applied as follow:

- Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact.
- Any other amendments to the Standards of GRAP shall be applied retrospectively.

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

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

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 municipal entity 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 municipality entity as held for sale when the required criteria are met.
- 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 municipality 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 April 01, 2011.

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

The impact of the amendment is not material.

3.2 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 an entity 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 as recognise an amount equal to that reduction.

The effective date of the standard is for years beginning on or after April 01, 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, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

Where an entity prepares its budget and 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 April 01, 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 result of the municipality, but has resulted in more disclosure that would have previously been provided in the financial statements.

GRAP 104: Financial Instruments

The standard 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.

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.

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.

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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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.

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 municpality 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 April 01, 2012.

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

The impact of the amendment is not material.

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 27).

The effective date of the standard is for years beginning on or after April 01, 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 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 (IPSAS 31).

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

3.3 Standards and interpretations issued, but not yet effective

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

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
- 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.

A municipality assets 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.

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

The municipality expects to adopt the standard for the first time in the 2013 financial statements.

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

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.

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.

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).

Notes to the Financial Statements

3. New standards and interpretations (continued)

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, a 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.

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 assets 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.

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

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

The municipality expects to adopt the standard for the first time in the 2013 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 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.

GRAP 25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

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: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

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 occurred.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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

The municipality expects to adopt the standard for the first time in the 2013 financial statements.

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

IGRAP 16

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

It concludes that a municipaltity'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 Standard of GRAP on Intangible Assets, which in particular requires a municipality to be able to demonstrate how its website will generate probable future economic benefits or service potential.

If a municipality is not able to demonstrate how a website developed solely or primarily for providing information about its own products and services will generate probable future economic benefits or 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 April 01, 2013.

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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 the equity method, has been included in the Standard of GRAP Investments 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. Furhtermore 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. Furhtermore 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.

3.4 Standards and interpretations not yet effective or relevant

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 July 01, 2012 or later periods

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 an 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 an municipality within a particular region.

The effective date has not yet been determined by the Minister of Finance.

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.

GRAP 105: Transfers of Functions Between Entities Under Common Control

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

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

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 function 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.

Notes to the Financial Statements

3. New standards and interpretations (continued)

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 municipal 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 functions between municipalities not under common control, the assets and liabilities should be recognised (by the acquirer) at their acquisition-date fair value and should be derecognised (by the acquirer) 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 standard 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 asset 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.

The difference between the carrying amounts of assets and liabilities should be recognised in 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 reporting 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 reporting municipality in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This Standard also applies to individual financial statements.

Notes to the Financial Statements

3. New standards and interpretations (continued)

This Standard of GRAP requires that only transactions with related parties where the transactions are not concluded within normal operating procedures or on items that are not no more no less favourable than the items 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.

4. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Plant and machinery	76,182,596	-	76,182,596	62,223,850	-	62,223,850

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Transfers**	**Total**
Plant and machinery	62,223,850	13,958,746	76,182,596

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Total**
Plant and machinery	62,223,850	62,223,850

Pledged as security

No assets were plegded as security.

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

5. Other financial assets

Fair value		
ABSA Bank Limited	4,508,840	4,508,840
Non-current assets		
Loans and receivables	4,508,840	4,508,840

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.

Figures in Rand	2012	2011

5. Other financial assets (continued)

There were no gains or losses realised on the disposal of held to maturity financial assets in 2012 and 2011, as all the financial assets were disposed of at their redemption date.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

6. Inventories

Consumable stores	2,755,853	2,372,628
	2,755,853	2,372,628
Stock adjustment	47,733	86,764
	2,803,586	**2,459,392**

7. Other receivables

Employee costs in advance	53,863	146,173
Prepayments	20	20
Unclaimed wages	663	-
Bulk refuse bins	56,648,144	224,499
Salary returns	1,920,563	-
	58,623,253	**370,692**

8. Consumer debtors

Gross balances		
Consumer debtors	150,705,067	172,434,110
Water	6,899,565	979,036
	157,604,632	**173,413,146**
Less: Provision for debt impairment		
Electricity	(143,238,087)	(143,238,087)
Net balance		
Electricity	7,466,980	29,196,023
Water	6,899,565	979,036
	14,366,545	**30,175,059**
Electricity		
Current (0 -30 days)	7,466,980	29,196,023
Water		
Current (0 -30 days)	6,899,565	979,036
Reconciliation of debt impairment provision		
Balance at beginning of the year	(143,238,087)	(143,238,087)

Notes to the Financial Statements

Figures in Rand	2012	2011

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cancelled cheques	-	285
Bank overdraft	(84,461,484)	(23,959,956)
	(84,461,484)	**(23,959,671)**
Current assets	-	285
Current liabilities	(84,461,484)	(23,959,956)
	(84,461,484)	**(23,959,671)**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2012	June 30, 2011	June 30, 2010	June 30, 2012	June 30, 2011	June 30, 2010
ABSA BANK - Current account - 100-310-0339	2,888,305	-	-	(84,461,484)	(23,959,956)	(7,011,495)
ABSA BANK - Current account - 407-613-4415	21,309	1,036,021	-	-	-	-
ABSA BANK - Current account - 406-218-5139	4,946,215	10,349,159	-	-	-	-
ABSA BANK - Cheque account - 406-090-7068	370,724	352,683	-	-	-	-
Total	**8,226,553**	**11,737,863**	**-**	**(84,461,484)**	**(23,959,956)**	**(7,011,495)**

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grants	22,690,282	14,160,859

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

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

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

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

11. Payables from exchange transactions

Trade payables	(8,815,721)	16,199,104
Salary creditors	124,670	928,360
Accrued leave pay	6,062,609	6,062,609
Cash shortage	26,430	28,943
	(2,602,012)	**23,219,016**

12. VAT payable

VAT payables	9,396,577	9,650,502

Notes to the Financial Statements

Figures in Rand	2012	2011

13. Consumer deposits

Consumer deposits	3,831,271	3,801,379

14. Revenue

Property rates	47,666,515	19,560,415
Service charges	287,340,362	130,857,848
Rental income	1,319,273	628,866
Interest	18,275,087	8,393,029
Fines	6,452,052	6,253,434
Licences and permits	3,269,439	3,195,411
Government grants & subsidies	140,338,200	93,351,154
Other revenue	604,866	32,099
Library fees	5,436	2,232
	505,271,230	**262,274,488**

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

Service charges	287,340,362	130,857,848
Rental income	1,319,273	628,866
Interest received	18,275,087	8,393,029
Licences and permits	3,269,439	3,195,411
	310,204,161	**143,075,154**

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

Taxation revenue		
Property rates	47,666,515	19,560,415
Fines	6,452,052	6,253,434
Transfer revenue		
Levies	140,338,200	93,351,154
Other revenue	604,866	32,099
Library fees	5,436	2,232
	195,067,069	**119,199,334**

15. Property rates

Rates received

Property rates	47,666,515	19,560,415

16. Service charges

Sale of electricity	195,461,049	87,774,451
Sale of water	59,192,923	27,636,335
Sewerage and sanitation charges	13,248,374	5,488,175
Refuse removal	18,545,199	9,187,041
Other services	892,817	771,846
	287,340,362	**130,857,848**

Notes to the Financial Statements

Figures in Rand	2012	2011

17. Government grants and subsidies

Equitable share	106,379,397	60,978,105
Health subsidy	278,967	278,967
Training grant	750,000	750,000
Library grant	869,527	519,527
PMU office grant	23,158,874	23,158,874
Public works grant	3,975,324	3,975,324
MSIG Grants	1,200,000	-
Internship grant	2,690,980	2,690,980
Licenses : Testing ground grant	981,647	945,893
Fire brigade disaster management grant	53,484	53,484
	140,338,200	**93,351,154**

18. Other revenue

Discount received	36,984	220
Sundry income	2,293,162	1,848,971
Traffic fine income	58,847	-
	2,388,993	**1,849,191**

Notes to the Financial Statements

Figures in Rand	2012	2011

19. General expenses

Advertising & Printing	2,061,700	929,070
Assessment rates & municipal charges	5,349,406	-
Auditors remuneration	1,669,998	144,709
Bank charges	818,605	406,951
Commission paid	285,235	-
Community development and training	2,027,303	819,988
Consulting and professional fees	22,879,809	13,707,695
Consumables	1,846,210	777,171
Council expenditure	66,961	-
Disaster management	128,153	11,734
Electricity	2,521,309	860,781
Entertainment	893,730	442,125
Garden maintenance	95,618	42,344
Fines and penalties	23,495	23,495
Fuel and oil	6,346,786	2,621,378
Hire	314,741	314,741
IT expenses	19,006	19,006
Insurance	1,510,279	703,746
Lease rentals on operating lease	2,348,781	1,604,490
Magazines, books and periodicals	781	350
Medical expenses	104,249	21,994
Other expenses	530,597	418,425
Pest control	369	221
Postage and courier	2,373	1,264
Rezoning fees	15,500	3,000
Security (Guarding of municipal property)	2,169,091	994,711
Service fees	574,832	427,194
Sewerage and waste disposal	56,700	20,638
Staff welfare	24,069	18,943
Subscriptions and membership fees	2,606,121	380,215
Sundry expense	37,735	37,735
Telephone and fax	3,065,678	1,888,382
Tools	81,531	12,369
Training	160,613	102,736
Travel - local	2,547,460	1,129,856
Uniforms	1,023,342	569,257
Water connection charges	39,629	26,324
	64,247,795	**29,483,038**

Notes to the Financial Statements

Figures in Rand	2012	2011

20. Employee related costs

Basic	114,024,131	52,696,494
Bonus	8,245,044	4,341,948
Housing benefits and allowances	338,228	171,659
Long-service awards	132,103	63,789
Medical aid - company contributions	9,205,433	3,945,450
Overtime payments	15,038,526	7,316,987
Post-employment benefits - Pension - Defined contribution plan	21,588,933	10,552,914
SDL	1,802,517	1,090,139
Travel, motor car, accommodation, subsistence and other allowances	9,967,079	4,849,861
UIF	1,066,136	525,986
	181,408,130	**85,555,227**

Remuneration of municipal manager: Letlhogile T

Annual Remuneration	646,000	846,000

Remuneration of chief finance officer: Mmope SS

Annual Remuneration	273,333	679,998
Cell phone Allowance	2,000	12,000
	275,333	**691,998**

Remuneration of municipal manager: Bhine MJ

Annual Remuneration	323,000	-

Remuneration of chief finance officer: Mashao MH

Annual Remuneration	375,833	-

21. Remuneration of councillors

Councillors	20,183,286	8,837,244

22. Administrative expenditure

Administration and management fees - third party	5,284	5,284

23. Debt impairment

Contributions to debt impairment provision	40,715,918	40,715,918

24. Auditors' remuneration

Fees	1,669,998	144,709

Figures in Rand	2012	2011

25. Grants and subsidies paid

Other subsidies		
Equitable share	2,049	-
Assessment rates : Indigent subsidies	1,760,936	853,551
Cleansing : Sanitation - Indigent subsidies	1,574,969	359,507
Electricity : Indigent subsidies	1,204,736	547,693
Water network : Indigent subsidies	887,058	263,689
Internship grant expenses	1,470,902	1,470,902
MSIG : Expenditure	515,084	515,084
	7,415,734	**4,010,426**

26. Bulk purchases

Electricity	130,603,485	61,639,056
Water	1,524,224	837,303
Sewer purification	1,165,972	231,394
	133,293,681	**62,707,753**

27. Cash (used in) generated from operations

Surplus	38,225,990	20,386,858
Adjustments for:		
Debt impairment	40,715,918	40,715,918
Changes in working capital:		
Inventories	(344,194)	(121,188)
Other receivables	(58,252,561)	(64,188)
Consumer debtors	(24,907,404)	(49,745,587)
Payables from exchange transactions	(25,821,029)	19,084,113
VAT	(253,925)	175,461
Unspent conditional grants and receipts	8,529,423	(2,199,606)
Consumer deposits	29,892	308,684
	(22,077,890)	**28,540,465**

28. 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.

29. Events after the reporting date

Management is not aware material events after the reporting date.

30. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

Current year subscription / fee	12,058,271	11,514,442
Amount paid - current year	(12,058,271)	(11,514,442)
	-	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	21,982,065	20,792,626
Amount paid - current year	(21,982,065)	(20,792,626)
	-	**-**

Figures in Rand	2012	2011

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

VAT

VAT payable	9,396,577	9,650,502

VAT output payables and VAT input receivables are shown in note 13.

Not all VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

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

June 30, 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Dipholo DO	759	4,741	5,500
Councillor Mogonediwa IM	453	1,573	2,026
Councillor Morutse MW	487	2,836	3,323
Councillor Moseki MS	1,114	10,948	12,062
	2,813	**20,098**	**22,911**

June 30, 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Dipholo MS	775	4,062	4,837
Councillor Holele LE	1,145	3,570	4,715
Councillor Mgqamqo QE	925	9,530	10,455
Councillor Mogonediwa IM	325	378	703
Councillor Moseki MS	1,165	7,795	8,960
	4,335	**25,335**	**29,670**