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Maluti-a-Phofung Local Municipality
(Municipal demarcation code FS194)
Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	Municipality (MFMA)
Mayoral committee	Lefora QW
	Majake M
	Mohlekwa T
	Mohlekwa T
	Mokoena M
	Mokotso G
	Mokubung M
	Molefe - Zwane RNH (Deceased)
	Mopeli N
	Mopeli P
	Mosia M
	Motaung S
Speaker	Nthedi M
Chief Whip	Radebe FS (Deceased)
Executive Mayor	Mofumahadi M Mopeli
Councillors	Crockett M
	Hlatswayo T
	Khale SM
	Khambule M
	Khoapa ANMokete K
	Khoaria AM
	Kleynhans LM
	Lebala M
	Lebesa M
	Lebesa MJ
	Lebesana PJ
	Lesole M
	Letawana T
	Letooane S
	Mahlatsi A
	Malefane TB
	Mamoroanyane M
	Mapoho ML
	Mashiane D
	Matjale M
	Mavuso MT
	May TJ
	Mazibuko M

General Information

	Mbongo M
	Mboso D
	Mdakane FH
	Mkhwanazi T
	Moeketsi M
	Mofokeng B
	Mofokeng K
	Mohapi JS
	Mohinya NA
	Mohoaladi ME
	Mojakisane N
	Mokete K
	Mokoena DJ
	Molaba TE
	Moloi L
	Mopeli SM
	Moseme L
	Mosikidi TJ
	Mosikili TS
	Motaung M
	Motaung PM
	Motinyane S
	Motloung M
	Mphakathe M
	Mphonyo MA
	Ntamane VM
	Ramakarane TA
	Ramochela A
	Rantsane J
	Shabalala M
	Thakhuli N
	Thebe T
	Thembinkosi M
	Tolofi M
Grading of local authority	Grade 4
Chief Finance Officer (CFO)	Ramulondi TJ
Accounting Officer	Kau RS
Registered office	Cnr Moremoholo & Motloung Streets Setsing Business Center Phuthaditjhaba 9866

General Information

Postal address	Private Bag X805 Witsieshoek 9866
Bankers	First National Bank Ltd
Auditors	Auditor General - Free State
Attorneys	Balden Vogel
Legal capacity	Municipality
Municipality demarcation code	FS194

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

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Abbreviations

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (previously CMIP)
IFRS	International Financial Reporting Standards
IFRIC	IFRS Interpretations Committee
EPWPI	Expanded public works program incentive

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

The 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.

The annual financial statements have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Kau RS
Acting Municipal Manager

Audit Committee Report

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

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet four times per annum as per its approved terms of reference. During the current year six meetings were held.

Name of Member	Number of meetings attended
Ntsala GA (chairperson)	5
Mohlahlo EM	1
Mothekge MP	4
Tshake MP	5

Audit committee responsibility

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

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

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

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

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

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Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in local governance activities and operates principally in South Africa.

The operating results for the year were satisfactory. The financial position of the municipality is sound.

Net deficit of the municipality was R 733 641 631 (2011: surplus R 157 887 068).

2. Going concern

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

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

3. Subsequent events

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

4. Accounting Officer's interest in contracts

None.

5. Accounting policies

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).

6. Accounting officer

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

Kau RS

7. Auditors

The Auditor General - Free State will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Assets			
Current Assets			
Other financial assets	9	425 687	39 851 756
Inventories	12	2 342 339	2 111 869
Other receivables from exchange transactions	13	14 803 807	14 152 248
Other receivables from non-exchange transactions	14	-	1 812 491
VAT receivable	15	8 208 195	3 813 125
Consumer debtors	16	150 634 672	154 114 410
Cash and cash equivalents	17	12 465 150	9 525 089
Short term portion of long term consumer receivable	18	9 706 207	11 191 435
		198 586 057	**236 572 423**
Non-Current Assets			
Investment property	6	26 402 452	27 705 697
Property, plant and equipment	5	3 901 936 982	4 540 941 322
Intangible assets	7	211 604	286 943
Investments in controlled entities	8	300	300
Other financial assets	9	1 563 924	3 295 397
Long term receivables	18	10 478 684	11 439 560
		3 940 593 946	**4 583 669 219**
Total Assets		**4 139 180 003**	**4 820 241 642**
Liabilities			
Current Liabilities			
Operating lease liability		-	13 969
Other financial liabilities	19	6 544 268	8 219 606
Finance lease obligation	20	3 527 472	-
Unspent conditional grants and receipts	21	8 085 543	17 347 285
Payables from exchange transactions	23	178 005 490	163 025 707
Consumer deposits	24	11 516 110	10 816 242
Trade and other payables from non-exchange transactions	25	3 891 681	3 891 681
		211 570 564	**203 314 490**
Non-Current Liabilities			
Other financial liabilities	19	14 146 848	12 510 115
Finance lease obligation	20	7 168 130	-
Retirement benefit obligation	11	7 737 000	7 605 000
Provisions	22	35 028 011	-
Long Service Liability	27	11 204 055	10 845 000
		75 284 044	**30 960 115**
Total Liabilities		**286 854 608**	**234 274 605**
Net Assets		**3 852 325 395**	**4 585 967 037**

Statement of Financial Position

Figures in Rand	Note(s)	2012	Restated 2011
Net Assets			
Accumulated surplus		3 852 325 388	4 585 967 020

Statement of Financial Performance

Figures in Rand	Note(s)	2012	Restated 2011
Revenue			
Property rates	29	172 500 680	132 112 110
Service charges	30	366 657 025	218 806 678
Rendering of services	31	549 514	567 274
Government grants & subsidies	32	613 149 494	481 953 913
Rental income	35	922 252	312 507
Other income	36	6 033 539	2 733 047
Interest received - investment	43	2 017 989	7 567 995
Interest received - consumers	34	30 614 449	24 361 235
Fines	33	5 011 368	464 529
Restatement of asset		87 622 276	252 556 029
Total revenue		**1 285 078 586**	**1 121 435 317**
Expenditure			
General expenses	37	(96 334 065)	(41 959 004)
Personnel cost	39	(175 058 574)	(148 392 329)
Remuneration of councilors	40	(17 569 134)	(17 393 108)
Community project expenditure	41	(104 648 939)	(33 731 241)
Depreciation and amortisation	45	(308 707 432)	(286 380 460)
Finance costs	47	(2 807 255)	(3 115 632)
Debt impairment	42	(96 509 285)	(62 104 595)
Repairs and maintenance		(42 663 874)	(7 318 113)
Bulk purchases	52	(321 139 312)	(237 515 076)
Contracted services	50	(39 015 548)	(65 148 055)
Grants and subsidies paid	51	(119 698 617)	(68 499 000)
Loss on disposal of assets	51	(695 108 739)	(977 973)
Total expenditure		**(2 019 260 774)**	**(972 534 586)**
Fair value adjustments	44	540 557	8 986 337
(Deficit) surplus for the year		**(733 641 631)**	**157 887 068**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	746 300 348	746 300 348
Adjustments		
Prior year adjustments - refer to note 56	3 681 779 604	3 681 779 604
Balance at 01 July 2010 as restated	**4 428 079 952**	**4 428 079 952**
Surplus for the year	157 887 068	157 887 068
	157 887 068	157 887 068
Balance at 01 July 2011	**4 585 967 019**	**4 585 967 019**
Changes in net assets		
Surplus for the year	(733 641 631)	(733 641 631)
	(733 641 631)	(733 641 631)
Balance at 30 June 2012	**3 852 325 388**	**3 852 325 388**

Cash Flow Statement

Figures in Rand	Note(s)	2012	Restated 2011
Cash flows from operating activities			
Receipts			
Sale of goods and services		473 364 928	370 569 061
Grants		590 245 357	487 707 324
Interest income		2 017 989	7 567 995
Other receipts		100 786 331	250 279 230
		1 166 414 605	1 116 123 610
Payments			
Employee costs		(192 627 708)	(165 785 439)
Suppliers		(498 905 903)	(391 523 531)
Finance costs		(2 807 255)	(3 115 632)
Other payments		(161 090 829)	(47 876 941)
		(855 431 695)	(608 301 543)
Net cash flows from operating activities	53	**310 982 910**	**507 822 067**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(363 174 281)	(518 111 522)
Proceeds from sale of property, plant and equipment	5	(1)	1
Purchase of other intangible assets	7	(28 822)	(287 468)
Proceeds from sale of financial assets		41 764 228	4 714 331
Proceeds from sale of long term receivables		2 446 104	3 368 798
Net cash flows from investing activities		**(319 058 901)**	**(510 315 860)**
Cash flows from financing activities			
Repayment of other financial liabilities		(38 605)	(5 760 367)
Movement in long service liability		359 055	10 845 000
Finance lease payments		10 695 602	(545 656)
Net cash flows from financing activities		**11 016 052**	**4 538 977**
Net increase/(decrease) in cash and cash equivalents		**2 940 061**	**2 045 184**
Cash and cash equivalents at the beginning of the year		9 525 089	7 479 905
Cash and cash equivalents at the end of the year	17	**12 465 150**	**9 525 089**

Accounting Policies

1. Reporting municipality

Maluti-a-Phofung Local Municipality ("the municipality") is a local government institution in Phuthaditjhaba town in the Thabo Mofutsanyana district, Free State Province. Its principal activities and the address of its principal place of business are disclosed under "General Information" in the annual report.

2. Presentation of annual financial statements

2.1 Statement of compliance

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note 3 Changes in accounting policy

2.2 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next twelve months.

2.3 Presentation currency

These annual financial statements are presented in South African Rand, which is the municipality's functional currency. All financial information has been rounded to the nearest Rand.

2.4 Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the municipality has a legal right to set off amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

2.5 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.

Accounting Policies

2.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a controlled entity is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any cost directly attributable to the purchase of the controlled entity.

An adjustment to the cost of a business combination contingent on future events is included in the cost of the combination if the adjustment is probable and can be measured reliably.

2.7 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 year.

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.

Initial recognition and measurement

Items of property, plant and equipment are initially measured at cost on aquisition date.

Cost includes expenditure that is directly attributable to the acquisition of the asset and 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, a monetary asset or a combination of monetary and non-monetary assets, the cost of the asset acquired is initially measured at fair value. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset 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 or to replace part of 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.

2.7 Property, plant and equipment (continued)

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

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

Subsequent measurement

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

Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value, depreciated on the straight line basis over their expected useful lives.

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

Item	Estimated useful life
Bins and containers	3-5 years
Buildings	5-30 years
Computer software	2-5 years
Community assets	25-30 years
Heritage assets	0 years
Infrastructure assets	
• Electricity	3-80 years
• Sewerage	10-60 years
• Water	5-100 years
• Bridges	10-80 years
• Storm Water	25-100 years
• Roads	3-60 years
• Airpot	10-30 years
• Solid Waste Disposal	5-55 years
• Rail ways	15-30 years
• Gas supplies systems	10-50 years
• Cemetery	25-30 years
IT equipment	3-10 years
Land	Indefinite
Landfill sites	10-55 years
Leased assets	
• Office equipment	Lease term
Motor vehicles	
• Fire engines	5-10 years
• Heavy duty vehicles	5-7 years
• Other	4-20 years
Office equipment	
• Airconditioners	3-5 years
• Office machines	5-7 years

Accounting Policies

2.7 Property, plant and equipment (continued)

Other assets

• Audio visual equipment	5-10 years
• Furniture and fittings	3-15 years
• Emergency equipment	5-10 years
• Kitchen equipment	5-10 years
Plant and machinery	1-20 years

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

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

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.
Compensation from third parties for an item of property, plant and equipment that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

2.8 Intangible assets

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

- is capable of being seperated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or seperated 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 measured at cost.

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

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in surplus or deficit when incurred.

2.8 Intangible assets (continued)

Development activities involve a plan or design for the production of new or substantially improved products and processes. An intangible asset arising from development 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 recognition, intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses.

Other intangible assets

Other intangible assets that are acquired by the municipality and have finite useful lives are initially recognised at cost and subsequently measured at cost less accumulated amortisation and accumulated impairment loss

Servitudes created through the exercise of legislation are not recognised as intangible assets and any costs incurred to register these servitudes are expensed. Servitudes, however, that a created through an agreement (contract) are recognised as intangible assets.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in surplus or deficit on a straight-line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Item	**Useful life**
Computer software, other	2 - 5 years

Where intangible assets are deemed to have 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 asset, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. .

Amortisation methods, useful lives and residual values are reviewed at each financial year-end. If teh expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reassessing the useful life of an intangible asset with an 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 value is amortised over its usefule life.

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

Intangible assets are derecognised:

2.8 Intangible assets (continued)

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposals

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

2.9 Investment property

Investment property is property held either to earn rental income or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of business.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.
The investment property is initially recognised at cost. Transaction costs are included in the initial measurement. Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

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

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

Cost model

Investment property is subsequently measured at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated using the depreciable amount , which is the cost of the asset less its residual value.

The estimated useful lives for the current and comparative periods are as follows:

Item	Useful life
Property - land	Indefinite
Property - buildings	5-30 years

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

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

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

Accounting Policies

2.10 Financial instruments

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

Classification

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

Class	Category
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at fair value

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

Class	Category
Trade and other payables	Financial liability measured at amortised cost
Bank overdrafts and borrowings	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The municipality measures all other financial assets and liabilities initially at its fair value.

Accounting Policies

2.10 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Accounting Policies

2.10 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired. For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankrupcy and default payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

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

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

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

2.10 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

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

Financial liabilities

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

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

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

Accounting Policies

2.10 Financial instruments (continued)

Presentation

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

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

2.11 Inventories

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

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

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

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

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

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

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

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

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

2.12 Impairment

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 and non-cash generating asset exceeds its recoverable amount, it is impaired.

Accounting Policies

2.12 Impairment (continued)

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

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

Value in use

Value in use of a cash and non-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 and non-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.

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 uses 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.

2.12 Impairment (continued)

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.

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 and non-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 and non-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 and 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 cash and 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.

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Accounting Policies

2.12 Impairment (continued)

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.

2.13 Revenue

Revenue from exchange transaction

Measurement

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

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.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised based on consumption, except where a reliable estimate cannot be made after every reasonable effort to gather the appropriate information had been made. In these instances revenue is recognised at the point-of-sale.Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Interest and dividends

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

(continued)

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

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

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.

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 extend that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extend 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.

Revenue from non-exchange transactions (continued)

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

Transfers

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

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

Fines

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

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

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

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.

2.14 Provisions

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

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

2.14 Provisions (continued)

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.

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when the municipality:
1) 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
2) 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 in the control of the municipality.

A contingent liability:

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

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. Contingencies are disclosed in note 54.

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:

Accounting Policies

2.14 Provisions (continued)

- subject to the second bullet, changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

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

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

2.15 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. The municipality 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.

Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the municipality's accounting policies for the individual assets. Subsequently, 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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

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

Post-employment benefits

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

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

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

Accounting Policies

2.16 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

2.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

2.16 Employee benefits (continued)

- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

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.

Accounting Policies

2.16 Employee benefits (continued)

	Additional accumulated leave	Monetary award (of annual salary)
Less than 5 years' service	5 Days	2%
5 - 10 years' service	10 Days	3%
10 - 15 years' service	15 Days	4%
15 - 20 years' service	15 Days	5%
20 - 25 years' service	15 Days	6%
25 - 30 years' service	15 Days	6%
30 - 35 years' service	15 Days	6%
35 - 40 years' service	15 Days	6%
40 - 45 years' service	15 Days	6%

On termination of service, an employee shall be paid his leave entitlement, including the leave mentioned above, and calculated in terms of the relevant provisions of the Basic Conditions of Employment Act 75 of 1997.

The initial date of appointment of an employee shall be maintained for the purposes of determining the actual service period of the employee and for the calculation of the long service bonus.

The long service leave must be taken within one year of receiving such leave or may be wholly or partially encashed.

2.17 Leases

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

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

Finance leases - municipality as 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 item or, if lower, the present value of the minimum lease payments at the commencment of the lease term. 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.

The 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 payment on the remaining balance of the liability.

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

Operating leases - municipality as lessee

Operating lease payments are recognised in surplus or deficit 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.

Operating leases - municipality as lessor

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

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

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

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

Finance sale and leaseback

Where the sale and leaseback results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not recognised immediately as revenue in the annual financial statements of the seller – lessee. The excess amount is deferred and amortised over the lease term.

Operating sale and leaseback

Where the sale and leaseback results in an operating lease the transaction is accounted for as follows:

- If the transaction is concluded at fair value, any gain or loss is recognised immediately.

2.17 Leases (continued)

- If the sale price is below fair value, any gain or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

- If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.18 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:

- expenditure 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.

If the carrying amount of the qualifying asset exceeds its recoverable amount or recoverable service amount, an impairment loss is recognised for the excess amount.

Borrowing costs that are not capitalised are recognised as an expense in surplus or deficit.

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.

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

2.19 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the municipality at exchange rates at the dates of the transactions.

At each reporting date

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements, are recognised in surplus or deficit in the period in which they arise.

2.19 Translation of foreign currencies (continued)

When a gain or loss on a non-monetary item is recognised directly in net assets, any exchange component of that gain or loss is recognised directly in net assets. When a gain or loss on a non-monetary item is recognised in surplus or deficit, any exchange component of that gain or loss is recognised in surplus or deficit.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

2.20 Unauthorised expenditure

Unauthorised expenditure means

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

All expendture relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred.

Unauthorised expenditure is accounted for as an expense and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

2.21 Irregular expenditure

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

2.22 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that 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.

2.23 Comparative figures

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

2.24 Accounting estimates and judgements

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

Trade receivables, loans and receivables

2.24 Accounting estimates and judgements (continued)

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

The impairment for trade receivables, 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.

Provisions

Provisions were raised and management determined an estimate based on the information availible. Additional disclosures of these estimates of provisions are included in .

Impairment testing

The recoverable service amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less cost 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 goodwill, if any, and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including supply demand, together with econimic fatcors such as inflation and interest rates.

Critical judgements in applying accounting policies

Depreciation and the carrying value of items of property, plant and equipment

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

Effective interest rate

The municipality uses the goverment bond 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 receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

2.25 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.

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

Identification

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

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

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

Value in use

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

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

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.

Accounting Policies

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

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

Reversal of an impairment loss

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

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

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

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

Redesignation

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

Accounting Policies

2.26 Budget information

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 62.

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 the disclosure is required by a specific standard of GRAP

2.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned or controlled 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.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality. We regard all individuals from the level of Municipal Manager, executive directors and council members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the municipality. Only transactions with related parties not at arm's lenght or not in the ordinary course of business are disclosed.

3. Changes in accounting policy

The municipality has adopted the new GRAP 104: Financial Instruments for the year endding 30 June 2012 (2011: IAS 32, IAS 39 and IFRS 7 were applied)
The early adoption of GRAP 104 does not have a quantative effect on the annual financial statements.
The major change was the categories of financial assets and financial liabilities that have changed under GRAP 104.
Under IFRS the categories for financial assets were:
Financial assets at fair value through profit or loss (either as held for trading or designated)
Available-for-sale financial assets
Loans and receivables
Held-to-maturity investments
Under IFRS the categories for financial liabilities were:
Financial liabilities at fair value through profit or loss (either as held for trading or designated)
Other financial liabilities measured at amortised cost using the effective interest method
Under the new GRAP 104 the categories are as follows:
Financial instruments at fair value
Financial instruments at amortised cost
Financial instruments at cost
Under GRAP 104 the fair value of a short term receivable or payble on initial recognition is the transaction price unless the terms of the arrangement is not market related, therefore GRAP 104 does not require that short term receivables or payables to be discounted on initial recognitition.
The types of financial instruments the municipality have is similar between GRAP 104 and IFRS and the measurement is similar.
Under IFRS the annual financial statements should include a sensitivity analysis but under GRAP 104 this is not a requirement.
The disclosure requirements under GRAP 104 is therefore less onerous.

4. New standards and interpretations

4.1 Standards and interpretations effective and adopted in the current year

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

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

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

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

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

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

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

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

The impact of the amendment is not material.

IGRAP 3: Determining Whether an Arrangement Contains a Lease

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

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

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

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

The impact of the amendment 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 01 April 2011.

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. 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 entity therefore restates its financial statements in accordance with the Standard of GRAP on Financial Reporting in Hyperinflationary Economies (as revised in 2010).

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

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

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

The impact of the amendment is not material.

IGRAP 6: Loyalty Programmes

This Interpretation of the Standards of GRAP applies to customer loyalty award credits that:
- an entity grants to its customers as part of a transaction, i.e. a sale of goods, rendering of services, use by a customer of entity assets; and
- subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted goods or services.

The Interpretation of the Standards of GRAP addresses accounting by the entity that grants award credits to its customers.

The issues addressed in this Interpretation of the Standards of GRAP are:
- whether the entity's obligation to provide free or discounted goods or services ('awards') in the future should be recognised and measured by
  - allocating some of the consideration received or receivable from the sales transaction to the award credits and deferring the recognition of revenue (applying the Standard of GRAP on Revenue from Exchange Transactions (as revised in 2010) and the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers); or
  - providing for the estimated future costs of supplying the awards; and
- if consideration is allocated to the award credits:
  - how much should be allocated to them;
  - when revenue should be recognised; and
  - if a third party supplies the awards, how revenue should be measured.

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

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

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

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

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

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

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

The impact of the amendment is not material.

IGRAP 9: Distributions of Non-cash Assets to Owners

This Interpretation of the Standards of GRAP applies to the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners:
- distributions of non-cash assets (e.g. items of property, plant and equipment, entity combinations as defined in the Standard of GRAP on Entity Combinations, ownership interests in another entity or disposal groups as defined in the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations (as revised in 2010)); and
- distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

This Interpretation of the Standards of GRAP applies only to distributions in which all owners of the same class of residual interests are treated equally.

This Interpretation of the Standards of GRAP does not apply to a distribution of a non-cash asset that is ultimately controlled by the same party or parties before and after the distribution. This exclusion applies to the separate, individual and consolidated financial statements of an entity that makes the distribution.

This Interpretation of the Standards of GRAP does not apply when the non-cash asset is ultimately controlled by the same parties both before and after the distribution. The Standard of GRAP on Entity Combinations states that ‘A group of individuals shall be regarded as controlling an entity when, as a result of binding arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.’ Therefore, for a distribution to be outside the scope of this Interpretation of the Standards of GRAP on the basis that the same parties control the asset both before and after the distribution, a group of individual owners receiving the distribution must have, as a result of binding arrangements, such ultimate collective power over the entity making the distribution.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP does not apply when an entity distributes some of its ownership interests in a controlled entity but retains control of the controlled entity. The entity making a distribution that results in the entity recognising a minority interest in its controlled entity accounts for the distribution in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements.

This Interpretation of the Standards of GRAP addresses only the accounting by an entity that makes a non-cash asset distribution. It does not address the accounting by owners who receive such a distribution.

When an entity declares a dividend or similar distribution and has an obligation to distribute the assets concerned to its owners, it must recognise a liability for the dividend or similar distribution payable. Consequently, this Interpretation of the Standards of GRAP addresses the following issues:

- When should the entity recognise the dividend or similar distribution payable?
- How should an entity measure the dividend or similar distribution payable?
- When an entity settles the dividend or similar distribution payable, how should it account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend or similar distribution payable?

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

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

The impact of the amendment 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 entities 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 entity 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 entity 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 entity 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 entity account for a receipt of cash from its customer?

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

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

The impact of the amendment is not material.

IGRAP 13: Operating Leases – Incentives

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

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

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

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

An entity 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 entity 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. In the lease and leaseback example, it may be that the arrangement is designed to achieve a tax advantage for the investor that is shared with the entity in the form of a fee, and not to convey the right to use an asset.

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

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

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

The impact of the amendment is not material.

IGRAP 15: Revenue – Barter Transactions Involving Advertising Services

An entity (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 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).

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

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

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

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

The impact of the amendment is not material.

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

The revision resulted in various terminology and definition changes.

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

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

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy.

All amendments to be applied retrospectively.

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

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

GRAP 2 (as revised 2010): Cash Flow Statements

The revision resulted in various terminology and definition changes.

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

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

Acquisitions and disposals of controlled entities and other operating units:
- Guidance relating to acquisitions and disposals of 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 entities accounted for using the proportionate consolidation method, now encouraged rather than required.

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

The municipality has adopted the amendment for the first time in the 2012 annual 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.
- 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 01 April 2011.

The municipality has adopted the amendment for the first time in the 2012 annual 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:

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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 (GRAP 19).

All amendments to be applied retrospectively.

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

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

Dividends or similar distributions declared from pre-acquisition surpluses:
Paragraph .36 has been amended to encompass not only securities, but any contributed capital.

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

All amendments to be applied retrospectively

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

The municipality has adopted the amendment for the first time in the 2012 annual 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 entity.

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.

All amendments to be applied retrospectively

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

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

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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 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.

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.

All amendments to be applied retrospectively

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

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

The impact of the amendment is not material.

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

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

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

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

The revision resulted in various terminology and definition changes.

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

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

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

Derecognition:
- The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed.
- 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 entity 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.

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

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

The impact of the amendment is set out in note 3 Changes in Accounting Policy.

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.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

Interpretations:
In developing the Standard 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 concluded at its May 2008 meeting 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 01 April 2011.

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

The impact of the amendment is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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

The revision resulted in various terminology and definition changes.

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

Plan to sell the controlling interest in a controlled entity:
- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control in a controlled entity shall classify all the assets and liabilities of that controlled entity as held for sale when the required criteria are met.
- The Standard has been amended to clarify that an entity that is committed to a sales plan involving loss of control of a controlled entity shall disclose the information required when the controlled 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.

Amendments to be applied as follow:
Paragraphs .13 and .42 were 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 the 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 01 April 2011.

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

The impact of the amendment is not material.

GRAP 105: Transfer of functions between entities under common control

GRAP 105 establishes accounting policies for the acquirer and transferor in a transfer of functions between entities under common control.

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

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

GRAP 106: Transfer of functions between entities not under common control

GRAP 106 establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

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

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

GRAP 107: Mergers

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

Establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

This Standard has been approved by the Board but its effective date has not 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 annual financial statements.

Improvements

The following Standards of GRAP have been amended as part of the ASB's Improvements Project for 2011:
- GRAP 1;
- GRAP 3;
- GRAP 7;
- GRAP 9;
- GRAP 12;
- GRAP 13;
- GRAP 16; and
- GRAP 17.

The changes made will have no significant impact, except for the following:
A change to the cost model when a reliable measure of fair value is no longer available (or vice versa) for an asset that a Standard of GRAP would otherwise require or permit to be measured at fair value are no longer considered to be a change in an accounting policy in terms of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (as revised in 2010).
A requirement to include transaction costs on initial recognition of an investment in an associate under 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 municipality expects to adopt the amendment for the first time in the 2014 financial statementsThe effective date of these standards is for years beginning on or after 1 April 2013.

Interpretations

The list of interpretations are as follows:
- 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

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

- 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

The effective date of the standard is for years beginning on or after 1 April 2011.

4.2 Standards and Interpretations early adopted

The provisions of GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers) relating to transfers and subsidies received were adopted in accordance with the allowance made by GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors, paragraphs 7 and 11.

GRAP 23 was approved by the Accounting Standards Board but not yet effective as at 30 June 2010. Adoption of the standard has had no material impact on the results of the municipality.

GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

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 an entity 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 and recognise an amount equal to that reduction as revenue.

The effective date of the standard is for years beginning on or after 01 July 2011.

The impact of the standard is set out in note 3 Changes in Accounting Policy.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information

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

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

Where the municipality prepares its budget and annual financial statements on a comparable basis, it is required to include the comparison as an additional column in the primary annual financial statements.

Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'statement of comparison of budget and actual amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.
A comparable basis means that the budget and financial statements:
- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
-use the same classification system; and
- are prepared for the same period.
The effective date of the standard is for years beginning on or after 01 April 2012.

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

GRAP 103: Heritage Assets

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

A heritage asset is recognised as an asset only if:

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

Heritage assets are recognised at cost unless they are acquired through a non-exchange transaction, in which case they are recognised at their fair value as at the date of acquisition.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

The municipality has a choice between the cost and revaluation model as an accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets. The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.
The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The Standard of GRAP also states that a restriction on the disposal of a heritage asset does not preclude the municipality from determining the fair value.
If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.
GRAP 103 states that a heritage asset should not be depreciated but a municipality should assess at each reporting date whether there is an indication that it may be impaired.

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

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit
when the heritage asset is derecognised.
The effective date of the standard is for years beginning on or after 01 April 2011.

The impact of the standard is set out in note 3 Changes in Accounting Policy.

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.

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

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

The impact of the standard is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

GRAP 26: 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.

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. When estimating the value in use of an asset, the municipality should estimate the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality should apply 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. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

The impact of the standard is not material.

Notes to the Annual Financial Statements

4. New standards and interpretations (continued)

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 entity and a financial liability or residual interest in another entity. 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.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests.

Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument.

Residual interests entitle an entity to a portion of another entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

The standard contains further detailed guidance on the initial recognition, measurement and subsequent measurement of financial instruments and mainly distinguished between those financial instruments carried at fair value and those at amortised cost.

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

The impact of the amendment is not material.

4.3 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance.

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 the municipality reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of the 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 the municipality within a particular region.

The effective date of the standard is for years beginning on or after 01 July 2011.

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 annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

5. Property, plant and equipment

	2012			2011		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Land	586 884 988	-	586 884 988	619 483 988	-	619 483 988
Buildings and land	562 581 283	(89 699 885)	472 881 398	629 679 490	(62 357 708)	567 321 782
Community assets	-	-	-	12 868 461	(2 024 917)	10 843 544
Heritage assets	36	(36)	-	92 376	(10 376)	82 000
Infrastructure assets	2 921 966 812	(650 028 804)	2 271 938 008	3 925 864 216	(916 756 626)	3 009 107 590
Landfill sites	-	-	-	1 610 480	(680 495)	929 985
Other assets	91 383 412	(39 313 418)	52 069 994	76 482 964	(27 228 504)	49 254 460
Work in progress	518 162 594	-	518 162 594	283 917 973	-	283 917 973
Total	**4 680 979 125**	**(779 042 143)**	**3 901 936 982**	**5 549 999 948**	**(1 009 058 626)**	**4 540 941 322**

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	619 483 988	-	(32 599 000)	-	-	586 884 988
Buildings	567 321 782	-	(61 503 754)	-	(32 936 630)	472 881 398
Infrastructure assets	3 009 107 590	57 815 525	(588 777 946)	50 635 320	(256 842 481)	2 271 938 008
Community assets	10 843 544	-	(10 410 644)	-	(432 900)	-
Landfill sites	929 985	-	(822 094)	-	(107 891)	-
Other assets	49 254 460	20 478 814	(916 384)	-	(16 746 896)	52 069 994
Heritage assets	82 000	-	(78 916)	-	(3 084)	-
Work in progress	283 917 973	284 879 942	-	(50 635 321)	-	518 162 594
	4 540 941 322	**363 174 281**	**(695 108 738)**	**(1)**	**(307 069 882)**	**3 901 936 982**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	619 483 988	-	-	-	-	619 483 988
Buildings	517 397 155	80 113 655	-	-	(30 189 028)	567 321 782
Infrastructure assets	2 979 267 572	201 384 253	-	74 291 107	(245 835 342)	3 009 107 590
Community assets	11 275 262	-	-	-	(431 718)	10 843 544
Landfill sites	1 040 243	-	-	-	(110 258)	929 985
Other assets	15 318 846	43 424 418	(977 974)	-	(8 510 830)	49 254 460
Other leased Assets # 2	-	-	-	-	-	-
Heritage assets	85 076	-	-	-	(3 076)	82 000
Work in progress	165 019 884	193 189 196	-	(74 291 107)	-	283 917 973
	4 308 888 026	**518 111 522**	**(977 974)**	**-**	**(285 080 252)**	**4 540 941 322**

Pledged as security

5. Property, plant and equipment (continued)

None of the assets have been pledged 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.

Refer to the note 20 for the disclosures of the finance leases obligation.

6. Investment property

	2012			2011		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	30 308 627	(3 906 175)	26 402 452	30 308 627	(2 602 930)	27 705 697

Reconciliation of investment property - 2012

	Opening balance	Depreciation	Total
Investment property	27 705 697	(1 303 245)	26 402 452

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	29 005 381	(1 299 684)	27 705 697

Pledged as security

No investment property was pledged as security for loans at year end.

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

7. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	945 770	(734 166)	211 604	916 948	(630 005)	286 943

7. Intangible assets (continued)

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Amortisation	Total
Computer software, other	286 943	28 822	(104 161)	211 604

7. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	287 468	(525)	286 943

Pledged as security

None of the intangible assets have been pledged 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.

None of the assets are currently under a finance lease.

8. Investments in controlled entities

Name of company	Held by	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011
Maluti-a-Phofung Water (Pty) Ltd	Maluti-a-Phofung Municipality	100 %	100 %	300	300

The carrying amounts of controlled entities are shown net of impairment losses.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Other financial assets

At fair value		
Listed shares	211 854	163 320
Sanlam	331 992	315 027
Momentum	1	15 099 318
Old Mutual	-	23 925 909
	543 847	**39 503 574**
At fair value		
Sanlam	1 352 069	1 282 562
First National Bank	27 409	835 371
ABSA	-	219 907
Standard bank	66 286	63 051
Old Mutual	-	1 242 688
	1 445 764	**3 643 579**
Total other financial assets	**1 989 611**	**43 147 153**
Non-current assets		
At fair value	211 855	770 147
At amortised cost	1 352 069	2 525 250
	1 563 924	**3 295 397**
Current assets		
At fair value	331 992	38 733 427
At amortised cost	93 695	1 118 329
	425 687	**39 851 756**
	1 989 611	**43 147 153**

9. Other financial assets (continued)

Fair value information

Financial assets at fair value are recognised at fair value, which is therefore equal to their carrying amounts.

The following classes of financial assets at fair value are measured at fair value using quoted market prices:
- Listed shares

Where quoted market prices are not available, valuation techniques are used to determine fair value, as explained below:

Figures in Rand	2012	2011

9. Other financial assets (continued)

Fair value hierarchy of financial assets at fair value through surplus or deficit

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements.

Level 1 - quoted prices (unadjusted) in active markets for identical assets.

Level 2 - inputs other than quoted prices included in level 1 that are observable for the assets either directly (as prices) or indirectly (derived from prices).

Level 3 - inputs which are not based on observable market data.

	2012	2011
Level 1		
Listed shares	211 854	163 320
Level 2		
Unlisted investments	1 777 758	34 359 015
	1 989 612	**34 522 335**

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

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.

Financial Asset at amortized cost

Financial assets at amortized cost past due but not impaired

Loans and receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2012, no accounts were past due.

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

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.

10. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2012

	At amortised cost	At Fair value	Total
Cash and cash equivalents	12 465 150	-	12 465 150
Consumer receivables	237 164 960	-	237 164 960
Other financial assets (non-current)	1 352 069	211 855	1 563 924
Other financial assets (current)	93 695	331 992	425 687
Other receivables from exchange transactions	14 927 141	-	14 927 141
Other receivables from non-exchange transactions	80	-	80
	266 003 095	**543 847**	**266 546 942**

2011

	At amortised cost	At fair value	Total
Cash and cash equivalents	9 088 639	-	9 088 639
Consumer receivables	154 114 410	-	154 114 410
Consumer receivables - long term	22 630 995	-	22 630 995
Other financial assets (non-current)	2 525 250	770 147	3 295 397
Other financial assets (current)	368 606	39 483 152	39 851 758
Other receivables from exchange transactions	35 818 697	-	35 818 697
Other receivables from non-exchange transactions	4 955 181	-	4 955 181
	229 501 778	**40 253 299**	**269 755 077**

11. Employee benefit obligations

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

Carrying value

	2012	2011
Present value of the defined benefit obligation-partially or wholly funded	(7 737 000)	(7 605 000)

The fair value of plan assets includes:

Key assumptions used

Assumptions used at the reporting date:

	2012	2011
Discount rates used	8.35 %	- %
Consumer price inflation	6.40 %	- %
Health care cost inflation	6.85 %	- %
Net discount rate	1.40 %	- %

11. Employee benefit obligations (continued)

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values

The assumptions regarding the relative levels of these two rate is our expectation of the long term average.

Accounting standard IAS19 defines the determination of the investment return assumption to be used as the rate that csn "be determined by reference to the market yields at the balance sheet date on high quality corporate bonds. In the countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on government bonds should be used. The currency and term of the corporate bonds should be consistent with the currency and estimated term of the post employment benefit obligation." As such a discount rate of 8.35% per annum has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed on 27 June 2012

The health care cost inflation was taken at a discount of 1.5% to the discount rate of 8.35%

The consumer price inflation of 6.40% p.a is obtained from the differential between the long term market yields on the index-linked bond (the R197 at 2.09%p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.17% p.a)

Demographic Assumptions

Assumption	Pensioners
Age difference between spouses	Actual ages used
Proportion married	Actual marital status used

In the event of the scheme members having children dependents, we have assumed that the children and orphans will be subsidised until the age of 21. If a child/orphan is currently over the age of 21, we have assumed that the child/orphan will be considered as an adult by the relevant medical scheme. The child over 21 will continue to be subsidised until the age of 23.

Decrement Assumptions

Assumption	Pensioners
Mortality	PA(90)-2

Liability valuation method

- The liability is taken as the present value of the employer's share of continuation member contributions to the medical scheme. Continuation member contributions are projected into each future year using the assumed rate of health care cost inflation and then discounted back using the discount rate.

For each pensioner, the liability stops when the pensioner and any other remaining spouse are assumed to have died.

Figures in Rand	2012	2011

11. Employee benefit obligations (continued)

Valuation method

In accordance with the requirements of IAS19, the Projected Unit Credit method of funding has been applied. The assumption underlying the funding method is that the employer's post employment medical scheme costs in respect of a member should be fully recognised by the time that the member reaches fully accrued age.

Although this liability only vests at retirement (or to remaining beneficiaries in the event of earlier death) and is not necessarily affected by the length of service that a member has had with the employer, aacounting standards require that the liability for in service members accrue uniformly while in service

The employer's liability is taken as the present value of the obligation to settle post employment health care contributions excluding the portion of contribution funded by the pensioners.

It has been assumed that the total contribution subsidised by the employer will increase in line with health cost inflation. We have made no allowance for volatility in the contributions due to fundamental changes in the underlying demographics of the scheme.

Actuarial valuation has been obtained only for the year ended 30 June 2012. No actuarial valuation was done for the prior year and therefore no comparatives figures have been disclosed.

12. Inventories

Consumable stores	2 254 887	2 066 260
Water materials at cost	37 532	37 532
Fuel	53 104	8 077
	2 345 523	2 111 869
Inventories (write-downs)	(3 184)	-
	2 342 339	**2 111 869**

The cost of inventories recognised as an expense during the period is R 1,077,824 (2011: R 10,630).

13. Other receivables from exchange transactions

Deposits	1 721 021	1 601 827
Other receivables	3 773 047	3 688 240
Unallocated deposits	(10)	(10)
Insurance paid on behalf of Maluti Water (Pty) Ltd	8 039 554	8 039 554
Money stolen	1 270 195	822 637
	14 803 807	**14 152 248**

Money stolen: During August 2010 fraud was detected to the amount of R5,539,228. The Free State High Court in Bloemfontein ordered the amount of R4,728,903 to be paid back to Maluti-A-Phofung Local Municipality. An amount of R 447,558 (R 50,000 and R397 ,558) was stolen during the current year. An amount of R 50,000 was due to fraud that occured and the other amount of R 397,558 was due to burglary that took place at the municipal premises in June 2012. A refund of R 46,000.00 (for the fraud) was made to the municipality in July 2012 by the bank. The investigations are still continuing.

13. Other receivables from exchange transactions (continued)

Credit quality of other receivables

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

None of the financial assets that are fully performing have been renegotiated in the last year.

Other receivables past due but not impaired

Other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R14,803,807- (2011: R 35 818 697) were past due but not impaired.

14. Other receivables from non-exchange transactions

Sundry receivables	-	1 812 491

Other receivables from non-exchange transactions pledged as security

None of the other receivables from non-exchange transactions were pledged as security.

Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions are neither past due nor impaired.

Fair value of other receivables from non-exchange transactions

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

15. VAT receivable

VAT receivable	8 217 660	14 557 307
VAT payable	(9 465)	(10 744 182)
	8 208 195	**3 813 125**

VAT is payable on the payment basis. VAT is paid over to the South African Revenue Services (SARS) only once payment is made and monies received.

16. Trade receivables from exchange transactions

Gross balances		
Rates	255 480 822	246 477 697
Electricity	59 793 314	58 076 731
Water	125 411 448	100 218 878
Sewerage	54 773 415	46 558 409
Refuse	66 882 619	56 768 236
Sundry receivables	79 054 986	67 626 536
	641 396 604	**575 726 487**

Figures in Rand	2012	2011

16. Trade receivables from exchange transactions (continued)

Less: Allowances for bad debt		
Rates	(174 951 746)	(138 976 329)
Electricity	(39 044 780)	(39 177 031)
Water	(121 263 898)	(92 580 551)
Sewerage	(51 763 719)	(43 364 530)
Refuse	(66 038 409)	(54 739 879)
Sundry receivables	(37 699 380)	(52 773 757)
	(490 761 932)	**(421 612 077)**

Net balance		
Rates	80 529 076	107 501 368
Electricity	20 748 534	18 899 700
Water	4 147 550	7 638 327
Sewerage	3 009 696	3 193 879
Refuse	844 210	2 028 357
Sundry receivables	41 355 606	14 852 779
	150 634 672	**154 114 410**

Rates		
Current (0 -30 days)	182 873	14 740 585
31 - 60 days	9 187 674	10 385 719
61 - 90 days	71 158 529	7 939 954
> 91 days	-	74 435 110
	80 529 076	**107 501 368**

Electricity		
Current (0 -30 days)	15 693 058	8 148 495
31 - 60 days	2 265 329	4 587 691
61 - 90 days	2 419 468	2 077 859
> 91 days	370 679	4 085 655
	20 748 534	**18 899 700**

Water		
Current (0 -30 days)	1 900 568	4 776 153
31 - 60 days	1 203 592	3 789 425
61 - 90 days	737 543	4 886 526
> 91 days	305 847	(5 813 777)
	4 147 550	**7 638 327**

Figures in Rand	2012	2011

16. Trade receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	1 687 462	2 324 359
31 - 60 days	717 578	1 745 765
61 - 90 days	604 656	1 656 628
> 91 days	-	(2 532 873)
	3 009 696	**3 193 879**
Refuse		
Current (0 -30 days)	373 473	1 756 761
31 - 60 days	164 255	1 575 629
61 - 90 days	158 665	1 469 604
> 91 days	147 817	(2 773 637)
	844 210	**2 028 357**
Other		
Current (0 -30 days)	4 657 119	4 476 861
31 - 60 days	894 957	1 650 860
61 - 90 days	699 295	3 204 296
> 91 days	35 104 235	5 520 762
	41 355 606	**14 852 779**

Reconciliation of allowance for bad debt		
Balance at beginning of the year	(421 612 077)	(378 110 927)
Allowance for bad debt	(69 149 855)	(33 255 159)
Consumer receivables written off / allowance utilised	-	(10 245 991)
	(490 761 932)	**(421 612 077)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer receivables past due but not impaired

VAT on consumer receivables and consumer receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2012, R 78 839 995 (2011: R 33 913 516) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

16. Trade receivables from exchange transactions (continued)

Current (0-30 days)	22 328 543	3 702 034
31 - 60 days	56 511 452	2 190 025
>60 days	-	28 021 457
	78 839 995	**33 913 516**

Consumer receivables impaired

The amount of the allowance for bad debt R 490 761 932 as of 30 June 2012 (2011: R 421 612 077).

The ageing of these receivables is as follows:

0 - 90 days	49 656 625	83 308 507
Over 90 days	441 105 307	338 303 570
	490 761 932	**421 612 077**

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The municipality does not hold any collateral as security.

17. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 021	4 466
Bank balances	10 564 960	9 282 664
Other cash and cash equivalents	1 895 169	237 959
	12 465 150	**9 525 089**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	30 June 2011	30 June 2010	30 June 2012	30 June 2011	30 June 2010
First National Bank - Current	23 041 068	8 410 317	11 193 927	10 564 960	9 282 664	12 783 432
First National Bank - Savings	1 895 168	237 959	572 247	1 895 169	237 959	572 247
Total	**24 936 236**	**8 648 276**	**11 766 174**	**12 460 129**	**9 520 623**	**13 355 679**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Long term receivables

Consumer receivables (non-current portion)	10 478 684	11 439 560
Consumer receivables (current portion)	9 706 207	11 191 435
	20 184 891	**22 630 995**

The long term receivables consist of consumer accounts with arrangements. These accounts bear no interest and is repayable in monthly installments of R200 if the debt was less than R15,000 and R250 if the debt was over R15,000. The repayment period is dependant on the balance of the account when the arrangement is made.

The credit quality of long term receivables are neither past due nor impaired.

None of the long term receivables were pledged as security.

None of the long term receivables that are fully performing have been renegotiated in the last year.

The maximum exposure to credit risk at the reporting date is the carrying value of long term receivable mentioned above. The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

19. Other financial liabilities

	2012	2011
Measured at amortised cost		
Annuity loans All annuity loans are are from the Development Bank of South Africa and repayments are made on a six monthly basis. The last loan will be redeemed at 31 December 2015. The loans carry interest between 11% and 14% per annum. .	17 258 819	10 824 998
First National Bank Intabazwe Corridor The loan is unsecured, bears interest at 11.45% per annum and repayable in bi-annual installments of R3,538,176.	3 432 297	9 904 723
	20 691 116	**20 729 721**

Refer to Appendix A for more detail on other financial liabilities.

The municipality did not default on any principal or interest repayments during the period for loans payable. No terms were renegotiated before the financial statements were authorised for issue.

A new loan was received from DBSA and the terms are that the municipality should submit the costs incurred on certain projects and to date the municipality has incurred R 9 million. .

	2012	2011
Non-current liabilities		
At amortised cost	14 146 848	12 510 115
Current liabilities		
At amortised cost	6 544 268	8 219 606
	20 691 116	**20 729 721**

The fair values of the financial liabilities approximates their carrying amounts.

20. Finance lease obligation

	2012	2011
Minimum lease payments due		
- within one year	4 801 787	-
- within 5 years	8 315 173	-
	13 116 960	-
less: future finance charges	1 914 957	-
Present value of minimum lease payments	**15 031 917**	**-**
Present value of minimum lease payments due		
- within one year	3 752 154	-
- within 5 years	7 449 847	-
	11 202 001	**-**

Figures in Rand	2012	2011

20. Finance lease obligation (continued)

Non-current liabilities	7 168 130	-
Current liabilities	3 527 472	-
	10 695 602	**-**

A contract was entered into by the municipality on 01 February 2012 with Bytes Document Solutions (PTY) Ltd for 27 printers/fax/scancopier machines. The period of the contract is 36 months ending March 2014. The monthly rental amounts to R 54,121.00 excluding VAT with a 8% escalation charge per annum as calculated from the commencement date February 2012

The interest rate implicit to the lease is calculated between 21% - 23% per annum

Another contract has been entered into with Solar Spectrum on 31 December 2012 for the installation of energy efficient lights. The period of the lease is 3 years ending on 31 December 2015. The monthly rentals varies from one phase to the next, however the average rental per quater is R 636,698. The rental amounts are payable quarterly in advance with no escalation throughout the lease period.

The interest rate implicit is determined as 7.55%

The municipality's obligations under finance leases were secured by the lessor's charge over the leased assets. Refer to Appendix A for more detail on borrowings.

The municipality did not default on any of the principal or interest repayments during the period of the lease agreements. No terms were renegotiated before the financial statements were authorised.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
EPWPI Grant	1 160 170	6 553 850
Finance Management Grant	-	170
RDP House	3 765 329	3 886 416
Sterkfontein (Regional Bulk Infrastructure)	-	2 433 261
Dwaf Grant (WSOSG)	(3)	-
Municipal Infrastructure Grant	2 008 785	29 831
Municipal Systems Improvement Grant	623	623
INEP (Eskom)	1 903	-
Operation Hlasela Projects	450 000	450 000
Installation and Maintenance of Security Equipment	698 736	3 993 134
	8 085 543	**17 347 285**

Movement during the year

Balance at the beginning of the year	17 347 285	11 593 876
Received during the year	298 434 750	218 858 956
Income recognition during the year	(307 792 690)	(196 714 879)
Adjustments	96 19	(16 390 66
	8 085 543	**17 347 285**

See note 32 for the reconciliation of grants from National/Provincial Government.

22. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Environmental rehabilitation	-	35 028 011	35 028 011

The rehabilitation cost provision is for the rehabilitation of the landfill sites of the municipality. It is required from the Municipality to execute an environmental management program to restore the landfill site after its useful life. Provision has been made for this cost based on the estimated present value of future cash flows arising from the rehabilitation cost expected as at 30 June 2017 for the Phuthaditjhaba landfill site and 30 June 2024 for the Harrismith landfill site. The discount rate used for the present value calculation amounts to 6%

23. Payables from exchange transactions

Accrued bonus	4 729 798	4 701 124
Accrued leave pay	12 120 624	12 499 083
Deposits received	125 814	112 191
Payments received in advance	10 553 579	10 047 579
Stale cheques	-	893 969
Sundry payables	108 057 733	96 206 364
Trade payables	42 417 942	38 565 397
	178 005 490	**163 025 707**

Fair value of trade and other payables

The municipality did default on the payment of suppliers within the average of 30 days.

The terms were not renegotiated before the financial statements were authorised for issue.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Consumer deposits

Rates and electricity	11 516 110	10 816 242
Guarantees held in lieu of electricity and water deposits	74 600	74 600

No interest accrues on the balance of the consumer deposits held by the mnicipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Trade and other payables from non-exchange transactions

National Revenue Fund	3 855 234	3 855 234
SARS (employee tax)	36 447	36 447
	3 891 681	**3 891 681**

26. Financial liabilities by category

The accounting policies for financial instruments have been applied to the lones items below:

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	20 691 116	20 691 116
Finance lease obligation	10 695 602	10 695 602
Trade and other payables from exchange transactions	178 539 685	178 539 685
Trade and other payables from non-exchange transactions	3 891 681	3 891 681
Consumer deposits	11 516 110	11 516 110
	225 334 194	**225 334 194**

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	20 729 718	20 729 718
Trade and other payables from exchange transactions	193 125 443	193 125 443
Trade and other payables from non-exchange transactions	3 891 681	3 891 681
Consumer deposits	10 816 242	10 816 242
	228 563 084	**228 563 084**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Long Service Liability

Amounts included in the statement of financial performance

Service Cost	1 744 000	-
Interest paid	870 000	-
	2 614 000	-

Long Service Bonus Liability

Amounts included in the non - current liabilities	11 204 055	10 845 000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

The long service bonus awards are a function of accumulated leave days and a percentage of annual salary. The portion of the long service bonus awards that is a function of annual leave days is convertible into cash in the year the employee attains the service eligible for an award. As a result this portion the award is also function of the employee's annual salary. The annual salary is converted into a daily salary by dividing the annual salary by 250

We have based the projection of MAP's liability on the assumption that the employee salaries will increase by 7.00% p.a. this equates to an annual increase of consumer Price Inflation plus 1.00% p.a.

The consumer price inflation of 6.00% p.a., rounded to the nearest 0,25% is obtained from the differential between the long term market yields on the index-linked bond (the R197 at 2.09% p.a.) consistent with the estimated term of the liabilities and those of nominal bond (the R186 at 8.17% p.a).

However, it is the relative levels of the discount raye and salary inflation to one another that are important, rather than nominal values.

The assumption regarding the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values.

Accounting standard IAS19 defines the determination of the investment return assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet date) on the government bonds should be used. The currency and term of the corporate bonds of government bonds should be consistent with the currency and estimated term of the post-employment benefit obligation.'' As such a discount rate of 8.25% p.a has been used. This was derived from the yield curve, without a tax adjustment, obtained from the Bond Exchange of South Africa after the market closed 27 June 2012.

The following key assumptions used in the valuation are summarised below

Discount rates	8.25%
Consumer Price	6.00%
Salary inflation	7.00%
Net Discount rates	1.17%
Mortality	SA85-90
Normal retirement age	63

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

The following early retirement assumptions were applicable over the 30 June 2012 financial year end

Age group	**Number of resignations per 1,000 members**:
20-24	100
25-29	100
30-34	50
35-39	50
40-44	25
45+	0

The following early reitirements assumptions were applicable over the 30 June 2012 financial year

Age-group	Number of resignations per 1,000 members
20-24	0.1
25-29	0.1
30-34	0.1
35-39	0.1
40-44	1.7
45-49	2.5
50-54	3.7
55-59	7.5
60-62	11.2

Liability Valuation Method
Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on the serviceaccrued to the valuation date and award projected to retirement date

In determinig these liabilities, due allowance has been made for future awards increase

For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rate of withdrawal, early retirement and death.

In accordance with the requirement of IAS19, the projected Unit Credit method of funding has been applied.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

28. Revenue

Rendering of services	549 514	567 274
Property rates	172 500 680	132 112 110
Service charges	366 657 025	218 806 678
Rental of facilities and equipment	922 252	312 507
Interest received – trading	30 614 449	24 361 235
Dividends received	87 622 276	252 556 029
Fines	5 011 368	464 529
Government grants and subsidies	613 149 494	481 953 913
	1 277 027 058	**1 111 134 275**

The amount included in revenue arising from rendering of services are as follows:		
Rendering of services	549 514	567 274
Service charges	366 657 025	218 806 678
Rental of facilities & equipment	922 252	312 507
Interest received – trading	30 614 449	24 361 235
Restatement of asset	87 622 276	252 556 029
	486 365 516	**496 603 723**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	172 500 680	132 112 110
Fines	5 011 368	464 529
Transfer revenue		
Levies	613 149 494	481 953 913
	790 661 542	**614 530 552**

Rendering of services		
Admission fees	197 487	157 284
Callout fees	121	994
Cemetery fees	258 087	285 737
Entrance fees	93 819	123 259
	549 514	**567 274**

29. Property rates

Rates received

Industrial / commercial / residential	21 806 947	27 126 491
National and Provincial Government	150 693 733	104 985 619
	172 500 680	**132 112 110**

Valuations

Figures in Rand	2012	2011

29. Property rates (continued)

Residential	2 717 304 005	2 881 554 753
Industrial / Commercial	1 386 966 424	933 400 295
National and Provincial Government	25 491 084 062	1 199 454 635
Municipal	226 457 882	33 819 400
	29 821 812 373	**5 048 229 083**

Valuations on which property rates are based are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on a bi-annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.0076 (2011: R 0.03802) is applied to the value of residential properties. R0.0380 (2011: R0.7604) is applied to the value of business and industrial properties. R0.0951 (2011: R0.0951) is applied to the value of state owned, agricultural land and public benefit organisation and R 0,30420 (2011: R0.0951) was used for mining to determine assessment rates. Rebates of 90% (2011: 90%) are granted on agricultural land and undeveloped properties, excluding rural state owned properties. Rebates of 98% (2011: 98%) are granted on residential develop properties and 95% on other developed properties. No rebates are granted for state owned properties. Pensioners, indigents and public benefit organisations receive a 100% rebate.

30. Service charges

Sale of electricity	271 137 701	148 777 822
Sale of water	50 338 597	26 388 935
Sewerage and sanitation charges	25 125 318	24 759 134
Refuse removal	20 055 409	18 880 787
	366 657 025	**218 806 678**

31. Rendering of services

Admission fees	197 487	157 284
Callout fees	121	994
Cemetary fees	258 087	285 737
Entrance fees	93 819	123 259
	549 514	**567 274**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Government grants and subsidies

E.P.W.P.I Projects	13 642 680	570 950
Equitable Share	305 453 000	267 074 545
Financial Management Grant	1 450 170	1 199 830
Social Grant/Operation Hlasela	-	1 000 000
Installation and Maintenance of Security Equipment	3 294 399	18 006 981
Integrated National Electrification (DME) Grant	39 598 097	9 370 000
Municipal Infrastructure Grant	169 357 046	119 636 169
Municipal Systems Improvement Grant (MSIG)	790 000	749 377
RDP Houses Grant	121 087	90 216
Regional Bulk Infrastructure Grant	71 782 012	53 311 845
Water Services Operating Subsidy (DWAF) Grant	7 661 003	10 944 000
	613 149 494	**481 953 913**

Equitable Share

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

All registered indigents receive a monthly subsidy which is credited to their accounts (6kl of free water and 50kW electricity)

Expanded Public Works Programme Incentive Grant for Municipalities

Balance unspent at beginning of year	6 553 850	-
Current-year receipts	8 249 000	6 553 850
Conditions met - transferred to revenue	(13 642 680)	-
	1 160 170	**6 553 850**

The grant is utilised to supplement municipal capital budgets to eradicate backlogs in municipal infrastructure providing basic services for the benefit of poor households. The grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

Included in the unspent MIG Grant there is retention monies and surety withheld from various projects financed by MIG.

Conditions still to be met - remain liabilities (see note 21)

Financial Management Grant (FMG)

Balance unspent at beginning of year	170	-
Current-year receipts	1 450 000	1 200 000
Conditions met - transferred to revenue	(1 450 170)	(1 199 830)
	-	**170**

The purpose of the grant is to promote and support reforms to financial management and the implementation of the Municipal Finance Management Act (MFMA).

Figures in Rand	2012	2011

32. Government grants and subsidies (continued)

DBSA ICT Strategy Grant

The purpose of the grant is to implement the Enterprise Resource Plan in line with the ICT strategy.

RDP Houses Grant

Balance unspent at beginning of year	3 886 416	3 976 632
Conditions met - transferred to revenue	(121 087)	(90 216)
	3 765 329	**3 886 416**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is for the construction of low cost housing in the municipal area.

Sterkfontein (Regional Bulk Infrastructure)

Balance unspent at beginning of year	2 433 261	-
Current-year receipts	69 348 750	11 656 685
Conditions met - transferred to revenue	(71 782 011)	-
Adjustment	-	(9 223 424)
	-	**2 433 261**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is for the social component of regional bulk water and sanitation services to Harrismith, Kestel and Qwaqwa..

A contractor has been appointed by Bid 03/2010/2011 for installation of the water pipeline.

Water Services Operating Subsidy Grant (DWAF)

Current-year receipts	7 661 000	42 958 131
Conditions met - transferred to revenue	(7 661 003)	(42 958 131)
	(3)	**-**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd for operations of water and sanitation purposes

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Government grants and subsidies (continued)

Regional Bulk Infrastructure Grant

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is to develop regional bulk infrastructure for water supply to supplement water treatment works at resource development and link such water resource development with the local bulk and local distribution networks on a regional basis cutting across several local municipal boundaries. In the case of sanitation regional bulk collection as well as regional waste water treatment works.

Municipal Infrastructure Grant (MIG)

	2012	2011
Balance unspent at beginning of year	29 831	-
Current-year receipts	171 336 000	119 666 000
Conditions met - transferred to revenue	(169 357 046)	(119 636 169)
	2 008 785	**29 831**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is to fund bulk, connector and internal infrastructure of water services at a basic level of service. The grant is transferred to Maluti-a-Phofung Water (Pty) Ltd.

Municipal Systems Improvement Grant (MSIG)

	2012	2011
Balance unspent at beginning of year	623	-
Current-year receipts	790 000	750 000
Conditions met - transferred to revenue	(790 000)	(749 377)
	623	**623**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government: Municipal Systems Act 32 of 2000.

Integrated National Electrification Programme (Municipal) Grant

	2012	2011
Current-year receipts	39 600 000	10 000 000
Conditions met - transferred to revenue	(39 598 097)	(10 000 000)
	1 903	**-**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is for the municipality to address the electrification backlog of permanently occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Figures in Rand	2012	2011

32. Government grants and subsidies (continued)

Operation Hlasela Projects

Balance unspent at beginning of year	450 000	1 450 000
Adjustments	-	(1 000 000)
	450 000	**450 000**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is to capacitate local businesses through training and transformation.

Installation and Maintenance of Security Equipment

Balance unspent at beginning of year	3 993 134	6 167 244
Current-year receipts	-	14 000 000
Conditions met - transferred to revenue	(3 294 398)	(10 006 866)
Adjustments	-	(6 167 244)
	698 736	**3 993 134**

Conditions still to be met - remain liabilities (see note 21)

The purpose of the grant is for the installation and maintenance of security around the Lesotho and Maluti a Phofung border.

33. Fines

Fines	5 011 368	464 529

The amounts above consists of the monies collected from the road users for their traffic misconducts.

34. Interest received - consumers

Consumer receivables	30 614 449	18 444 498
Fair value adjustment on consumer receivables	-	5 916 737
	30 614 449	**24 361 235**

Interest received from consumer receivables are interest charged on overdue accounts.

35. Rental income

Rental of:		
Facilities and equipment	113 742	155 498
Halls	54 612	69 104
Premises	753 898	87 905
	922 252	**312 507**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

36. Other income

Advertising income	47 497	55 508
Blockages	18 311	26 794
Commissions salary deductions	251 525	156 330
Conservancy services	20 625	232 233
Escorting - vehicles	20 154	13 384
Income from valuations	50 415	39 345
New connections	188 102	192 411
Private work	5 191	1 549
Reconnections - non payment	366 906	180 313
Sale of erven	1 184 200	516 300
Sale of tender documents	280 922	214 753
Searching fees	21 915	19 055
Sundry income	2 706 384	609 777
Training income	871 392	475 295
	6 033 539	**2 733 047**

Notes to the Annual Financial Statements

Figures in Rand		2012	2011

37. General expenses

Advertising		542 123	270 053
Auditors remuneration		4 454 069	3 781 784
Bank charges		1 691 507	1 256 488
Capacity building		189 673	92 986
Chemicals		10 531	11 191
Cleaning		270 260	313 270
Consulting and professional fees		25 365 345	9 407 667
Consumables		1 069 346	191 132
Electricity		10 657 399	1 467 192
Entertainment		943 723	408 612
FMG expenditure		-	25 384
Fuel and oil		5 984 214	4 900 995
IDP expenses		-	1 862
IT expenses		568 148	595 235
Indigent subsidy		6 149 258	-
Lease rentals on operating lease	49	741 037	202 234
Local economic development projects		38 620	-
MSIG expenditure		1 042 175	749 377
Magazines, books and periodicals		17 900	18 475
Mayoral fund		190 570	541 443
Motor vehicle expenses		406 592	211 598
Other expenses		20 128 803	3 639 109
Postage and courier		2 114 128	1 932 838
Promotions		368 493	731 498
Protective clothing		2 341 782	31 665
Restructuring		-	(3 698 669)
Security (guarding of municipal property)		110 021	2 229 534
Staff welfare		9 044	-
Subscriptions and membership fees		575 765	2 077 144
Telephone and fax		2 784 308	2 820 724
Training		981 031	1 204 366
Valuation costs		3 234 520	3 464 563
Venue expenses		3 353 680	3 079 254
		96 334 065	**41 959 004**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

38. Operating (deficit) surplus

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

Operating lease charges

Motor vehicles		
• Contractual amounts	528 016	180 238
Equipment		
• Contractual amounts	213 021	21 996
	741 037	**202 234**

Loss on sale of property, plant and equipment	(695 108 739)	(977 973)
Depreciation and amortisation on property, plant and equipment	308 707 432	286 380 460
Employee costs	192 627 708	165 785 437

39. Personnel costs

Acting allowances	7 004	31 486
Bargaining council contribution	49 169	47 531
Basic	113 679 983	96 103 049
Bonus	8 679 202	7 763 792
Car allowance	2 875 629	2 897 784
Group insurance	186 099	95 851
Housing benefits and allowances	516 129	459 918
Leave pay	1 159 772	2 510 537
Long-service awards	67 262	-
Long service bonus	1 432 151	-
Medical aid - company contributions	5 868 556	5 500 611
Overtime payments	10 098 078	5 929 115
Post-employment benefits - (pension - defined contribution plan)	18 146 112	15 727 684
Skills development levies	1 380 177	1 088 717
Standby allowance	899 758	579 269
Telephone / cellphone allowance	267 400	198 700
Tool allowance	720	720
Travel, motor car, accommodation, subsistence and other allowances	1 716 873	2 018 464
UIF	1 097 526	904 637
	168 127 600	**141 857 865**

Remuneration of Municipal Manager - Kau RS

Annual remuneration	585 746	479 174
Allowances	212 565	295 367
Contributions to UIF, medical and pension Funds	144 920	115 430
	943 231	**889 971**

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Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Personnel costs (continued)

Remuneration of Chief Finance Officer - Ramalondi TJ

Annual remuneration	483 083	464 818
Allowances	229 843	231 951
Contributions to UIF, medical and pension funds	131 247	125 091
	844 173	**821 860**

Remuneration of Director: Municipal Infrastructure - Ungerer BH

Annual remuneration	547 905	451 818
Allowances	140 929	196 300
Contributions to UIF, medical and pension funds	42 284	44 712
	731 118	**692 830**

Remuneration of Director of Local economic development - Mohlombi S

Annual remuneration	725 373	680 703
Allowances	138 000	138 000
Contributions to UIF, medical and pension funds	15 916	9 494
	879 289	**828 197**

Remuneration of Director: Public Safety - Matjele MW

Annual remuneration	563 846	424 665
Allowances	152 882	145 124
Contributions to UIF, medical and pension funds	122 639	108 338
	839 367	**678 127**

Remuneration of Director: Corporate Services - Matshila VJ

Annual remuneration	488 923	462 252
Allowances	148 293	139 856
Contributions to UIF, medical and pension funds	7 516	7 249
	644 732	**609 357**

Remuneration of Director: Parks, Sports, Recreation, Arts and Culture - Mohlombi S

Annual remuneration	527 266	481 965
Allowances	116 772	146 431
Contributions to UIF, medical and pension funds	36 852	38 885
	680 890	**667 281**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Personnel costs (continued)

Remuneration of Director: Community - Selepe PP

Annual remuneration	542 225	439 963
Allowances	133 445	161 454
Contributions to UIF, medical and pension funds	86 551	79 910
	762 221	**681 327**

Remuneration of Director: Spatial Development - Hleli PH

Annual remuneration	433 900	405 841
Allowances	169 989	171 412
Contributions to UIF, medical and pension funds	94 934	88 265
	698 823	**665 518**

40. Remuneration of councilors

Councillors	11 075 377	10 498 237
Executive Mayor	677 968	759 781
Mayoral Committee Members	5 055 513	5 582 620
Speaker	760 276	552 470
	17 569 134	**17 393 108**

In-kind benefits

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

The Executive Mayor has use of a council owned vehicle for official duties.

41. Community project expenditure

Capital expenditure acquired during the year	243 634 224	276 035 596
Less: Assets capitalised	(138 985 285)	(242 304 355)
	104 648 939	**33 731 241**

42. Reversal of allowance for bad debt

(Reversal) / allowance bad-debts	69 149 854	33 255 159
Debts written-off	27 359 431	28 849 436
	96 509 285	**62 104 595**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

43. Investment revenue

Interest revenue		
Interest on investment	2 017 989	7 567 995

The amount included in investment revenue arising from exchange transactions amounted to R 1 690 242 (2011: R2,207,574).

44. Fair value adjustments

Property, plant and equipment (Fair value model)	-	8 379 655
Other financial assets		
• At fair value	540 557	606 682
	540 557	**8 986 337**

45. Depreciation

Property, plant and equipment	308 707 432	286 380 460

46. Repairs and maintenance

General	188 424	2 193 864
Land and buildings	924 675	552 197
Motors and pumps	41 719	115 992
Network reticulation	3 247 249	2 370 580
Office equipment, machinery and computers	575 364	148 906
Roads	26 801 684	(6 746 216)
Street lights, names, signs and stormwaters	7 499 754	6 500 152
Substations	580 253	101 818
Vehicles	2 804 752	2 080 820
	42 663 874	**7 318 113**

47. Finance costs

Financial institutions	2 807 255	3 115 632

48. Auditors' remuneration

Fees	4 454 069	3 781 784

49. Operating lease

Lessor

The council leases various fixed properties under non-cancellable operating leases to various parties. The lease agreements have escalations of 10% or 12% per year with the agreements varying from 5years to 9years and 11months. Rental income, for these agreements, to the value of R155,931 (2011:R140,403) has been recognised in the income statement during the year.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

49. Operating lease (continued)

Lessee

The municipality has various operating leases for printers, copiers and fax machines, which are on a month to month basis.

Future minimum lease payments received (Lessor)		
Receivable within 1 year	113 212	155 498
Receivable within 1 to 5 years	148 862	-
	262 074	**155 498**

Operating lease payments (lessee)		
Operating lease payments made	-	202 234

50. Contracted services

Information technology services	1 373 527	3 677 475
Insurance	33 274 682	19 176 182
Operating leases	1 510 791	1 412 756
Other contractors	2 615 253	3 830 793
Specialist services	241 295	37 050 849
	39 015 548	**65 148 055**

51. Grants and subsidies paid

Other subsidies		
DWAF subsidy to Maluti-a-Phofung Water (Pty) Ltd	7 661 000	10 944 000
Equitable share to Maluti-a-Phofung Water (Pty) Ltd	66 726 000	57 555 000
Free basic electricity	45 311 617	-
	119 698 617	**68 499 000**

52. Bulk purchases

Electricity	282 139 633	205 332 047
Water	38 999 679	32 183 029
	321 139 312	**237 515 076**

53. Cash generated from operations

(Deficit) surplus	(733 641 631)	157 887 068
Adjustments for:		
Depreciation and amortisation	308 707 432	286 380 460
Loss on sale of assets and liabilities	695 108 739	977 973
Fair value adjustments	(540 557)	(8 986 337)
Allowance for debt impairment	96 509 285	62 104 595
Movements in operating lease assets and accruals	(13 969)	(1 970)
Movements in retirement benefit assets and liabilities	132 000	-
Movements in provisions and other liabilities	35 028 011	(4 548 226)
Other non-cash items	(230 154)	11 918
Changes in working capital:		
Inventories	(230 470)	611 619
Other receivables from exchange transactions	(651 559)	61 337 458
Other receivables from non-exchange transactions	1 812 491	(1 812 411)
Consumer receivables	(93 029 547)	411 394
Payables from exchange transactions	14 979 783	(48 464 124)
VAT	(4 395 070)	(5 219 498)
Taxes and transfers payable (non exchange)	-	36 447
Unspent conditional grants and receipts	(9 261 742)	5 753 409
Consumer deposits	699 868	1 342 292
	310 982 910	**507 822 067**

54. Contingencies

Management can not reliably estimate the financial effect of the claims due to uncertainties relating to when the cases will be resolved and management are not able to reliably determine the amount payable. The amounts disclosed, where applicable, reflects the claim against the council.

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

All the claims are being contested based on legal advice.

Litigations in the process against the council relating to civil claims include the following:		
1. Claim by council for overpayment to supplier and contra claim by supplier for alleged breach of contract:		
1.1 Claims for alleged breach of contract	16 827 744	13 000 000
1.2 Claim by council for overpayment to supplier	6 402 467	(304 106)
1.3 Claim by supplier for expropriation of land to council	-	4 415 495
2. Claims for services rendered	-	9 494 329
3. Claim by individuals for damages	2 312 128	1 208 529
4. Claims on arrear payments	540 127	4 196 443
	26 082 466	**32 010 690**

55. Related parties

Relationships	
Controlled entity	Refer to note 8

Notes to the Annual Financial Statements

Figures in Rand		2012	2011
55. Related parties (continued)			
Entity controlled by council member's spouse	Mayihlome Tyres		
Close family member of key management	Tshedza Guest Lodge		
Related party transactions			
Amounts included in the trade (payables)/receivables			
Maluti-a-Phofung Water (Pty) Ltd		(42 376 103)	(32 183 029)
Maluti a Phofung Water (Pty) Ltd (Insurance)		8 039 590	8 039 590
Amounts included in the consumer receivables			
Maluti-a-Phofung Water (Pty) Ltd		472 650	-
Amounts included in grants and subsidies paid			
Maluti a Phofung Water (Pty) Ltd		74 387 000	68 499 000
Amounts included in the bulk purchases			
Maluti a Phofung Water (Pty) Ltd		38 999 679	32 183 029
Amounts included in the general expenses			
Maluti a Phofung Water (Pty) Ltd		-	(1 091 126)
Amounts included in the repairs and maintanance			
Mayihlome Tyres		-	2 719 860
Amounts included in capital expenditure			
Mayihlome Tyres		-	4 144
Amounts included in accomodation and lodging paid			
Tshedza Guest Lodge		-	44 550

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

56. Prior period errors

Long Service Bonus

The valuation of the long service bonus was only recognised in the current year through the accumulated surpus. The valuation of the prior year was not performed. This has resulted in a net decrease of R 11,204,055 on equity and an increase of the same amount on the non-current liabilities.

A provision was that was made in the prior year was also reversed due to the fact that the actuarial valuation was made and we therefore have restated our prior year figures. The impact of the transaction was that out liabilities decreased with an amount of R 4,548,226

Medical aid Liability

The valuation of the medical aid liability was only performed in the current year through the accumulated surplus and the valuation for the prior year was also not performed. This has resulted in a net decrease of R 7,737,000 on the equity and an increase of the same amount on the non-current liabilities.

Investments

One of their investments accounts was never disclosed in the prior years. We have therefore restated the prior year figures to include the investment of an amount of R 749,725. The impact was that the investments were understated by R 749,725 and the accumulated surplus was also understated by the same amount.

Conditional Grants
Circular 58 of the MFMA, allows the municiplaity to recognize the VAT paid as part of the expenditure on the conditional grants. In the prior year the expenditure that was not recognized was VAT exclusive. This resulted in an overstatement of the conditional grants and an understatement of income from conditional grants. The prior year figures were therefore restated to include a net amount fo R 16 390 668.

Other Matters

Insurance expenditure of R 1 812 411 paid in advance however incorrectly accounted for as an expenditure in the year ending 30 June 2011.The impact is that accumulated surplus increased by R 1 812 411

Prepaid electricity was not properly accounted for as required by GRAP 9 par 20, as a result of the restatement Revenue decreased by R 3 482 418 and Accumulated surplus decreased by R 3 482 418

Trade debtors of R 899,999 incorrectly re-classified as trade and other payables. The impact was that trade and other receivables and trade and other payables increased by R 899 999

Operating lease payments from TGIS for contract entered into on the 1 April 2009 was not straight lined as required by GRAP 13. The impact is that operating lease liability increased by R 16 094, rental expenses increased by R 2 125 and accumulated surplus decreased by R 13 969

An amount of R 2337 for vat was not accounted for properly in the book of the municipality in the prior year. We have therefore restated the prior year figure to include the transaction. This has resulted in an increase in the input vat and a decrease in the profit and loss.

An amount of R 249,239 for remote deposit was also restated due to the fact that these deposits were not properly accounted for in the prior year. The result is that the liabilities have decreased with the amount and the profit and loss

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

56. Prior period errors (continued)

have increased with the same amount.

A total amount of R 26,049,335 for the suspense accounts that were included as part of receivables was cleared against the accumulated surplus. We are therefore restating the prior year figures. The impact is that there is a decrease in the receivables and an increase in the equity.

A total amount of R 24,300,013 for the suspense accounts that were included as part of the payables were cleared against the accumulated surplus. We are therefore also restating our prior year figures. The impact is that the payables decreased with the amount and the accumulated surplus increased with the same amount

The municipality underwent a rigorous exercise to ensure that assets are completely accounted for in the fixed assets register and the exercise resulted in an increase of R 3 701 498 315 in the value of assets.

The correction of the errors resulted in adjustments as follows:

Statement of financial position		
Decrease in trade and other payables (exchange transactions)	20 166 835	
Increase in VAT receivable	2 337	
Increase in consumer receivables	(23 336 928)	
Increase in operating lease liability	(16 094)	
Increase in investments	749 725	
Increase in property, plant and equipment	3 705 820 814	
Increase in accumulated surplus	(3 681 792 929)	
Condtional grant	16 390 667	
Increase in long service bonus	(11 204 055)	
Increase in medical aid liability	(7 737 000)	
	19 043 372	
Statement of Financial Performance		
Increase in the loss on the sale of asset	977 973	
Decrease in revenue	3 482 418	
Decrease in general expenditure	(278 882 297)	
Increase in depreciation	247 255 556	
Decrease in fair value adjustments	8 122 978	-
	(19 043 372)	

Figures in Rand	2012	2011

57. Comparative figures

Certain comparative figures have been reclassified.

Investments were incorrectly classified as non-current investments and should have been classified as current investments. This was corrected based on maturity date.

The short term portion of long term receivables was incorrectly included in the non current balance of long term receivables.

The effects of the reclassification are as follows:

Statement of financial position

Non-current investments	-	(20 387 911)
Current investments	-	20 387 911

58. Risk management

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:
- Liquidity risk
- Market risk
- Credit risk

This note presents information about the municipality's exposure to each of the above risks and the municipality's objectives, policies and processes for measuring and managing risks. Further quantitative disclosures are included throughout the annual financial statements.

Credit risk

Credit risk is managed on a group basis.

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customer type on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

58. Risk management (continued)

Trade and other receivables (current and non-current portion)

The municipality's trade receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as water, sanitation and rates levied. Consumer receivables constitute approximately 95% of the municipality's total exposure to maximum credit risk. The municipality's exposure and credit ratings of its customers are continuously monitored. The municipality establishes an allowance for bad debt that represents its estimate of incurred losses in respect of trade and other receivables. No trade or other receivables have been pledged as security. Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written off. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

Trade and other payables

Payables to the municipality's subsidiary Maluti-a-Phofung Water Pty Ltd accounts for 12% of the maximum credit risk exposure for the municipality. The account payable originated in accordance with the sale of business agreement for the purchase of the water service by Maluti-a-Phofung Water. No trade and other payables have been pledged as security. When loans become irrecoverable they are written off. No conditions or terms of the loans have been re-negotiated with counterparties.

Cash and cash equivalents

The municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 1990 (Act No. 94 of 1990) operating in South Africa. No cash and cash equivalents have been pledged as security. No terms or conditions were required to be re-negotiated with the bank and no cash was defaulted on by the bank holding the municipality's cash. There were no restriction with regards to the use of cash, barring the municipality's compliance with the Municipal Finance Management Act requirement regarding cash management.

Maximum exposure to credit risk at reporting date was:

	2012	2011
Investments at amortized cost	300	300
Cash and cash equivalents	12 465 150	9 525 089
	12 465 450	**9 525 389**

Maximum exposure to credit risk at reporting date for loans and receivables as per counter parties was:

	2012	2011
Consumer receivables (current)	639 491 247	575 726 487
Long term consumer receivables	20 184 891	22 630 995
Other receivables from exchange transactions	14 803 807	14 152 248
Other receivables from non-exchange transactions	1 812 491	3 142 770
Other financial assets (current)	425 687	39 851 756
Other financial assets (non-current)	1 563 924	3 295 397
	678 282 047	**658 799 653**

Impairment losses

The municipality's consumer receivables (current) have been reviewed for indicators of impairment. Certain receivables were found to be impaired and an allowance has been recorded accordingly. The impaired trade receivables are due from consumers defaulting on service costs levied by the Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

58. Risk management (continued)

Unimpaired consumer receivables

	2012	2011
Current (0 - 30 days)	22 328 543	9 415 340
31 - 60 days	56 511 452	6 326 384
61 - 90 days	-	5 659 972
90 days +	-	19 436 531
	78 839 995	**40 838 227**

Impaired consumer receivables

	2012	2011
Current (0 - 30 days)	23 686 850	25 908 775
31 - 60 days	5 245 711	17 408 705
61 - 90 days	4 619 627	15 574 895
90 days +	35 928 578	53 484 709
	69 480 766	**112 377 084**

Liquidity risk

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

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

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due. The municipality's approach to managing liquidity is to ensure as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unauthorised expenditure. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. The municipality has not defaulted on external loans, payables and lease commitment payments being either interest or capital and no re-negotiation of terms were made on any of these instruments.

The following are contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

At 30 June 2012	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Borrowings	13 840 371	-	-	-
Trade and other payables	179 914 849	-	-	-
Finance lease	4 801 787	8 315 173	-	-

At 30 June 2011	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Borrowings	9 148 480	-	-	-
Trade and other payables	174 466 269	-	-	-

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality’s revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

58. Risk management (continued)

There has been no change, since the previous financial year, to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

Interest rate risk

The municipality limits its interest rate risk on financial liabilities by ensuring that reasonable fixed interest rates are negotiated on long term loans.

59. Going concern

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

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

60. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	2012	2011
Fruitless and wasteful expenditure - current year	3 382 962	326 948

The fruitless expenditure relates to interest on Eskom overdue accounts and the interest for payments that were not made on time to other institutions.

61. Irregular expenditure

	2012	2011
Opening balance	4 314 791	-
Irregular Expenditure - current year	-	4 314 791
Amounts condoned or written off by Council	(4 314 791)	-
	-	**4 314 791**

- An assesment was conducted in the current year to identify the irregular expenditure and no irregular expenditures were noted. All the payments that were made to the councillors were in line with the Public Office bearers Act.

62. Presentation of budget information

62.1 Reconciliation between budget and statement of financial performance

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

	2012	2011
Net (deficit) surplus per the statement of financial performance	(38 532 892)	157 887 068
Adjusted for:		
Fair value adjustments	540 557	8 986 337
Impairments recognised / reversed	(96 509 285)	(56 137 236)
(Over) or underspending - operating expenses	(199 291 355)	264 131 737
(Over) or under spending - capital expenditure	130 722 897	(142 082 277)
Net (deficit) surplus per approved budget	**(203 070 078)**	**232 785 629**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

63. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 770 111	1 267 826
Amount paid - current year	-	(1 267 826)
	1 770 111	**-**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

Audit fees

Current year fee	4 454 069	3 181 784
Amount paid - current year	(4 454 069)	(3 181 784)
	-	-

PAYE and UIF

Opening balance	1 608 711	1 157 254
Current year fee	20 817 771	20 317 720
Amount paid - current year	(19 129 090)	(18 709 009)
Amount paid - previous years	(1 608 711)	(1 157 254)
	1 688 681	**1 608 711**

Pension and medical aid deductions

Opening balance	2 978 272	2 624 063
Current year fee	35 641 070	33 798 569
Amount paid - current year	(32 528 539)	(30 820 297)
Amount paid - previous years	(2 978 272)	(2 624 063)
	3 112 531	**2 978 272**

VAT

VAT receivable	8 217 660	14 557 307
VAT payable	(9 465)	(10 744 182)
	8 208 195	**3 813 125**

VAT payables and VAT receivables are shown in note 15.

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

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

Councillors' arrear consumer accounts

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

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Moeketsi M	553	1 258	1 811
Mositi M	3 362	2 651	6 013
Mahlambi T	971	1 485	2 456
Komako M	2 235	35 314	37 549
Tsotesti J	137	42	179
Thebe T	371	-	371
Motinyane S	268	-	268
Crokett M	2 114	7 397	9 511
Mohlekwa T	152	-	152
Lefora Q	228	-	228
Mavuso TM	774	3 266	4 040
Mopeli N	854	12 131	12 985
Motaung PM	918	734	1 652
Khoapa NA	551	-	551
Mpakathe M	1 798	22 598	24 396
Letooane S	146	-	146
Ntamane VM	1 228	22 149	23 377
Mokidi TJ	912	2 798	3 710
	17 572	**111 823**	**129 395**

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
A Komako	1 946	28 447	30 393
MC Mositi	1 497	1 104	2 601
MT Mavuso	326	175	501
MT Mavuso	-	1 277	1 277
N Mopeli	456	10 249	10 705
SN Mojakisane	2	141	143
TJ Mosikidi	638	2 829	3 467
TR Mohlekwa	1 025	-	1 025
TS Mpakathe	966	18 102	19 068
TS Mpakathe	-	255	255
VM Ntanmane	775	8 468	9 243
VM Ntamane	-	10 675	10 675
QW Lefora	321	-	321
	7 952	**81 722**	**89 674**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

64. Utilisation of long-term liabilities reconciliation

	2012	2011
Long-term liabilities raised	20 691 116	20 729 721

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

65. Actual operating expenditure versus budgeted operating expenditure

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

66. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

67. Deviation from supply chain management regulations

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

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

Summary of deviations	**Quantity**	**Amount**
Emergency	74	14 460 148
Sole supplier	40	2 001 488
	114	**16 461 636**

Maluti-a-Phofung Local Municipality
APPENDIX A
June 2012

Schedule of External Loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2011 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2012 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Other financial liabilities								
DBSA	11018/103	31/12/2012	1 339 786	-	316 537	1 023 249	-	-
DBSA	11019/105	31/15/2015	1 096 774	-	109 485	987 289	-	-
DBSA	11021/102	31/12/2015	284 613	-	28 412	256 201	-	-
DBSA	11076/103	30/06/2018	1 307 244	-	76 165	1 231 079	-	-
DBSA	11078/202	30/06/2018	1 346 153	-	78 433	1 267 720	-	-
DBSA	11084/103	31/12/2015	2 698 058	-	269 333	2 428 725	-	-
DBSA	13768/102	31/12/2020	1 165 965	-	40 894	1 125 071	-	-
DBSA	13768/202	31/12/2020	1 018 869	-	35 735	983 134	-	-
DBSA	13766/302	31/12/2021	1 350 852	-	39 593	1 311 259	-	-
FNB	4000014650706	01/10/2012	-	18 652 327	2 775 966	15 876 361	-	-
			11 608 314	**18 652 327**	**3 770 553**	**26 490 088**	**-**	**-**
Finance lease obligations								
ABSA	69307910	01/01/2011	66 599	-	40 250	26 349	-	-
ABSA	69307928	01/01/2011	66 600	-	40 240	26 360	-	-
ABSA	69307901	08/01/2011	67 414	-	40 734	26 680	-	-
ABSA	68643746	01/10/2010	59 225	-	43 286	15 939	-	-
ABSA	68643738	01/10/2010	33 920	-	24 815	9 105	-	-
ABSA	68643304	01/10/2010	33 931	-	24 785	9 146	-	-
ABSA	68643290	01/10/2010	33 931	-	24 785	9 146	-	-
ABSA	68648128	01/10/2010	34 097	-	24 940	9 157	-	-
ABSA	68648110	01/10/2010	34 097	-	24 940	9 157	-	-
ABSA	68648101	01/10/2010	34 097	-	24 939	9 158	-	-
ABSA	68648098	01/10/2010	34 097	-	24 939	9 158	-	-
ABSA	68648080	01/10/2010	34 097	-	24 940	9 157	-	-
ABSA	68648071	01/10/2010	34 097	-	24 940	9 157	-	-
Quince asset managment	CF22/34	01/11/2010	1 145 380	-	761 455	383 925	-	-
			1 711 582	**-**	**1 149 988**	**561 594**	**-**	**-**

Maluti-a-Phofung Local Municipality
Maluti-a-Phofung Local Municipality
APPENDIX B
June 2012

Analysis of property, plant and equipment as at 30 Jun

	Cost/Revaluation				Accumulated
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	
Land and buildings	-	-	-	-	
Infrastructure	-	-	-	-	
Community Assets	-	-	-	-	

Segmental analysis of property, plant and equipment as at 30 June 2010

Cost/Revaluation

Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand
Municipality	5 132 448	845 717	(1 080)	-	(249 251)	-
Undefined Difference:	(616 462)	(11 604)	(2 160)		(249 251)	
Undefined Difference:	(617 379)	(11 633)	(2 160)			
Total	5 132 448	845 717	(1 080)	-	(249 251)	-

Maluti-a-Phofung Local Municipality
APPENDIX D
June 2012

Segmental Statement of Financial Performance for the year ended

Prior Year **Current Year**

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
-	35 805 995	(35 805 995)
-	-	-
671 144	(31 401 024)	32 072 168
-	-	-
19 290 300	36 612 022	(17 321 722)
635 684	20 062 848	(19 427 164)
663 295	35 244 410	(34 581 115)
-	-	-
-	2 387 397	(2 387 397)
-	10 437 945	(10 437 945)
495 588	19 387 224	(18 891 636)
448 486 758	196 151 643	252 335 115
427 618 127	220 268 279	207 349 848
-	-	-
897 860 896	**544 956 739**	**352 904 157**

APPENDIX E(1)

June 2012

Yearly

	Current year 2011 Act. Bal. Rand	Current year 2011 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Rendering of services	-	-	-	-	
Property rates	-	-	-	-	
Service charges	-	-	-	-	
Rental of facilities and equipment	-	-	-	-	
Interest received - Consumers	-	-	-	-	
Fines	-	-	-	-	
Government grants & subsidies	-	-	-	-	
Other income	-	-	-	-	
Interest received - investment	-	-	-	-	
	-	-	-	-	
Expenses					
Personnel	-	-	-	-	
Manufacturing - Employee costs	-	-	-	-	
Remuneration of councillors	-	-	-	-	
Administration	-	-	-	-	
Depreciation	-	-	-	-	
Finance costs	-	-	-	-	
Debt impairment	-	-	-	-	
Repairs and maintenance - General	-	-	-	-	
Bulk purchases	-	-	-	-	
Contracted Services	-	-	-	-	
Grants and subsidies paid	-	-	-	-	
General Expenses	-	-	-	-	
	-	-	-	-	
Other revenue and costs					
Fair value adjustments	-	-	-	-	
	-	-	-	-	
Net surplus/ (deficit) for the year					

APPENDIX E(1)
June 2012

Yearly

Current year 2011 Act. Bal.	Current year 2011 Bud. Amt	Variance		Explanation of Significant Variances greater than 10% versus Budget
-	-	-	-	

Maluti-a-Phofung Local Municipality
Maluti-a-Phofung Local Municipality
APPENDIX F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / withheld	Reason for delay/withholding of funds	Did yo munici lity co ly wi the gr condit s in terms gran frame k in t lates Divis of Reven Act
												Yes/
MSIG	National Treasury	735 000	-	-	-	384 260	10 740	-	-	-	N/A	Yes
MIG	National Treasury	29 523 000	24 648 000	28 156 000	22 793 000	14 306 262	37 415 463	23 645 801	36 540 763	5 164 000	N/A	Yes
Integrated National Electrification Programme (Municipal) Grant	DME	580 000	-	9 535 000	-	1 342 682	1 903 783	6 686 603	5 783 948	-	N/A	Yes
200 RDP Houses	DPLG & Housing	-	-	-	-	-	-	356 982	149 278	-	N/A	Yes
ICT Strategy	DBSA	764 284	-	168 216	-	395 600	365 204	-	172 000	-	N/A	Yes
WSOSG	Dept of Water Affairs & Forestry	3 687 000	3 687 000	3 687 250	-	3 687 250	3 449 250	3 925 249	3 687 249	-	N/A	Yes
RBIG (DWAF)	Dept of Water Affairs & Forestry	-	10 694 794	11 989 895	-	3 134 512	6 161 901	7 693 895	7 070 074	-	N/A	Yes
FMG	National Treasury	750 000	-	-	-	-	-	-	732 619	-	N/A	Yes
Expanded Public Works Programme Incentive Grant For Municipalities	National Treasury	-	820 050	-	-	-	-	-	-	-	N/A	Yes
Installation and mainteance of security equipment	Department of Police, Roads & Transport	-	-	10 000 000	-	-	-	-	3 832 756	-	N/A	Yes
Operation Hlasela projects	Department of Social development	-	-	1 450 000	-	-	-	-	-	-	N/A	Yes
Intabazwe Corridor Development Grant	Department of Provincial and Local Government	-	-	-	-	5 595 239	5 097 788	5 078 676	5 601 564	-	N/A	Yes
		36 039 284	39 849 844	64 986 361	22 793 000	28 845 805	54 404 129	47 387 206	63 570 251	5 164 000		

Maluti-a-Phofung Local Municipality
Maluti-a-Phofung Local Municipality
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200 RDP Houses	DPLG & Housing	-	-	-	-	-	-	356 982	149 278	-	N/A	Yes
ICT Strategy	DBSA	764 284	-	168 216	-	395 600	365 204	-	172 000	-	N/A	Yes
WSOSG	Dept of Water Affairs & Forestry	3 687 000	3 687 000	3 687 250	-	3 687 250	3 449 250	3 925 249	3 687 249	-	N/A	Yes
RBIG (DWAF)	Dept of Water Affairs & Forestry	-	10 694 794	11 989 895	-	3 134 512	6 161 901	7 693 895	7 070 074	-	N/A	Yes
FMG	National Treasury	750 000	-	-	-	-	-	-	732 619	-	N/A	Yes
Expanded Public Works Programme Incentive Grant For Municipalities	National Treasury	-	820 050	-	-	-	-	-	-	-	N/A	Yes
Installation and mainteance of security equipment	Department of Police, Roads & Transport	-	-	10 000 000	-	-	-	-	3 832 756	-	N/A	Yes
Operation Hlasela projects	Department of Social development	-	-	1 450 000	-	-	-	-	-	-	N/A	Yes
Intabazwe Corridor Development Grant	Department of Provincial and Local Government	-	-	-	-	5 595 239	5 097 788	5 078 676	5 601 564	-	N/A	Yes
		36 039 284	39 849 844	64 986 361	22 793 000	28 845 805	54 404 129	47 387 206	63 570 251	5 164 000		

Maluti-a-Phofung Local Municipality
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APPENDIX F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

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200 RDP Houses	DPLG & Housing	-	-	-	-	-	-	356 982	149 278	-	N/A	Yes
ICT Strategy	DBSA	764 284	-	168 216	-	395 600	365 204	-	172 000	-	N/A	Yes
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FMG	National Treasury	750 000	-	-	-	-	-	-	732 619	-	N/A	Yes
Expanded Public Works Programme Incentive Grant For Municipalities	National Treasury	-	820 050	-	-	-	-	-	-	-	N/A	Yes
Installation and mainteance of security equipment	Department of Police, Roads & Transport	-	-	10 000 000	-	-	-	-	3 832 756	-	N/A	Yes
Operation Hlasela projects	Department of Social development	-	-	1 450 000	-	-	-	-	-	-	N/A	Yes
Intabazwe Corridor Development Grant	Department of Provincial and Local Government	-	-	-	-	5 595 239	5 097 788	5 078 676	5 601 564	-	N/A	Yes
		36 039 284	39 849 844	64 986 361	22 793 000	28 845 805	54 404 129	47 387 206	63 570 251	5 164 000		