Matjhabeng Local Municipality
Annual Financial Statements
for the year ended 30 June 2012

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Municipal Services

Mayoral committee

Executive Mayor	S Ngangelizwe
Councillors	Speaker - C Stofile Chief Whip - MJ Sephiri MMC Policy & Monitoring - TD Khalipha MMC Community Services - D Kotzee MMC Finance - MA Mbana MMC Technical Services - KJ Menyatso MMC Corporate Services - MSE Mfebe MMC Social Services - ML Radebe MMC Public Safety - NW Speelman MMC Human Settlements - FE Taliwe MMC Special Programmes - ML Thlone
	TL Mabote KS Tsubella MA Mothege PA Molelekoa PMI Molelekoa TN Molete NE Monjovo MD Masienyane DC Smit VR Morris KR Tlake TJ Thelingoane MS Mosala KI Ntlele LC Mokausi PV Makgowe AX Mbambo RT Molupe ME Phetise Z Sifatya VN Dali MA Mphikeleli GL Qwesha SJ Tsatsa MS van Rooyen MM Madumise MJ Thateng HA Mokhomo HCT van Schalkwyk R Beneke ZHJ Naude MI Riet MT de Villiers ME Banyane MJM Badenhorst PF Botha CP Chaka D Fanie JJC Fourie DM Mafa JS Marais MM Matlebe

General Information

Mayoral committee (continued) **Councillors (continued)**	ZV Mafongosi PP Mholo FG May NC Mkhusane G Mlangeni TG Mokotedi MJ Molefi MP Motshabi MH Ntsebeng KI Petleki MC Radebe A Styger SDM Taljaard TE Thoabala ME Tsubane M Twanana NM Vanga V van Rooyen PP Thembani (Deceased - 22 November 2012. Replaced by M Twanana) ME Lande (Deceased - 4 March 2012. Replaced by V Van Rooyen)
Accounting Officer	G Ramathebane
Registered office	Civic Centre Welkom 9460
Postal address	PO Box 708 Welkom 9460
Bankers	ABSA Bank Limited Welkom
Auditors	Auditor General of South Africa
Grading of local municipality	Grade 4 (Refer to note 40 with regards to the dispute on the grading of the Municipality)

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

Abbreviations

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

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with South African Statements 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 certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act, except as disclosed in note 47 of these financial statements.

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

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

The municipality is dependent on the government for continued funding of operations to a large extent. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the Cogta and Treasury.

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

The accounting officer is responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act and which is signed by him on behalf of the Municipality.

The annual financial statements set out on page ___ to ___, which have been prepared on the going concern basis, were approved by the accounting officer on 03 December 2012:

G. Ramathebane
Municipal Manager

Report of the Auditor General

To the Provincial Legislature of Matjhabeng Local Municipality

Report on the financial statements

The Auditor General of South Africa will insert his report here upon finalisation.

Auditor General of South Africa

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 municipal services and operates principally in the Republic of South Africa.

Net deficit of the municipality was R 478,298,799 (2011: deficit R 302,987,167).

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 continue to procure funding for the ongoing operations for the municipality.

We draw attention to note 44 to the financial statements in this regard.

3. Subsequent events

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

4. Accounting policies

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

5. Accounting Officer

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

Name
G. Ramathebane

6. Corporate governance

General

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

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

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

Council

The Council
- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Accounting Officer's Report

Audit committee

The Audit committee were active for the last 7 months of the financial year.

Internal audit

The municipality has an internal audit funtion.

7. Bankers

ABSA Bank Limited

8. Auditors

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

9. Non compliance with applicable legislation

Non compliance with applicable legislation are disclosed in the following notes to the financial statements:

Municipal Finance Management Act:

Note 45 - Unauthorised expenditure
Note 46 - Fruitless and wasteful expenditure
Note 47 - Irregular expenditure

Government gazette No. 27636

Note 49 - Deviation from supply chain management regulations

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Inventories	3	706,284,089	708,587,506
Other financial assets	4	10,606,359	16,213,122
Trade and other receivables	5	5,721,960	12,266,486
VAT receivable	11	-	913,198
Consumer debtors	6	126,790,737	103,804,445
Cash and cash equivalents	7	44,664,502	35,279,285
		894,067,647	**877,064,042**
Non-Current Assets			
Investment property	51	283,310,350	314,080,067
Property, plant and equipment	8	4,839,286,952	5,007,018,774
Other financial assets	4	28,183,059	24,346,148
Consumer debtors	9	1,707,919	457,563
		5,152,488,280	**5,345,902,552**
Total Assets		**6,046,555,927**	**6,222,966,594**
Liabilities			
Current Liabilities			
Other financial liabilities	12	19,275,605	19,841,247
Finance lease obligation	13	5,878,219	4,800,585
Trade and other payables	14	877,955,749	632,718,523
VAT payable	15	32,345,883	-
Consumer deposits	16	27,936,787	26,995,233
Unspent conditional grants and receipts	17	13,546,547	45,477,647
		976,938,790	**729,833,235**
Non-Current Liabilities			
Other financial liabilities	12	-	1,770,266
Finance lease obligation	13	1,195,048	7,045,315
Retirement benefit obligation	20	224,650,000	189,827,000
Provisions	18	86,063,718	58,483,608
		311,908,766	**257,126,189**
Total Liabilities		**1,288,847,556**	**986,959,424**
Net Assets		**4,757,708,371**	**5,236,007,170**
Net Assets			
Accumulated surplus		4,757,708,371	5,236,007,170

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Property rates	22	152,938,125	200,361,727
Service charges	23	737,670,225	657,988,460
Rental of facilities and equipment	37	10,492,364	10,084,903
Interest received (trading)		78,051,520	56,716,174
Commission received		8,272,557	7,487,940
Fines		3,623,477	2,286,768
Licences and permits		7,575	7,676
Government grants & subsidies	24	570,189,011	557,221,981
Other income	25	20,860,402	23,383,982
Interest received - investment	26	7,419,622	8,846,572
Dividends received	26	20,790	8,671
Total Revenue		**1,589,545,668**	**1,524,394,854**
Expenditure			
Personnel	27	(462,381,459)	(428,359,632)
Remuneration of councillors	28	(19,998,688)	(19,143,657)
Depreciation and amortisation	29	(359,831,518)	(350,340,708)
Impairment loss/ Reversal of impairments	30	(369,705,510)	(372,218,566)
Finance costs	31	(85,039,476)	(45,618,763)
Repairs and maintenance	38	(36,209,224)	(30,731,627)
Bulk purchases	32	(520,781,456)	(436,037,979)
Contracted services	33	(8,044,502)	(2,726,742)
General Expenses	34	(209,132,561)	(154,771,583)
Total Expenditure		**(2,071,124,394)**	**(1,839,949,257)**
Loss on disposal of assets and liabilities		(290,408)	(146,408)
Fair value adjustments		3,570,335	12,713,644
Deficit for the year		**(478,298,799)**	**(302,987,167)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**438,342,461**	**438,342,461**
Changes in net assets		
Restatement of opening retained income 01 July 2010	41,356,917	41,356,917
Restatement of 2010 profit	3,787,984	3,787,984
Net income (losses) recognised directly in net assets	45,144,901	45,144,901
Surplus for the year	(302,987,167)	(302,987,167)
Total recognised income and expenses for the year	(257,842,266)	(257,842,266)
Prior year adjustments	5,055,506,975	5,055,506,975
Total changes	4,797,664,709	4,797,664,709
Balance at 01 July 2011	**5,236,007,170**	**5,236,007,170**
Changes in net assets		
Surplus for the year	(478,298,799)	(478,298,799)
Total changes	(478,298,799)	(478,298,799)
Balance at 30 June 2012	**4,757,708,371**	**4,757,708,371**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Cash receipts from customers		1,533,423,588	1,147,897,380
Interest income		7,419,622	8,846,572
Dividends received		20,790	8,671
		1,540,864,000	1,156,752,623
Payments			
Cash paid to suppliers and employees		(1,276,390,344)	(799,552,984)
Finance costs		(55,492,112)	(32,228,598)
		(1,331,882,456)	(831,781,582)
Net cash flows from operating activities	35	**208,981,544**	**324,971,041**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(345,789,346)	(444,407,867)
Purchase of investment property	51	(96,663)	-
Proceeds from sale of financial assets		1,769,852	(4,417,461)
Transfer of work in progress to Infrastructure		150,055,541	134,519,721
Net cash flows from investing activities		**(194,060,616)**	**(314,305,607)**
Cash flows from financing activities			
Repayment of other financial liabilities		1,234,427	7,538,651
Finance lease payments		(6,770,138)	(5,500,414)
Net cash flows from financing activities		**(5,535,711)**	**2,038,237**
Net increase/(decrease) in cash and cash equivalents		**9,385,217**	**12,703,671**
Cash and cash equivalents at the beginning of the year		35,279,285	22,575,614
Cash and cash equivalents at the end of the year	7	**44,664,502**	**35,279,285**

Accounting Policies

1. Presentation of Annual Financial Statements

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

GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statements
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 4 Accounting policies, changes in accounting estimates and errors
GRAP 5 Borrowing Cost
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Interests in joint ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial reporting in hyperinflationary economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Property
GRAP 17 Property, Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-current Assets Held for Sale and Discontinued Operations
GRAP 102 Intangible Assets
IFRS 3 Business combinations
IFRS 4 Insurance contracts
IFRS 6 Exploration for and evaluation of mineral resources
IFRS 7 Financial instruments: Disclosures
IAS 12 Income taxes
IAS 19 Employee Benefits
IAS 32 Financial Instruments: Presentation
IAS 39 Financial Instruments: Recognition and measurement
IAS 36 Impairment of assets
IPSAS 20 Related Parties
IPSAS 21 Impairment non-cash generating assets
GAMAP 9.29 - .35 & .39 - .54 Revenue
IGRAP 1 Applying the probability test on initial recognition of exchange revenue
IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4 Determining whether an Arrangement contains a Lease
IFRIC 9 Reassessment of Embedded Derivatives
IFRIC 12 Service Concession Arrangements
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
SIC 21 Income Taxes – Recovery of Re-valued Non-Depreciable Assets
SIC 25 Income Taxes – Changes in the Tax Status of an Enterprise or its Shareholders
SIC 29 Disclosure – Service Concession Arrangements
Directive 1 Repeal of Existing Transitional Provisions in, and Consequential
Amendments to, Standards of GRAP
Directive 2 Transitional Provisions for the Adoption of Standards of GRAP by Public
Entities, Municipal Entities and Constitutional Institutions
Directive 3 Transitional Provisions for the Adoption of Standards of GRAP by High
Capacity Municipalities
Directive 4 Transitional Provisions for the Adoption of Standards of GRAP by Medium
and Low Capacity Municipalities
Directive 5 Determining the GRAP Reporting Framework
Directive 7 The application of deemed cost on the adoption of Standards of Grap
ASB guide 1 Guideline on Accounting for Public Private Partnerships

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

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

Accounting Policies

These accounting policies are consistent with the previous period.

1.1 Relevant Legislation

Legislation:

The following legislation refers to the relevant legislation governing the municipality's operations:
- The Constitution of the Republic of South Africa;
- The Municipal Structures Act 117 of 1998;
- The Municipal Systems Act 32 of 2000;
- The Municipal Finance Management Act 56 of 2003;
- The Municipal Property Rates Act 6 of 2004,
- The Basic Conditions of the Employment Act 75 of 1997;
- The Value Added Tax Act 89 of 1991;
- The Skills Development Act 9 of 1999;
- The Water Service Act 108 of 1997;
- The Housing Act of 1997;
- The Promotion of Access to Information Act 2 of 2000; and
- The Disaster Management Act 57 of 2000

1.2 Significant judgements and sources of estimation uncertainty

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

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

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

Provisions

Provisions were raised for future rehabilitation costs of landfill sites and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related medical aid and pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

Accounting Policies

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Community Facilities	7 - 50 years
Halls	5 - 50 years
Stadiums	5 - 50 years
Swimming Pools	7 - 50 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 is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Accounting Policies

1.4 Property, plant and equipment (continued)

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

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

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

Item	**Average useful life**
Land and Buildings	
• Land	Indefinite life
• Cemetries	7 - 50 years
• Community assets	5 - 50 years
Heritage assets	Indefinite life
• Road reserve furniture	30 years
• Operational facilities	7 - 30 years
• Solid waste	7 - 50 years
• Buildings	5 - 50 years
Infrastructure	
• Roads	10 - 80 years
• Electricity	20 - 50 years
• Sanitation	1 - 50 years
• Water	indefinite - 50 years
Other property, plant and equipment	
• Bins and Containers	5 - 10 Years
• Motor Vehicles	3 - 7 Years
• Furniture and Fittings	7 - 10 Years
• Specialist Vehicles	10 - 15 Years
• Office Equipment	3 - 7 Years
• IT Equipment	15 Years
• Other Equipment	2 - 5 Years
• Specialised equipment	10 - 15 Years

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

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

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

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

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

Accounting Policies

1.5 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

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

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

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

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

Subsequent measurement

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Held-to-maturity investments are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

1.5 Financial instruments (continued)

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

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

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Accounting Policies

1.5 Financial instruments (continued)

Bank overdraft and borrowings

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

Held to maturity

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

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

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

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

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

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

1.5 Financial instruments (continued)

Derecognition

Financial assets

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

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

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

Financial liabilities

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

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.6 Leases

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

1.6 Leases (continued)

Finance leases - lessor

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

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

Finance leases - lessee

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

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

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

Operating leases - lessor

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

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

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

Operating leases - lessee

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

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair 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.

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

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

Accounting Policies

1.8 Impairment of cash-generating assets

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

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

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

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

Identification

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.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.8 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.8 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.9 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.

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

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

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

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

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

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

Accounting Policies

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

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

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

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.

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

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

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.

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

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.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Accounting Policies

1.10 Employee benefits (continued)

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity’s obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

These plans include the municipality's pension, provident and annuity funds.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted at intervals not exeeding three years by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

Actuarial gains and losses at the end of the previous period, arising from experience adjustments and changes in actuarial assumptions are recognised immediately in the income statement.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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 presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

These plans include the municipality's medical aid funds (post-retirement health care benefits).

1.11 Provisions and contingencies

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

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

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

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

1.11 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.12 Revenue from exchange transactions

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

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

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

Measurement

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

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense the probability test on initial recognition of exchange revenue; it should not be applied by analogy to other types of transactions.

Accounting Policies

1.12 Revenue from exchange transactions (continued)

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When 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 the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Measurement

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

1.13 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

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

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

Fines

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Accounting Policies

1.14 Turnover

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

1.15 Investment income

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

1.16 Borrowing costs

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

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

1.17 Comparative figures

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

1.18 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

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

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

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

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

Accounting Policies

1.20 Irregular expenditure (continued)

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

1.21 Use of estimates

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

1.22 Presentation of currency

These annual financial statements are presented in South African Rand.

1.23 Offsetting

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

1.24 Investments

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

1.25 Conditional grants and receipts

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

1.26 Budget information

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

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

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

Comparative information is not required.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

IGRAP 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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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 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.

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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.

GRAP 16 (as revised 2010): Investment Property

The revision resulted in various terminology and definition changes.

Recognition of investment property:

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

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

Amendments to be applied as follow:

- Paragraphs .10(e), .54, .59, .62 and .65 were amended, paragraphs .60 and .61 were added and paragraph .25 and .11 (d) of the original text (2004) was deleted by the Improvements to GRAP issued in 1 April 2011. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an entity elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph .05 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier.
- 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.

Notes to the Annual Financial Statements

2. 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.

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

The effective date of the amendment is for years beginning on or after 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 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

2. 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.

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 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.

2.2 Standards and interpretations issued, but not yet effective

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

GRAP 18: Segment Reporting

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

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

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

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.

GRAP 24: Presentation of Budget Information in the Financial Statements

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

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

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes 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 annual 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.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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.

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.

An 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.

An 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, an entity estimates the recoverable service amount of that asset.

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

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an 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.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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, an municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

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

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

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

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

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

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

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

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

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

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

The municipality is unable to reliably estimate the impact of the standard on the annual financial statements.

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

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

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Multi-employer plans as 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 municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as 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;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity’s decision to terminate an employee’s employment before the normal retirement date; or
  - an employee’s decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The standard also deals with Entity combinations and Curtailments and settlements.

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

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

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

The impact of this standard is currently being assessed.

GRAP 104: Financial Instruments

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

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

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

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

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

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

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

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

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

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

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

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

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

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

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

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

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

The adoption of this amendment 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.

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

The impact of this amendment is currently being assessed.

3. Inventories

Consumables - at cost	3,909,826	2,149
Residential Buildings for resale	143,893	174,134
Water - at cost	1,607,694	7,788,547
Farm Land	75,910,456	75,910,456
Vacant Stands	624,712,220	624,712,220
	706,284,089	**708,587,506**

Refer to note 32 for the water purchases expensed during the year.

4. Other financial assets

Available-for-sale		
Listed shares	287,317	291,453
Shares in Senwes and Senwesbel		
Held to maturity		
RMB Asset Management (Guaranteed Investment Trust) The maturity date of the investment is 2013/12/13 and interest is earned at a rate of 14.94% per annum.	16,115,865	13,892,186
RMB Asset Management (Guaranteed Investment Trust) The maturity date of the investment is 2015/10/19 and interest is earned at a rate of 14.86% per annum.	11,779,877	10,162,509
ABSA Fixed Deposit (2059359440) The maturity date of the investment is 2011/09/28 and interest is earned at a rate of 5.63% per annum.	500,208	472,707
ABSA Fixed Deposit (2059440982) The maturity date of the investment is 2012/04/30 and interest is earned at a rate of 6.15% per annum.	10,106,151	15,740,415
	38,502,101	**40,267,817**
Total other financial assets	**38,789,418**	**40,559,270**
Non-current assets		
Available-for-sale	287,317	291,453
Held to maturity	27,895,742	24,054,695
	28,183,059	**24,346,148**
Current assets		
Held to maturity	10,606,359	16,213,122

Figures in Rand	2012	2011

4. Other financial assets (continued)

	38,789,418	**40,559,270**

Fair values are determined annually at statement of financial position date.

Fair value information

Fair values are determined annually at statement of financial position date.

Level 1 represents those assets which are measured using unadjusted quoted prices for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (as prices) or indirectly (derived from prices).

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

Level 1		
Shares in Senwes and Senwesbel	287,317	291,453
Level 2		
ABSA Fixed Deposits	10,606,359	16,213,122
RMB Asset Management (Guaranteed Investment Trust)	27,895,742	24,054,695
	38,502,101	**40,267,817**
	38,789,418	**40,559,270**

Investments pledged as collateral		
Limited cession over ABSA investment account: 20-5944-0982	10,000,000	10,000,000

Renegotiated terms

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

Fair value information

Available-for-sale financial assets are recognised at fair value, unless they are unlisted equity instruments and the fair value cannot be determined using other means, in which case they are measured at cost. Fair value information is not provided for these financial assets.

For debt securities classified as available-for-sale, the maximum exposure to credit risk at the reporting date is the fair value.

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.

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

Credit quality of other financial assets

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

Figures in Rand	2012	2011

5. Trade and other receivables

Deposits	9,850	9,850
Health Subsidies	85,715	85,715
Other Receivables	5,626,395	12,170,921
	5,721,960	**12,266,486**

Included in other receivables are irregular expenditure incurred during the year which will be recovered. Refer to note 46
Included in other receivables are unspent conditional grants with favourable balances. Refer to note 24.

6. Consumer debtors

Gross balances		
Rates	279,879,667	196,291,084
Electricity	148,382,244	83,906,938
Water	563,410,461	340,531,092
Sewerage	236,582,320	138,797,622
Refuse	162,942,000	97,063,978
Housing rental	769,145	697,359
Other (specify)	101,523,532	285,247,221
	1,493,489,369	**1,142,535,294**
Less: Provision for debt impairment		
Rates	(236,000,988)	(174,967,192)
Electricity	(110,333,494)	(41,620,885)
Water	(537,422,601)	(323,444,791)
Sewerage	(226,472,360)	(129,767,270)
Refuse	(157,914,401)	(92,404,069)
Housing rental	(762,891)	(680,485)
Other (specify)	(97,791,897)	(275,846,157)
	(1,366,698,632)	**(1,038,730,849)**
Net balance		
Rates	43,878,679	21,323,892
Electricity	38,048,750	42,286,053
Water	25,987,860	17,086,301
Sewerage	10,109,960	9,030,352
Refuse	5,027,599	4,659,909
Housing rental	6,254	16,874
Other (specify)	3,731,635	9,401,064
	126,790,737	**103,804,445**
Rates		
Current (0 -30 days)	6,832,599	10,493,636
31 - 60 days	3,561,475	3,802,902
61 - 90 days	2,311,081	2,796,358
91 - 120 days	31,173,524	4,230,996
	43,878,679	**21,323,892**
Electricity		
Current (0 -30 days)	23,603,724	29,402,868
31 - 60 days	7,156,595	6,669,877
61 - 90 days	1,026,926	3,134,329
91 - 120 days	6,261,505	3,078,979
	38,048,750	**42,286,053**

Figures in Rand	2012	2011

6. Consumer debtors (continued)

Water		
Current (0 -30 days)	8,191,882	7,383,334
31 - 60 days	1,763,340	3,332,054
61 - 90 days	856,336	2,542,747
91 - 120 days	15,176,302	3,828,166
	25,987,860	**17,086,301**
Sewerage		
Current (0 -30 days)	3,005,977	4,452,241
31 - 60 days	1,059,000	2,033,224
61 - 90 days	440,519	1,071,879
91 - 120 days	5,604,464	1,473,008
	10,109,960	**9,030,352**
Refuse		
Current (0 -30 days)	1,512,237	2,349,883
31 - 60 days	438,555	861,552
61 - 90 days	193,922	544,223
91 - 120 days	2,882,885	904,251
	5,027,599	**4,659,909**
Housing rental		
Current (0 -30 days)	6,254	5,671
31 - 60 days	-	5,625
61 - 90 days	-	5,578
	6,254	**16,874**
Other		
Current (0 -30 days)	733,747	3,044,635
31 - 60 days	293,875	2,055,513
61 - 90 days	62,533	1,948,252
91 - 120 days	2,641,480	2,352,664
	3,731,635	**9,401,064**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	67,998,284	50,885,754
31 - 60 days	42,411,847	36,354,560
61 - 90 days	37,108,922	37,367,990
91 - 120 days	1,137,495,075	822,439,613
	1,285,014,128	947,047,917
Less: Provision for debt impairment	(1,231,354,926)	(892,046,492)
	53,659,202	**55,001,425**

Figures in Rand	2012	2011

6. Consumer debtors (continued)

Industrial/ commercial		
Current (0 -30 days)	30,574,970	32,273,285
31 - 60 days	19,315,033	10,807,082
61 - 90 days	5,095,250	8,152,395
91 - 120 days	112,141,948	133,275,578
	167,127,201	184,508,340
Less: Provision for debt impairment	(135,343,705)	(139,700,798)
	31,783,496	**44,807,542**

National and provincial government		
Current (0 -30 days)	6,599,197	2,429,351
31 - 60 days	3,347,884	1,367,166
61 - 90 days	1,998,065	324,946
91 - 120 days	29,402,893	6,857,573
	41,348,039	10,979,036
Less: Provision for debt impairment	-	(6,983,557)
	41,348,039	**3,995,479**

Total		
Current (0 -30 days)	105,175,406	85,588,390
31 - 60 days	65,252,147	48,528,808
61 - 90 days	44,413,192	45,845,331
91 - 120 days	1,301,705,669	981,994,420
Less: Arrear accounts reflected as non current consumers	(23,057,045)	(19,421,656)
	1,493,489,369	1,142,535,293
Less: Provision for debt impairment	(1,366,698,632)	(1,038,730,848)
	126,790,737	**103,804,445**

Less: Provision for debt impairment		
Current (0 -30 days)	(61,286,030)	(28,456,124)
31 - 60 days	(50,801,924)	(29,768,060)
61 - 90 days	(39,310,921)	(34,482,450)
91 - 120 days	(1,215,299,757)	(946,024,215)
	(1,366,698,632)	**(1,038,730,849)**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(1,038,730,849)	(683,212,269)
Contributions to provision	(333,539,314)	(359,178,064)
Debt impairment written off against provision	5,571,531	3,659,484
	(1,366,698,632)	**(1,038,730,849)**

Credit quality of consumer debtors

The credit quality of consumer debtors 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.

The creation and release of provision for impaired receivables have been included in operating expenses in the statement of financial performance (note 30). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

6. Consumer debtors (continued)

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.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38,504	31,626
Bank balances	44,625,998	35,247,659
	44,664,502	**35,279,285**

The total amount of undrawn facilities available for future operating activities and commitments:

Overdraft facility	10,000,000	10,000,000
Housing Guarantees facility	200,000	200,000
ACB Debits facility	1,500,000	1,500,000
Fleet card	60,000	-

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for ABSA overdraft facilities	900,000	900,000
Limited cession of R900,000 over ABSA call account: 50-6438-8780		

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2012	**30 June 2011**	**30 June 2010**	**30 June 2012**	**30 June 2011**	**30 June 2010**
ABSA (Welkom Branch) - Account Number 40 5370 5465 (Primary Bank Account)	38,037,201	14,748,544	640,720	39,575,541	15,950,357	3,492,553
Outstanding cheques reallocated to trade and other payables	-	-	-	-	-	6,931,766
Prior year error cut-off correction - July 2011 receipts reallocated to consumer debtors	-	-	-	-	-	(7,799,462)
ABSA (Welkom Branch) - Account Number 40 5533 9852 (MVS Joint Account)	-	-	585	-	-	585
ABSA (Welkom Branch) - Account Number 405 644 3399 (Market Account)	1,583,328	1,352,731	1,110,525	1,245,208	1,622,271	1,108,265
FNB (Welkom Branch) - Account Number 542 3117 3409 (Collection Account)	587,775	389,545	273,461	587,774	389,545	273,311
ABSA - Account Number 6054300806	922,346	904,048	883,572	922,447	904,048	883,572
ABSA - Account Number 9094617107	26,879	426,879	426,879	26,881	427,348	427,932
ABSA - Account Number 9106684115	403,253	6,046,088	13,769,477	404,402	6,113,223	13,832,085
ABSA - Account Number 5064388780	-	900,000	900,000	-	900,000	900,000
ABSA - Account Number 911141338	341,229	11,927	11,647	341,323	11,944	11,672
ABSA - Account Number 9106684238	137,214	6,802,282	1,204,270	182,153	6,817,290	1,256,616
ABSA - Account Number 9106538138	6,868	824,493	167	7,380	826,322	2,269
ABSA - Account Number 9106684157	2,364	2,334	2,279	2,364	2,337	2,283
ABSA - Account Number 9123515666	11,091	10,961	10,710	11,092	10,961	10,710
ABSA - Account Number 6301667719	19,633	19,357	16,228	19,644	19,400	16,280
ABSA - Account Number 6304159559	29	29	29	29	29	29
ABSA - Account Number 9085913568	57,523	54,549	51,366	57,523	54,785	51,638
ABSA - Account Number 9065014332	510,612	484,210	455,956	510,612	486,307	458,374
ABSA - Account Number 9086656806	48,954	46,423	43,714	48,954	46,624	43,946
FNB - Account Number 61404001177	4,986	4,936	4,887	4,986	4,936	4,887
FNB - Account Number 62003503019	677,685	659,933	640,677	677,685	659,933	640,677
Total	**43,378,970**	**33,689,269**	**20,447,149**	**44,625,998**	**35,247,660**	**22,549,988**

7. Cash and cash equivalents (continued)

Bank accounts without a balance at year end is:
ABSA - Account Number 6304284885
ABSA - Account Number 6303885159

8. Property, plant and equipment

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	536,072,300	-	536,072,300	536,072,300	-	536,072,300
Infrastructure	5,611,381,117	(1,759,270,393)	3,852,110,724	5,474,911,290	(1,448,044,734)	4,026,866,556
Furniture and fixtures	12,406,042	(10,498,561)	1,907,481	11,099,611	(10,369,982)	729,629
Motor vehicles	101,708,079	(62,477,572)	39,230,507	89,892,150	(55,618,237)	34,273,913
Office equipment	21,647,633	(17,894,077)	3,753,556	21,319,507	(14,101,343)	7,218,164
IT equipment	7,265,536	(3,596,225)	3,669,311	6,337,873	(3,139,417)	3,198,456
Other equipment	14,719,698	(9,050,895)	5,668,803	12,403,815	(6,710,559)	5,693,256
Bins and containers	117,098	(116,676)	422	117,098	(116,626)	472
Specialised Vehicles	66,393,926	(10,925,008)	55,468,918	65,865,117	(6,763,379)	59,101,738
Capital work in progress	341,404,930	-	341,404,930	333,864,290	-	333,864,290
Total	**6,713,116,359**	**(1,873,829,407)**	**4,839,286,952**	**6,551,883,051**	**(1,544,864,277)**	**5,007,018,774**

Reconciliation of property, plant and equipment - 2012

	Opening balance	**Additions**	**Movement in Retention**	**Disposals**	**Depreciation**	**Impairment loss**	**Transfer to Infrastructure**	**To**
Land	536,072,300	-	-	-	-	-	-	536,0
Furniture and fixtures	729,629	1,306,431	-	-	(128,579)	-	-	1,9
Motor vehicles	34,273,913	11,815,928	-	-	(6,859,334)	-	-	39,2
Office equipment	7,218,164	328,125	-	-	(3,792,733)	-	-	3,7
IT equipment	3,198,456	927,662	-	-	(456,807)	-	-	3,6
Infrastructure	4,026,866,556	147,532,576	-	(290,408)	(311,225,659)	(10,772,341)	-	3,852,1
Other equipment	5,693,256	2,315,883	-	-	(2,340,336)	-	-	5,6
Bins and containers	472	-	-	-	(50)	-	-	
Capital work in progress	333,864,290	181,601,023	(567,091)	-	-	(23,437,751)	(150,055,541)	341,4
Specialised Vehicles	59,101,738	528,809	-	-	(4,161,629)	-	-	55,4
	5,007,018,774	**346,356,437**	**(567,091)**	**(290,408)**	**(328,965,127)**	**(34,210,092)**	**(150,055,541)**	**4,839,2**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Movement in Retention	Disposals	Other changes, movements	Depreciation	Transfer to Infrastructur
Land	536,072,300	-	-	-	-	-	
Furniture and fixtures	1,438,734	369,470	-	-	-	(1,078,575)	
Motor vehicles	19,769,265	19,204,167	-	-	-	(4,699,519)	
Office equipment	10,243,651	726,556	-	-	-	(3,752,043)	
IT equipment	2,499,720	1,076,850	-	-	-	(378,114)	
Infrastructure	4,196,191,789	138,520,025	-	(146,407)	-	(307,698,851)	
Other property, plant and equipment	6,103,689	1,731,913	-	-	-	(2,142,346)	
Bins and containers	11,810	-	-	-	-	(11,338)	
Capital work in progress	238,638,385	227,613,126	2,661,280	-	(528,780)	-	(134,519,72
Specialised Vehicles	8,822,011	52,504,480	-	-	-	(2,224,753)	
	5,019,791,354	**441,746,587**	**2,661,280**	**(146,407)**	**(528,780)**	**(321,985,539)**	**(134,519,72**

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.

Assets subject to finance lease (Net carrying amount)		
Office equipment	3,062,290	6,734,097

9. Consumer debtors

Consumer debtors with arrangements that is not payable within the next financial year.

Gross balances		
Rates	3,843,292	3,400,071
Electricity	5,206,012	3,032,449
Water	6,033,065	4,878,492
Sewerage	2,388,650	1,966,636
Refuse	1,455,996	1,204,337
Other (specify)	4,130,029	5,397,232
	23,057,044	**19,879,217**
Less: Provision for debt impairment		
Rates	(3,581,145)	(3,332,387)
Electricity	(4,720,469)	(2,873,358)
Water	(5,518,277)	(4,792,441)
Sewerage	(2,250,436)	(1,940,294)
Refuse	(1,372,767)	(1,188,719)
Other (specify)	(3,906,032)	(5,294,456)
	(21,349,126)	**(19,421,655)**

Figures in Rand	2012	2011

9. Consumer debtors (continued)

Net balance		
Rates	262,147	67,684
Electricity	485,544	159,092
Water	514,788	86,051
Sewerage	138,214	26,343
Refuse	83,229	15,617
Other (specify)	223,997	102,776
	1,707,919	**457,563**

Rates		
Current (0 -30 days)	-	-
31 - 60 days	5,590	11,974
61 - 90 days	4,532	17,909
91 - 120 days	252,024	37,801
	262,146	**67,684**

Electricity		
Current (0 -30 days)	-	-
31 - 60 days	21,827	28,970
61 - 90 days	17,247	44,654
91 - 120 days	446,470	85,468
	485,544	**159,092**

Water		
Current (0 -30 days)	-	-
31 - 60 days	9,490	13,204
61 - 90 days	7,358	24,285
91 - 120 days	497,940	48,562
	514,788	**86,051**

Sewerage		
Current (0 -30 days)	-	-
31 - 60 days	3,344	4,545
61 - 90 days	2,753	7,472
91 - 120 days	132,117	14,326
	138,214	**26,343**

Refuse		
Current (0 -30 days)	-	-
31 - 60 days	2,228	2,955
61 - 90 days	1,750	4,692
91 - 120 days	79,251	7,970
	83,229	**15,617**

Other		
Current (0 -30 days)	1,491	288
31 - 60 days	5,693	4,698
61 - 90 days	1,648	26,065
91 - 120 days	215,165	71,725
	223,997	**102,776**

Summary of debtors by customer classification

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

9. Consumer debtors (continued)

Consumers		
Current (0 -30 days)	2,667	11,531
31 - 60 days	175,041	113,163
61 - 90 days	208,833	219,421
91 - 120 days	21,803,143	18,775,669
	22,189,684	19,119,784
Less: Provision for debt impairment	(20,688,758)	(18,704,792)
	1,500,926	**414,992**

Industrial/ commercial		
Current (0 -30 days)	287	-
31 - 60 days	2,342	9
61 - 90 days	2,122	32
91 - 120 days	707,086	747,985
	711,837	748,026
Less: Provision for debt impairment	(661,160)	(705,457)
	50,677	**42,569**

National and provincial government		
Current (0 -30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	155,525	11,407
	155,525	11,407
Less: Provision for debt impairment	-	(11,407)
	155,525	**-**

Total		
Current (0 -30 days)	2,954	11,531
31 - 60 days	177,382	113,171
61 - 90 days	210,954	219,453
91 - 120 days	22,665,754	19,535,062
	23,057,044	19,879,217
Less: Provision for debt impairment	(21,349,918)	(19,421,656)
	1,707,126	**457,561**

Less: Provision for debt impairment		
Current (0 -30 days)	(1,463)	(11,243)
31 - 60 days	(129,209)	(46,825)
61 - 90 days	(175,666)	(94,377)
91 - 120 days	(21,043,580)	(19,269,212)
	(21,349,918)	**(19,421,657)**

Reconciliation of debt impairment provision		
Balance at beginning of the year	(19,421,657)	(6,413,795)
Contributions to provision	(1,928,261)	(13,007,862)
	(21,349,918)	**(19,421,657)**

10. Financial assets by category

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

2012

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets	-	38,789,418	287,317	39,076,735
Trade and other receivables	4,521,960	-	-	4,521,960
Cash and cash equivalents	-	-	44,664,502	44,664,502
Consumer debtors (Current)	126,790,737	-	-	126,790,737
Consumer debtors (Non-current)	1,707,919	-	-	1,707,919
	133,020,616	**38,789,418**	**44,951,819**	**216,761,853**

2011

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Other financial assets	-	40,559,270	291,453	40,850,723
Trade and other receivables	12,266,486	-	-	12,266,486
Cash and cash equivalents	-	-	35,279,285	35,279,285
Consumer debtors (Current)	103,804,447	-	-	103,804,447
Consumer debtors (Non-current)	457,563	-	-	457,563
	116,528,496	**40,559,270**	**35,570,738**	**192,658,504**

11. VAT receivable

	2012	2011
VAT	-	913,198

VAT is payable to SARS on the receipts basis. Only when payment is received from debtors is output VAT paid to the South African Revenue Services.

Only when payment is made to creditors, input VAT is claimed from the South African Revenue Services.

12. Other financial liabilities

	2012	2011
Held at amortised cost		
DBSA Consolidated Loan Refer to Appendix A for detail	17,379,807	18,240,715
INCA Loans Refer to Appendix A for detail	-	79,805
DBSA 08110/102 Refer to Appendix A for detail	1,895,798	3,290,993
	19,275,605	**21,611,513**

	2012	2011
Non-current liabilities		
At amortised cost	-	1,770,266
Current liabilities		
At amortised cost	19,275,605	19,841,247
	19,275,605	**21,611,513**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

12. Other financial liabilities (continued)

The Municipality defaulted on the redemption terms of the following loans:		
DBSA Consolidated Loan	17,379,807	18,240,715
INCA Loan	-	79,805
	17,379,807	**18,320,520**

The Municipality renegotiated the terms of the following loans:		
DBSA Consolidated Loan	17,379,807	18,240,715

13. Finance lease obligation

Minimum lease payments due		
- within one year	6,685,118	6,767,772
- in second to fifth year inclusive	1,267,877	7,998,919
	7,952,995	14,766,691
less: future finance charges	(879,727)	(2,920,791)
Present value of minimum lease payments	**7,073,268**	**11,845,900**

Present value of minimum lease payments due		
- within one year	5,878,219	4,800,585
- in second to fifth year inclusive	1,195,049	7,045,315
	7,073,268	**11,845,900**

Non-current liabilities	1,195,048	7,045,315
Current liabilities	5,878,219	4,800,585
	7,073,267	**11,845,900**

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

The average lease term was 5 years and the average effective borrowing rate was 13% (2011: 17%).

Interest rates are linked to prime at the contract date. Most of the leases escalate at 10% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 8.

14. Trade and other payables

Trade payables	775,464,765	547,894,230
Payments received in advance	29,328,525	23,671,770
Accrued leave pay	49,518,014	42,704,948
Accrued bonus	7,114,675	7,090,385
Straightlining of operating leases	(53,345)	(81,459)
Deposits received	32,303	45,055
Other payables	16,550,812	11,393,594
	877,955,749	**632,718,523**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

15. VAT payable

Tax refunds payables	32,345,883	-

VAT is payable to SARS on the receipts/payments basis. Only when payment is received from debtors is output VAT paid to the South African Revenue Services.

Only when payment is made to creditors, input VAT is claimed from the South African Revenue Services.

16. Consumer deposits

Water and electricity	27,936,787	26,995,233

Guarantees		
Guarantees held in lieu of Electricity and Water Deposits	4,245,706	4,820,182

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	5,611,296	38,064,622
Parks Lotto	71,587	71,587
Municipal Systems Improvement Grant	-	1,423,960
LED Grant	88,400	88,400
Municipal Infrastructure Grant - PMU	3,289,567	3,289,567
Operation Hlasela - Bopa Lesedi Development	1,417,417	1,417,417
South African Youth Council	163,134	163,134
Neighbourhood Development - National Treasury	958,960	458,960
Integrated National Electrification Programme	869,419	500,000
SETA Grants	1,076,767	-
	13,546,547	**45,477,647**

Movement during the year

Balance at the beginning of the year	45,477,647	78,266,173
Receipts during the year	171,639,160	164,237,338
Income regocnition during the year	(161,521,383)	(197,025,864)
Grant witheld by National Treasury through Equitable share	(43,026,325)	-
Grant derecognised	977,448	-
	13,546,547	**45,477,647**

See note 24 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

18. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	58,483,608	27,580,110	86,063,718

Reconciliation of provisions - 2011

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	47,861,711	10,621,897	58,483,608

18. Provisions (continued)

The provision is based on the rehabilitation of 2 landfill sites (Odendaalsrus and Welkom) and two dumpsites (Allanridge and Hennenman (Phomolong).

These sites represents a total of 180 hectare of land as measured by the Manager of Spatial Planning.

Rehabilitation is assumed to occur within the following amount of years:

Welkom - 20 years
Odendaalsrus - 12 years
Allanridge - 15 years
Hennenman (Phomolong) - 15 years

The main component of the rehabilitation costs consists of the rehabilitation of the soil.

The rehabilitation cost of the soil is calculated as R429/m3 (The layout of the soil should be = ±0.25m2 square meter) and are based on the average of two Independent quotations obtained.

These costs may vary depending on area where red soil is purchased and the type of red soil (i.e. loose soil)

Also included in rehabilitation cost are the following actions and cost relating to these actions are based on the best estimate by management based on quotations:

Welkom:
Soil cover excavation and costing
Sloping of waste body to gradient
Capping layer
Vegetation
Storm water channels
Water monitoring

Odendaalsrus:
Levelling of waste body and filling up of quarry hole
Creation of storm water channel
Site fencing

Allanridge:
Levelling and compaction of the waste body
Fencing
Storm water management

Hennenman (Phomolong):
Levelling and compaction of the waste body
Fencing
Storm water management

In order to be able to execute some of the actions listed above, the Municipality would have to purchase certain equipment and other products.

The cost relating to the purchase of the equipment are based on the best estimate by management based on quotations:

Welkom:
Excavator + Tipper Trucks
HDP liner 6 mm

Odendaalsrus:
Dozer / Excavator
Concrete Palisade

Allanridge:

18. Provisions (continued)
Dozer / Excavator
Excavator

Hennenman (Phomolong):
Dozer / Excavator
Excavator

The present value of the provision for rehabilitation depends on a number of factors that are determined on an annual basis using a number of assumptions. The assumptions used in determining the net present value include the discount rate. Any changes in these assumptions will impact the carrying amount of the provision for rehabilitation.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle future rehabiliation costs. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the expenses will be paid, and that have terms to maturity approximating the terms of the related rehabiliation liability.

The following assumptions were used in the present value calculation of the rehabiliation provision:

Inflation factor:
2010 Financial Year - Average of 5.5%
2011Financial Year - Average of 3.86%
2012 until 2030 Financial Years - 5.90%

Discount factor:

2010 Financial Year:

Bond R154 maturing in 2011 (A bond maturing in 2011): 6.78%
Prime lending rate: 10%
Risk factor: 3.23%

Bond R157 maturing (latest year): 10.80%
Risk adjusted risk-free rate after applying risk factor above: 14.02%

2011 Financial Year:

Bond R155 maturing in 2012 (A bond maturing in 2012): 5.55%
Prime lending rate: 9%
Risk factor: 3.45%

Bond R157 maturing (latest year): 10.10%
Risk adjusted risk-free rate after applying risk factor above: 13.55%

2012 Financial Year:

Bond R179 maturing in 2013 (A bond maturing in 2013): 4.80%
Prime lending rate: 8.50%
Risk factor: 3.70%

Bond R157 maturing (latest year): 8.01%
Risk adjusted risk-free rate after applying risk factor above: 11.71%

19. Financial liabilities by category

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

19. Financial liabilities by category (continued)

2012

	Financial liabilities at amortised cost	Fair value	Total
Other financial liabilities: Current	19,289,212	-	19,289,212
Other financial liabilities: Non-current	-	-	-
Finance leases: Current	5,878,219	-	5,878,219
Finance leases: Non-current	1,195,048	-	1,195,048
Trade and other payables	-	882,167,683	882,167,683
Consumer deposits	-	27,936,787	27,936,787
	26,362,479	**910,104,470**	**936,466,949**

2011

	Financial liabilities at amortised cost	Fair value	Total
Other financial liabilities: Current	19,841,247	-	19,841,247
Other financial liabilities: Non-current	1,770,266	-	1,770,266
Finance leases: Current	4,800,585	-	4,800,585
Finance leases: Non-current	7,045,315	-	7,045,315
Trade and other payables	-	632,718,522	632,718,522
Consumer deposits	-	26,995,233	26,995,233
	33,457,413	**659,713,755**	**693,171,168**

20. Employee benefit obligations

Defined benefit plan

The defined benefit plan consists of a post retirement medical aid plan.

Post retirement medical aid plan

Various councillors and employees belong to various post- retirement healthcare benefits schemes.

The liability of the schemes was valued as at 30 June 2010, 30 June 2011 and 30 June 2012.

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

LA Healt Medical Scheme
Bonitas Medical Scheme
Hosmed Medical Scheme
Samwumed Medical Scheme
KeyHealth Medical Scheme

The members of the Post-employment Health Care Benefit Plan are made up as follows:

In-service members (Employees) 1400 (2011:1 397)
Continuation Members (Retirees, widowers and orphans): 180 (2011:181)

Figures in Rand	2012	2011

20. Employee benefit obligations (continued)

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(224,650,000)	(189,827,000)

Disclosure in terms of par. 120A(p) of IAS 19:

Defined benefit obligation	(224,650,000)	
Experience adjustments on plan liabilities	(18,434,000)	

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

Opening balance	(189,827,000)	(152,818,000)
Net expense recognised in the statement of financial performance	(34,823,000)	(37,009,000)
Closing balance	**(224,650,000)**	**(189,827,000)**

Net expense recognised in the statement of financial performance

Service cost	(8,432,000)	(6,439,000)
Interest cost	(17,385,000)	(14,824,000)
Actuarial (gains) losses	(14,808,000)	(21,133,000)
Expected Benefits paid	5,802,000	5,387,000
Total included in employee related costs	**(34,823,000)**	**(37,009,000)**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(14,808,000)	(21,133,000)

Figures in Rand	2012	2011

20. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.00 %	9.10 %
Healthcare cost Inflation	7.50 %	7.70 %
Net discount rate	1.40 %	1.30 %
Maximum contribution increase	6.50 %	6.70 %
Continuation percentage (employees)	90.00 %	90.00 %
Continuation percentage (widows)	90.00 %	90.00 %

The basis used to determine the discount rate is as follow:

IAS 19 requires that the discount rate used in the valuation is determined by reference to market yields on high quality corporate bonds as at the balance sheet date. In countries where there is no deep market in corporate bonds, government bonds should be used. It is currently market practice to use government bond yields, as the South African corporate bond market is not considered to be sufficiently developed. The currency and term of the government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations.

The estimated discount rate was set equal to the yield on a zero-coupon government bond with a term of approximately 17 years.

The basis used to determine the Healthcare cost inflation is as follow:

In the past, healthcare cost inflation has typically exceeded the Consumer Price Index (“CPI”) by a margin of 1% to 2%.
Our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index-linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best-estimate assumption for Healthcare cost inflation.

The basis used to determine the Pre-retirement mortality:
The pre-retirement mortality table most commonly used in the retirement industry (for similar sub-populations in South Africa) is SA 85-90 (Light).

The basis used to determine the Post-retirement mortality:

The base mortality table used in our valuation is the PA (90) mortality table rated down one year for males and females. There is a strong argument for including an allowance for future mortality improvements in the assumption (1% to 1.5% p.a. at all ages would be reasonable), given the improvements that have occurred at the post-retirement ages in most developed countries over the past forty years, as well as the evidence of improvements observed by larger actuarial service providers in South Africa.

The basis used to determine the Assumed retirement age:

This valuation was based on an assumed retirement age of 63 in order to accommodate the probability of employees retiring before the normal retirement age of 65. All in-service employees older than 63 have been valued as pensioners, i.e. assuming that they are retired.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

20. Employee benefit obligations (continued)

Other assumptions and disclosures

Expected retirement age (Males & Females) - 63 years (2011: 63 years)
Spouse and principal member age difference- Male 3 years older than female(2011: Male 3 years older than female)

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

	One percentage point increase	One percentage point decrease
Defined benefit obligation	(268,082,000)	(190,394,000)
Service Cost	(13,263,000)	(8,347,000)
Interest Cost	(24,441,000)	(17,233,000)

Expected contributions to post-employment benefit plans for the year ending 30 June 2013 would be approximately R6,759,000 (2011: R5,802,000).

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

	2012	2011	2010
Defined benefit obligation	224,650,000	189,827,000	152,818,000

Defined contribution plan

All councillors and employees belong to defined retirement plans administered by various Pension, Provident and Annuity Funds. As these are multi-employer funds, sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). These amounts are accounted for as defined contribution plans.

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

The amount recognised as an expense for defined contribution plans is	34,823,000	37,009,000

21. Revenue

Property rates	152,938,125	200,361,727
Service charges	737,670,225	657,988,460
Rental of facilities & equipment	10,492,364	10,084,903
Interest received – trading	78,051,520	56,716,174
Commission received	8,272,557	7,487,940
Fines	3,623,477	2,286,768
Licences and permits	7,575	7,676
Government grants & subsidies	570,189,011	557,221,981
	1,561,244,854	**1,492,155,629**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	737,670,225	657,988,460
Rental of facilities & equipment	10,492,364	10,084,903
Interest received – trading	78,051,520	56,716,174
Commission received	8,272,557	7,487,940
Licences and permits	7,575	7,676
	834,494,241	**732,285,153**

Figures in Rand	2012	2011

21. Revenue (continued)

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

Taxation revenue		
Property rates	152,938,125	200,361,727
Fines	3,623,477	2,286,768
Transfer revenue		
Government grants and subsidies	570,189,011	557,221,981
	726,750,613	**759,870,476**

22. Property rates

Rates received

Residential	49,912,112	111,813,081
Commercial	71,953,447	71,876,976
State	31,057,503	16,012,092
Small holdings and farms	15,063	659,578
	152,938,125	**200,361,727**

Valuations

Residential	10,797,097,850	422,297,737
Commercial	3,083,758,900	173,002,763
State	1,414,145,600	42,896,069
Small holdings and farms	538,000	4,009,000
Exempted	3,524,206,768	195,555,207
	18,819,747,118	**837,760,776**

The new valuation roll was completed during the prior financial year and the new Property Rates Policy was implemented on 1 July 2011.

23. Service charges

Sale of electricity	390,708,510	335,534,187
Sale of water	181,972,513	179,833,237
Sewerage and sanitation charges	101,055,024	88,274,232
Refuse removal	63,934,178	54,346,804
	737,670,225	**657,988,460**

Figures in Rand	2012	2011

24. Government grants and subsidies

Department of Minerals and Energy Affairs	(460,507)	460,507
Department of Water and Environmental Affairs	9,741,449	9,045,510
Equitable Share	390,659,325	358,899,663
Financial Management Grant	1,450,000	1,000,000
Integrated National Electrification programme	1,264,581	-
LED Grant	-	467,540
Lejweleputswa District Municipality	9,244,302	3,874,484
Municipal Infrastructure Grant	154,083,089	166,801,170
Municipal Systems Improvement Grant	522,704	1,017,296
Neighbourhood Development - National Treasury	-	41,040
Operating grant - MIG - PMU	2,649,675	2,354,769
Operation Hlasela - Bopa Lesedi Development	-	542,238
Operation Hlasela - Roads	-	10,308,467
Operation Hlasela - Roads (Clean-up of Kutlwanong Township)	-	48,510
Provincial Clinics Repair & Maintenance	-	361,843
SETA Grants	1,034,393	1,848,944
South African Youth Council	-	150,000
	570,189,011	**557,221,981**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The grant is disbursed by National Treasury. R43 026 325 of the grant has been withheld during the year as a result of previous years unspent capital grants.

Municipal Infrastructure Grant

Balance unspent at beginning of year	38,064,622	70,116,561
Grant witheld by National Treasury through Equitable share	(40,616,562)	137,104,000
Current-year receipts	164,896,000	-
Conditions met - transferred to revenue	(154,083,089)	(166,801,170)
Conditions met (operating expenditure) - transferred to revenue	(2,649,675)	(2,354,769)
	5,611,296	**38,064,622**

Conditions still to be met - remain liabilities (see note 17).

The grant has not been withheld in the current financial year, however,unspent balance of previous years to the amount of R40,616,562 has been recovered by National Treasury through the withholding of a portion of the Equitable Share.

Financial Management Grant

Current-year receipts	1,450,000	1,000,000
Conditions met - transferred to revenue	(1,450,000)	(1,000,000)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The Financial Management Grant is to assist the Municipality to implement the financial reforms that are contained in the Municipal Finance Management Act. The grant has not been withheld.

Lotto - Parks

Balance unspent at beginning of year	71,587	71,587

Conditions still to be met - remain liabilities (see note 17).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Government grants and subsidies (continued)

The Municipality was allocated an amount from Lotto to construct recreational facilities within the municipal areas. The grant has not been withheld.

Provincial Maintenance of Clinics

Balance unspent at beginning of year	-	361,843
Conditions met - transferred to revenue	-	(361,843)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

Money granted by Province for maintenance of clinics.

Municipal Systems Improvement Grant

Balance unspent at beginning of year	1,423,960	1,691,256
Current-year receipts	790,000	750,000
Witheld	(1,691,256)	-
Grant derecognised	516,942	-
Conditions met - transferred to revenue	(1,039,646)	(1,017,296)
	-	**1,423,960**

Conditions still to be met - remain liabilities (see note 17).

The Municipality Systems Improvement Grant is to support the municipality and governance systems, planning and implementation, reviewing integrated development plans and implementing the Municipal Systems Act.

The grant has not been withheld in the current financial year, however,unspent balance of previous years to the amount of R1,691,256 has been recovered by National Treasury through the withholding of a portion of the Equitable Share.

LED Grant

Balance unspent at beginning of year	88,400	555,940
Conditions met - transferred to revenue	-	(467,540)
	88,400	**88,400**

Conditions still to be met - remain liabilities (see note 17).

This grant from the Provincial Government has been used to encourage local economic development through property development. This grant has been used in town establishment. The grant has not been withheld.

Department of Mineral and Energy Affairs

Balance unspent at beginning of year	-	460,507
Witheld	(460,507)	-
Grant derecognised	460,507	(460,507)
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

The Municipality was granted a total of R550,000 for electrification of Thabong (ext. 15) and Bronville (ext. 9) - Phase 3 since the project started.

Municipal Infrastructure Grant - PMU

Balance unspent at beginning of year	3,289,567	3,289,567

Figures in Rand	2012	2011

24. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 17).

The Municipal Infrastructure Grant - PMU is to finance the project management costs associated with the Municipal Infrastructure Grant described above. The grant is used to defray certain administrative costs. The grant has not been withheld.

Operation Hlasela - Roads

Current-year receipts	-	15,800,534
Conditions met - transferred to revenue	-	(10,308,467)
Conditions met - transferred to revenue (Clean-up of Kutlwanong Township)	-	(48,510)
Transfer of balance (from)/to Sundry Debtors	-	(5,443,557)
	-	**-**

Money was granted by Province (Premier Office) for upgrading of roads in Matjhabeng. The grant has not been withheld.

Department of Water and Environmental Affairs

Balance unspent at beginning of year	-	131,495
Transfer of balance (from)/to Sundry Debtors	(1,148,078)	-
Current-year receipts	10,413,724	7,897,432
Conditions met - transferred to revenue	(9,741,450)	(9,045,510)
Paid back	-	(131,495)
Transfer of balance (from)/to Sundry Debtors	475,804	1,148,078
	-	**-**

Conditions still to be met - remain liabilities (see note 17).

This money was granted by the Department in order to assist Matjhabeng Local Municipality with Klippan Sewerage. The grant has not been withheld.

Operation Hlasela - Bopa Lesedi Development

Balance unspent at beginning of year	1,417,417	1,587,417
Current-year receipts	-	372,238
Conditions met - transferred to revenue	-	(542,238)
	1,417,417	**1,417,417**

Conditions still to be met - remain liabilities (see note 17).

The Office of the Premier has appointed Bopa Lesedi Development (Pty) Ltd as the Project Manager for the Matjhabeng ("the Operation Hlasela Project"), which provides for the immediate implementation of a number of viable projects in the Matjhabeng Local Municipality.

200 workers were appointed (a directive from Premier Office) in order to help with necessary work in Phomolong. The payment for these workers are from the budget of Provincial Government.

South African Youth Council

Balance unspent at beginning of year	163,134	-
Current-year receipts	-	313,134
Conditions met - transferred to revenue	-	(150,000)
	163,134	**163,134**

Conditions still to be met - remain liabilities (see note 17).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

24. Government grants and subsidies (continued)

Money was granted to the Municipality to engage 1500 young people in community development activities that position young people as agents for service delivery in their respective communities. The grant has not been withheld.

Neighbourhood Development - National Treasury

Neighbourhood Development - National Treasury	458,960	-
Current-year receipts	500,000	500,000
Conditions met - transferred to revenue	-	(41,040)
	958,960	**458,960**

Conditions still to be met - remain liabilities (see note 17).

Transferring Department: National Treasury. The purpose of the grant is to support neighbourhood development projects that provide community infrastructure and create the platform for other public and private sector development, towards improving the quality of life of residents in targeted underserved neighbourhoods (townships generally). The grant has not been withheld.

Integrated National Electrification Programme

Balance unspent at beginning of year	500,000	-
Current-year receipts	1,892,000	500,000
Grant witheld by National Treasury through Equitable share	(258,000)	-
Conditions met - transferred to revenue	(1,264,581)	-
	869,419	**500,000**

Conditions still to be met - remain liabilities (see note 17).

This was money granted by the Department of Energy 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 approve quality of supply.

The grant has not been withheld in the current financial year, however,unspent balance of previous years to the amount of R258,000 has been recovered by National Treasury through the withholding of a portion of the Equitable Share.

Seta Grants

Balance unspent at beginning of year	-	1,848,944
Current-year receipts	2,111,160	-
Conditions met - transferred to revenue	(1,034,393)	(1,848,944)
	1,076,767	**-**

Conditions still to be met - remain liabilities (see note 17).

This was money granted by the Sector Education and training authorities to improve the auditing skills for municipalities. The grant has not been withheld.

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

25. Other income

Other income	20,860,402	23,383,982

Other income		
Disconnection fees	4,295,550	3,639,202
Dumping fees	647,095	488,771
Hostel fees	3,511,548	2,673,320
Services rendered	1,994,229	2,082,930
Sundry Income	10,411,980	14,499,759
	20,860,402	**23,383,982**

26. Investment revenue

Dividend revenue		
Local Dividends	20,790	8,671
Interest revenue		
Financial Assets	7,419,622	8,846,572
	7,440,412	**8,855,243**

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R7,440,412 (2011: R8,855,243).

27. Employee related costs

Basic	250,033,508	220,925,501
Bonus	17,120,804	16,193,576
Medical aid - company contributions	32,706,833	29,717,233
UIF	2,480,384	2,320,450
Leave pay provision charge	11,743,392	11,270,096
Post-employment benefits - Pension - Defined contribution plan	36,603,192	34,438,754
Overtime payments	37,367,346	41,254,810
Long-service awards	1,034,589	1,522,714
Transport allowance (bus coupons)	16,252,954	14,034,685
Housing benefits and allowances	2,330,125	2,074,550
Other allowances	11,923,020	9,140,177
Insurance group	4,814,571	4,500,794
Post-employment benefits - Medical Aid - Defined benefit plan	34,823,000	37,009,000
	459,233,718	**424,402,340**

Remuneration of Municipal Manager

Annual Remuneration	1,281,500	675,285
Car Allowance	-	135,000
Leave Pay	-	261,996
Contributions to UIF, Medical and Pension Funds	1,389	29,689
	1,282,889	**1,101,970**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

27. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual Remuneration	-	56,000
Car Allowance	-	26,666
Contributions to UIF, Medical and Pension Funds	-	254
	-	**82,920**

The position of Chief Finance Officer is vacant from June 2010 and was not filled during the year.

Remuneration of Director: Strategic Support Services

Annual Remuneration	873,253	718,498
Travel Allowance	8,172	8,410
Contributions to UIF, Medical and Pension Funds	1,518	1,547
	882,943	**728,455**

The position of Chief Operating Officer was vacant from 1 April 2009 to 1 December 2009. The Director: Strategic Support Services was appointed on 1 December 2009 who replaced the position of the Chief Operating Officer.

Remuneration of Director: Community Services

Annual Remuneration	-	242,074
Car Allowance	-	14,000
Contributions to UIF, Medical and Pension Funds	-	14,610
	-	**270,684**

The position of director of community services were filled as from 2 February 2012.

Remuneration of Director: Corporate Services

Annual Remuneration	74,159	519,107
Car Allowance	16,521	63,000
Contributions to UIF, Medical and Pension Funds	19,136	119,439
	109,816	**701,546**

Remuneration of Directors: Infrastructure

Annual Remuneration	868,471	1,070,171
Car Allowance	2,104	-
Contributions to UIF, Medical and Pension Funds	1,518	1,546
	872,093	**1,071,717**

Total employee related costs	462,381,459	428,359,632

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

28. Remuneration of councillors

Executive Major	681,838	644,652
Mayoral Committee Members	4,854,890	4,654,302
Council Members	12,037,560	11,375,340
Speaker	539,690	518,384
Councillors' pension contribution	1,863,587	1,782,269
Other	(507,298)	(332,231)
Medical aid contribution	528,421	500,941
	19,998,688	**19,143,657**

In-kind benefits

The Executive Mayor, Deputy 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.

The Executive Mayor has two full-time bodyguards . The Speaker has a full-time messenger.

29. Depreciation and amortisation

Property, plant and equipment	328,965,138	319,446,886
Investment property	30,866,380	30,893,822
	359,831,518	**350,340,708**

30. Impairment of assets

Impairments		
Property, plant and equipment	34,210,093	-
The following two capital projects have been completed, but it is valueless:		
- Calabria Roads Phase 2 (R6,046,363)		
- Kutlwanong old structures ((R17,391,384)		
This impairment has been included in the fruitless and wasteful expenditure (note 45).		
The following infrastructure asset is partially impaired as at year-end:		
Thabong Hani Park Sewer Network (R10,772,346)		
Inventories	30,241	30,241
Depreciation on Residential Buildings included in inventory		
Trade and other receivables	335,465,176	372,188,325
Provision for doubtful debt on consumer accounts.		
	369,705,510	**372,218,566**

31. Finance costs

Non-current borrowings	2,794,331	3,199,797
Trade and other payables	52,608,617	28,526,167
Finance leases	1,967,254	2,768,268
Bank	89,164	502,634
Discounting - Provision for rehabiliation	27,580,110	10,621,897
	85,039,476	**45,618,763**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R85 039 476 (2011: R45 618 763).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

32. Bulk purchases

Electricity	289,383,608	231,023,578
Water	231,397,848	205,014,401
	520,781,456	**436,037,979**

33. Contracted services

Meter Reading Services	8,044,502	2,726,742

34. General expenses

Advertising	1,175,199	1,574,113
Assets expensed	108,550	111,950
Auditors remuneration	4,991,141	4,485,714
Bank charges	2,256,302	1,856,340
Chemicals	271,190	73,581
Cleaning	677,785	299,255
Community development and training	15,750	240,105
Conferences and seminars	157,690	77,279
Consulting and professional fees	71,498,755	41,702,753
Donations	29,572	238,942
Entertainment	476,151	586,086
Indigent Subsidy	21,007,853	1,722,270
Insurance	14,056,644	8,893,194
Magazines, books and periodicals	2,868	(15,937)
Marketing	512,200	65,476
Medical expenses	135,855	885
Municipal services	43,026	2,824,195
Operating cost of equipment	11,815,298	19,418,249
Operating cost of vehicles	26,551,780	23,075,784
Other expenses	1,455,237	2,403,069
Pest control	10,027	662,199
Printing and stationery	3,528,801	2,931,077
Royalties and license fees	4,119,279	2,963,000
Security (Guarding of municipal property)	15,793,343	16,948,715
Skills Development Levy	3,556,463	3,150,096
Subscriptions and membership fees	4,664,087	3,178,571
Telephone and fax	13,956,862	9,331,893
Training	590,041	1,559,997
Travel - local	3,215,756	1,853,071
Uniforms	2,459,056	2,559,661
	209,132,561	**154,771,583**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

35. Cash generated from operations

Deficit	(478,298,799)	(302,987,167)
Adjustments for:		
Depreciation and amortisation	359,831,518	350,340,708
Gain on sale of assets and liabilities	290,408	146,408
Fair value adjustments	(3,570,335)	(12,713,644)
Finance costs - Finance leases	1,967,254	2,768,268
Impairment deficit	369,705,510	372,218,566
Movements in retirement benefit assets and liabilities	34,823,000	37,009,000
Movements in provisions	27,580,110	39,569,960
Depreciation on Inventory (Residential Buildings)	30,239	30,239
Work in Progress write off	-	528,780
Changes in working capital:		
Inventories	2,273,176	(724,584)
Trade and other receivables	(328,920,650)	(372,907,617)
Consumer debtors	(22,986,292)	37,222,263
Consumer debtors - non current	(1,250,356)	(457,563)
Trade and other payables	245,237,226	227,017,838
VAT	33,259,081	(20,591,103)
Unspent conditional grants and receipts	(31,931,100)	(32,788,526)
Consumer deposits	941,554	1,289,215
	208,981,544	**324,971,041**

36. Auditors' remuneration

Fees	4,991,141	4,485,714

37. Rental of facilities and equipment

Rentals - Living Quarters	7,121,790	6,926,235
Rentals - Sundry Properties	1,807,080	1,727,283
Rentals - Land	696,610	1,038,059
Rentals - Halls & Offices	323,560	(115,727)
Rentals - Other	543,324	509,053
	10,492,364	**10,084,903**

38. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Figures in Rand	2012	2011

38. Operating deficit (continued)

Repairs and Maintenance		
Main Electricity: High Tension	6,645,586	3,021,929
Main: Water	4,704,695	2,521,367
Main Electricity: Low Tension	2,808,918	1,546,514
Building and Installation	2,619,224	1,249,904
Main Sewerage: Breakage	2,312,511	1,327,725
Equipment	2,228,055	1,587,824
Streetlights	1,891,891	8,499,551
Meters and Connections	1,725,277	727,867
Streets: Resealing	1,696,671	99,256
Street name and traffic signs	1,340,861	1,019,074
Pump Station: Electrical	1,312,139	705,863
Streets: Patching	1,215,950	4,332,208
Pump Station: Mechanical	1,067,456	163,706
Land & Fences	1,002,226	676,032
Pump Station: Civil	887,288	-
Main Sewerage: Blocked	732,572	1,069,332
Other	2,017,904	2,183,475
	36,209,224	**30,731,627**

Loss on sale of property, plant and equipment	(290,408)	(146,408)
Old consumer debtors with credit balances written off - included with Sundry Income	-	(6,975,975)
Impairment on property, plant and equipment - work in progress written off	34,210,093	-
Impairment on Consumer Debtors	335,465,176	372,188,325
Depreciation on property, plant and equipment	328,965,138	319,446,886
Depreciation on investment property	30,866,380	30,893,822
Employee costs	482,380,147	447,503,289
Litigation settlement	16,350,982	2,660,000

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

39. Commitments

Capital and other expenditure

• Infrastructure	39,622,036	111,454,796
• Infrastructure - not yet contracted for	20,510,942	347,540,548
• Other capital commitments	-	1,242,650
• Vehicles and Fleet Equipment - not yet contracted for	-	32,998,459
• Professional fees	25,314,995	55,481,462
	85,447,973	**548,717,915**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	754,952	736,315
- in second to fifth year inclusive	-	754,952
	754,952	**1,491,267**

Operating lease payments represent rentals payable by the municipality for certain of its office properties, equipment and fire trucks. No sublease payment expected to be received under non-cancellable sublease.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	46,585	131,168
- in second to fifth year inclusive	46,585	249,728
	93,170	**380,896**

Operating lease payments represent rentals payable to the municipality Warriors Club and Grill for premises situated at the Fire Department.

Figures in Rand	2012	2011

40. Contingencies

Contingencies

Housing Guarantees	182,315	271,062
MTN SP Guarantees facility	20,000	20,000

The following cases against the Municipality have been recorded as a contingent liability as there is uncertainty as to the outcome of the cases. The Municipality is defending the cases. The potential legal costs have not been included in the claims against the Municipality.

Contingencies		
Odyssey Holdings versus Matjhabeng Local Municipality.	1,383,512	1,383,511
Odyssey Holdings alleged that it was appointed in terms of Tender 22/2002 for the construction of Stormwater drainage in Kutlwanong.Odyssey Holdings alleged that the tender did not reflect the true consensus and common intention between the parties (municipality and the contractor).		
V&V Consulting Engineers versus Matjhabeng Local Municipality.	856,695	856,695
Summons issued against the municipality, wherein the municipality was sued for failure to pay V&V Consulting Engineers for services rendered.		
LGW Contractors versus Matjhabeng Local Municipality.	1,847,958	1,847,958
Summons issued against the municipality for payment for alleged standing time.		
Sala Pension Fund versus Matjhabeng Local Municipality.	-	5,024,820
Sala Pension Fund alleged that the Fund was under-funded. The municipality received combined summons alleging that the municipality is indebted to the fund.		
Tall Tree versus Matjhabeng Local Municipality.	534,318	534,318
During 2002/03 the Municipality arranged for a Lekgotla at Qwa-Qwa. Tall Tree was appointed as a facilitator. It is alleged that the Company failed to submit its quotation as requested and also failed to produce and/or deliver in accordance with its appointment. Tall Tree subsequently issued summons for payment. The municipality does not accept offer of Tall Tree being R400 000 and that each party to pay its own legal costs.		
Mr Mogotsi versus Matjhabeng Local Municipality.	-	250,000
Mr Mogotsi applied for the advertised position of the Executive Manager in which he was not appointed. The unsuccessful applicant referred the matter to CCMA citing unfair discrimination.		
Mr CG Jacobs versus Matjhabeng Local Municipality.	1,881,172	1,881,172
Mr. C.G. Jacobs indicated in 2003 of his intention to resign from the Municipality at the retirement age of 60 (sixty). Mr Jacobs was allegedly advised to reserve his rights in the matter as there was a strong indication that the rules of the Free State Pension Fund would change increasing the retirement age up to 65 (sixty five) years. Although Mr. Jacobs wrote to Council informing it that he reserves his right not to retire pending the outcome of the decision of the Free State Pension Fund, he (Mr. Jacobs) filled out the application forms for his pension funds to be released which subsequently occurred. Council informed him on the 1st of October 2003 to vacate his office. Subsequently he referred his matter to the Bargaining Council. The Municipality lost its arguments at arbitration.		

Figures in Rand	2012	2011

40. Contingencies (continued)

Mr M. Segalo versus Matjhabeng Local Municipality	-	353,330

-Mr Segalo had 5 year contract as Manager: Internal Audit.
-Contract expired at the end of March 2007.
-Segalo's contract was extended for one month to enable finalization for advertisement of the post.
-Mr Segalo was not re-appointed and declared a dispute with the SALGB on grounds of alleged unfair dismissal.
-Ruling was made in favour of Mr. Segalo. Arbitration award: R353,330.00

KLM Housing Management versus Matjhabeng Local Municipality.	-	2,357,466

On 18/11/2009 the municipality was issued with notice of motion by KLM Housing management.

SAMWU obo T JOBO versus Matjhabeng Local Municipality.	-	109,824

Employee Mr T Jobo took the municipality to the South African Bargaining council for a relief for remuneration of motor vehicle scheme.

Oppenheimer Golf Course versus Matjhabeng Local Municipality.	8,250,000	20,402,360

The municipality was served with Combined Summons for damage suffered as a result of an overflowing of Witpan Sewer Plant which resulted to the alleged damage of the golf course.
Full and final settlement.

Koth Properties versus Matjhabeng Local Municipality.	14,400,000	14,400,000

Appointed to prepare general valuations.The agreement was terminated by the municipality. Koth Properties issued a combined summons against the municipality for breach of contract.

Fujitsi Services (Pty) Ltd versus Matjhabeng Local Municipality.	7,051,941	7,051,941

The municipality was issued with a Combined Summons from Fujitsu Services (Pty) Ltd. Alleged that the municipality failed to make payments.

Big Bravo Construction CC versus Matjhabeng Local Municipality.	65,000	65,000

The municipality was issued with a summons claiming payment.

South African Local Authorities Pension Fund versus Matjhabeng Local Municipality.	-	102,268

The municipality was issued with a combined summons, claiming payment for interest on contributions alleged to have been made after the expiry period prescribed by the rule of the fund.

Lohan Civil versus Matjhabeng Local Municipality.	-	1,280,331

The municipality was issued with a combined summons, claiming payments as he was alleged appointed as contractor but after completion of work there was a breach in contract resulting in sustained damages.

MMS Collections versus Matjhabeng Local Municipality.	2,870,649	2,870,649

The municipality was issued a Letter of Demand, claiming payment for an amount alleged to be agreed between the parties involved.

Notes to the Annual Financial Statements

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40. Contingencies (continued)		
Ramabulana Investment Services versus Matjhabeng Local Municipality.	1,821,367	1,821,367
The municipality was issued with a combined summons, claiming payment for services rendered.		
Majola Attorneys versus Matjhabeng Local Municipality.	-	17,603
The municipality was issued with a summon, claiming payment for alleged professional services and disbursements rendered.		
Mr JP Wentzel versus Matjhabeng Local Municipality.	1,740,349	1,740,349
Mr JP Wenzel alleged that on or around 23 September 2008 a fire broke out within the Municipality’s farm and spread to his farm. As a result thereof he suffered damages.		
De Bruin Trust versus Matjhabeng Local Municipality.	-	400,000
During June 2011 the municipality was issued with Combined Summons from Sessrs Honey Attorneys by De Bruin Trust.		
Labour Relations disputes Public Liabilities	-	122,918
Mrs Strickett, former CFO is considering suing the municipality for the rest of her five year contracted salary.	-	8,000,000
R Pretorius vs Matjhabeng Local Municipality	164,767	-
On the 24 January 2012 the municipality was served summons by the plaintiff claiming payment on the basis of fraudulent activities commited.		
Tanker Project Solutions CC vs Matjhabeng Local Municipality	3,971,025	-
On the 30th March 2012 municipality was issued with combined summons claimining payment. The plaintiff alleged that he entered into a written agreement wherein he would act as consultant for the municipality in respect of the planning, design, supervision of infrastructure projects, development and implementation of technical assistance projects in terms of tender Notice 29/2009.		
Mr BA Murray v/s Matjhabeng Local Municipality	46,250	-
On the 30th April 2012 municipality was issued with summons claiming payment. The plaintiff in the matter alleged that a collision occurred between a municipal vehicle driven by certain Mr Khomotsoana and the plaintiff's vehicle.		
Plaintiff issued summons against Matjhabeng Local Minicipality for unlawful arrest and damages.	150,000	-
	47,035,003	**72,873,880**

40. Contingencies (continued)

Electricity tariffs not approved by National Electricity Regulator

Section 15(2) of the National Energy Regulator Act specifically states that a licensee may not charge a customer any other tariff and make use of provisions in agreements other than that determined or approved by the Regulator as part of its licensing conditions.

Contrary to the NER legislation and section 64(2)(h) of the MFMA, tariffs were implemented for electricity consumers that were not approved by the National Electricity Regulator. NERSA may impose a penalty in terms of Section 19(4) of the Electricity Regulation Act of of 2006.

Councilors Unemployment Insurance Fund contributions

Circular 1/2012 dated 26 January 2012 states that municipalities that have deducted UIF contributions from councillors after 1 April 2002 will have to take the necessary steps for the refund of such amounts from the Fund. The municipality have not yet submitted their claim to the Fund based on the following reasons:

- The information from 2002 to 2005 has not yet been collated.
- The municipality is awaiting the format in which the Fund requires the information to be summarized and then a payday report will have to be created in order to pull the information from the system.
- It is uncertain when the proposed format will be communicated.
- Councillors who resigned needs to be located.
- Family members of councillors who passed away needs to be located.

After the claim have been completed and submitted to the Fund, the refund will depend on the audit to be performed by the Fund on the claim and supporting information that was submitted to the Fund.

Based on the uncertainty of the matter as described above, the matter is disclosed as a contingency:

Contingent Asset - the receipt of the contributions from the Fund. The existence of the asset existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent Liability - the repayments of contributions deducted and subsequently recovered from the Fund. The existence of the liability will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets

The municipality did not remunerate its political office bearers and members of its political strucutures within the framework of the Public Office Bearers Act, 1998 (Act No. 20 of 1998) due to difference of opinion of the grading of the municipality. In terms of section 167(2) of the MFMA, the municipality must recover these overpayments. The total amount overpaid for the past five years amount to R13 182 448 and R2 971 751 for the 2012 financial year.

These amounts have not been accounted for as a receivable at year-end as there is currently uncertainty surrounding the outcome of the dispute. The grading of the municipality will be finalised once a conclusion is reached based on the meeting to be held between the municipality, SALGA and CoGTA.

The above-mentioned amounts that have been overpaid is included in the note for irregular expenditure (note 46).

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

41. Prior period errors

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

	2012	2011
Statement of financial position		
Total restatements	5,055,506,976	45,144,900
Statement of financial position		
Property, plant and equipment	3,898,048,384	-
Investment Property	314,080,068	-
Inventories	700,796,810	-
Trade and other payables	(13,829,318)	(4,375,932)
Trade and other receivables & Consumer Debtors	-	(7,799,462)
Other financial assets	24,054,695	-
Cash and cash Equivalents	-	7,799,462
Borrowings (current)	-	3,302,773
Borrowings (Non-current)	-	(3,302,773)
Taxes and transfers payable	4,171,791	(4,171,791)
Post Employment Liability	(189,827,000)	-
Provision for rehabilitation	(31,193,294)	53,692,623
Statement of Financial Performance		
Total restatements on prior year surplus/(deficit)	(349,204,841)	3,787,983
Total restatements on opening accumulated surplus	(4,706,302,136)	41,356,917
	(5,055,506,977)	**45,144,900**
Corrections to Trade and other payables		
Accrual for a Trade Creditor that was not provided as 30 June 2010.	-	(4,375,932)
Workmens Compensation Creditor correction based on assessment by Compensation Commissioner	6,016,690	-
Recording of Retention money payable on Capital Projects	(19,846,008)	-
	(13,829,318)	**(4,375,932)**
Corrections to Trade and other receivables		
Correction of cut-off error. System was kept open for 7 days in 2010 and therefore understating consumer debtors with receipts allocated.	-	(7,799,462)
Taxes and transfers payable (VAT corrections)		
Correction of VAT liability due to additional assesments issued by the South African Revenue Service	4,171,791	(4,171,791)
Provision for rehabilitation		
Restatement of provision for rehabilitation as management reviewed and updated the base cost for rehabilitation on which the provision is based.	(28,948,063)	45,528,708
Unwinding of discount increased as a result of the updated provision for rehabilitation cost information	(2,245,231)	8,163,915
	(31,193,294)	**53,692,623**

41. Prior period errors (continued)

Restatement of expenses

	2012	2011
Restatement of professional fees as a result of understatement of creditor	-	(4,375,932)
Unwinding of discount on Provision for rehabilitation understated in 2009 & 2010 due to understatement of base cost for rehabilitation.	(2,245,231)	8,163,915
Restatement of Workmens Compensation expense as a result of assessment by Compensation Commissioner	(6,329)	-
Restatement of interest paid to creditors as a result of assessment by Compensation Commissioner	1,646,815	-
Restatement of depreciation as a result of restatements in Property, Plant and Equipment	(314,259,067)	-
	(314,863,812)	**3,787,983**

Cash and Cash Equivalents

	2012	2011
Correction of cut-off error. System was kept open for 7 days in 2010 and therefore overstating bank balances with receipts allocated.	-	7,799,462

Capital Commitments (Disclosure)

	2012	2011
Correction of capital commitments understated in the disclosure note	-	439,711,082

Other financial assets

	2012	2011
Rand Merchant Bank Investments never recorded when money was invested in 1998	24,054,695	-

Restatement of income

	2012	2011
Increase in Interest as a result of the recognition of Rand Merchant Bank Investments	3,312,159	-
Fair value adjustments as a result of the restatement of Investment Property	(30,881,155)	-
	(27,568,996)	**-**

Material losses (disclosure)

	2012	2011
Correction of material losses understated in the disclosure note	9,796,238	-

Commitments - Professional fees (disclosure)

	2012	2011
Correction of professional fees understated in the disclosure note	7,969,400	-

Changes as a result of the valuation of Infrastructure assets

	2012	2011
Restatement of Inventories (Vacant Stands)	700,796,810	-
Restatement of Investment Property	314,080,068	-
Restatement of Property, Plant and Equipment	3,898,048,384	-
	4,912,925,262	**-**

42. Comparative figures

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

Figures in Rand		2012	2011

42. Comparative figures (continued)

The effects of the reclassification are as follows:

Statement of Financial Performance			
Agency fee income		(7,650,089)	(6,944,801)
Commissions received		7,650,089	6,944,801

43. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 13, 12, 7, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

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

The gearing ratio at 2012 and 2011 respectively were as follows:

Total borrowings			
Finance lease obligation	13	7,073,267	11,845,900
Other financial liabilities	12	19,275,605	21,611,513
		26,348,872	**33,457,413**
Less: Cash and cash equivalents	7	44,664,502	35,279,286
Net debt		(18,315,630)	(1,821,873)
Total equity		4,757,708,371	337,759,315
Total capital		**4,739,392,741**	**335,937,442**
Gearing Ratio %		1	0.54

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. The accounting officer provides written principles for overall risk management.

43. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	19,275,605	-	-	-
Finance lease obligation	5,878,219	1,195,049	-	-
Trade and other payables	882,167,683	-	-	-

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	19,841,247	1,770,266	-	-
Finance lease obligation	4,800,585	-	7,045,315	-
Trade and other payables	632,718,522	-	-	-

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2012 and 2011, the municipality's borrowings at variable rate were denominated in the Rand.

43. Risk management (continued)

Credit risk

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

Cash and cash equivalents

Matjhabeng limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

Investments

It is the Municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the Municipality does not expect any counterparty to fail to meet its obligation.

Consumer Debtors

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. The Municipality's consumer 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 electricty, water, sanitation, refuse and rates levied. Consumer receivables constitutes approximately 59% 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 impairment 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.

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

Financial instrument	**2012**	**2011**
Trade and other receivables	4,512,110	1,256,637
Consumer debtors	126,790,737	103,804,445
Cash and cash equivalents	44,664,502	35,279,285
Other financial assets	38,789,418	40,559,270
Consumer debtors (long term)	1,707,919	457,563

44. Going concern

The following principal conditions could indicate that there is a material uncertainty which may cast significant doubt on the municipality's ability to continue as a going concern:

1) The total current liabilities, including unspent conditional grants (Note 17), exceeded the total current assets, including cash and cash equivalents (Note 7) and other financial assets (Note 4) by R82,871,143 (2011: R147,230,807). The municipality does not have sufficient funds available to cover short term debt.

2) The net deficit of the municipality was R478,298,799 (2011: 302,987,167).

3) There was a net decrease in cash and cash equivalents (Note 7) of R9,385,217 for the current financial year.

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 as well as the compliance with section 71 of the MFMA in order to secure future funding from the Government to cover expenses and meet obligations.

Figures in Rand	2012	2011

45. Unauthorised expenditure

Opening balance	1,459,230,422	839,584,517
Unauthorised expenditure current year - operating expenses	1,035,382,671	499,451,455
Unauthorised expenditure current year - capital expenses	40,375,926	120,194,450
	2,534,989,019	**1,459,230,422**

The unauthorised expenditure in 2012 and 2011 relates to expenditure incurred that was not budgeted for those specific financial years per department vote.

The unauthorised expenditure are not recoverable and no criminal or disciplinary steps have been taken as a result of such unauthorised expenses.

46. Fruitless and wasteful expenditure

Opening balance	81,388,100	40,375,097
Fruitless and wasteful expenditure current year	76,391,793	41,013,003
	157,779,893	**81,388,100**

These expenditure includes interest paid for late payment to suppliers and payments toward unfulfilled contracted services.

The fruitless and wasteful expenditure are not recoverable, no criminal or disciplinary steps were taken as a result of fruitless and wasteful expenditures and all material losses as a result of the expenses were written off in the year incurred.

47. Irregular expenditure

Opening balance	241,353,872	129,159,869
Add: Irregular Expenditure - current year	160,377,149	112,194,003
	401,731,021	**241,353,872**

Additional information

The irregular expenditure are not recoverable, no criminal or disciplinary steps were taken as a result of irregular expenditures and all material losses as a result of the expenses were written off in the year incurred.

The recoverability of the non compliance with remuneration of Public Office Bearers Act is in doubt and therefore a debtor has not been raised for the excess remuneration paid (refer to contingent asset, note 40).

Details of irregular expenditure – current year

Non Compliance with supply chain management - included on register	9,268,095
Non Compliance with supply chain management - other	147,791,577
Possible non compliance with remuneration of Public Office Bearers Act (remuneration was based on a grading of 5, also refer to note 40, contingent assets)	2,971,751
Procurement transactions with employees and/or family members of employees (2011: R3,943,651)	345,726
	160,377,149

Figures in Rand	2012	2011

47. Irregular expenditure (continued)

Details of irregular expenditure - prior year

Non Compliance with supply chain management - included on register		14,577,865
Non Compliance with supply chain management - other		90,441,495
Possible non compliance with remuneration of Public Office Bearers Act (remuneration was based on a grading of 5, also refer to note 40, contingent assets)		3,230,992
		108,250,352

48. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	4,664,087	2,153,183

The Municipality has not paid its contributions due to cash flow contraints.

Material losses

Losses on water-and electricity distribution previously disclosed	68,409,933	72,313,622
Restatement	-	9,796,238
	68,409,933	**82,109,860**

Audit fees

Opening balance	319,664	410,120
Current year subscription / fee	5,689,901	5,113,714
Amount paid - current year	(5,532,509)	(4,794,050)
Amount paid - previous years	(319,665)	(410,120)
	157,391	**319,664**

PAYE and UIF

Opening balance	4,195,770	3,222,706
Current year subscription / fee	52,505,184	47,665,813
Amount paid - current year	(48,238,957)	(43,470,043)
Amount paid - previous years	(4,195,770)	(3,222,706)
	4,266,227	**4,195,770**

Pension and Medical Aid Deductions

Opening balance	8,204,137	7,331,125
Current year subscription / fee	102,957,919	96,004,393
Amount paid - current year	(94,244,430)	(87,800,256)
Amount paid - previous years	(8,204,137)	(7,331,125)
	8,713,489	**8,204,137**

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

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

VAT

	2012	2011
VAT receivable	-	913,198
VAT payable	32,345,883	-
	32,345,883	**913,198**

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

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

48. 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 more than 90 days	Total
FE Taliwe	4,951	4,951
FG May	8,055	8,055
KI Ntlele	15,024	15,024
KJ Menyatso	12,637	12,637
KR Tlake	2,024	2,024
LC Mokausi	8,606	8,606
M Kabi	9,677	9,677
ME Phetise	16,747	16,747
ME Tsubane	34,447	34,447
MH Ntsebeng	6,791	6,791
MI Riet	20,670	20,670
MJ Badenhorst	18,652	18,652
ML Ntsui	15,912	15,912
MS van Rooyen	238	238
NW Speelman	25,905	25,905
PA Molelekoa	746	746
PP Mholo	10,999	10,999
SW Mokwena	14,471	14,471
TL Mabote	10,091	10,091
TD Khalipha	16,487	16,487

30 June 2011	Outstanding more than 90 days	Total
MS Moahloli	6,974	6,974
SD Nteo	500	500
B Sithole	2,169	2,169
ME Tsubane	4,082	4,082
MA Meko	2,974	2,974
TG Mokotedi	260	260
ML Tlhone	12,437	12,437
ZA Thuthani	9,531	9,531
D. Kotzee	1,408	1,408
JHA Edeling	3,859	3,859
TA Natkwa	520	520
ME Phetise	11,657	11,657
TD Khalioha	3,397	3,397
FE Taliwe	4,747	4,747
LC Mokausi	18,581	18,581
MSE Mosala	5,575	5,575
KL Ntlele	12,357	12,357
GL Qwesha	12,313	12,313
KR Tlake	1,173	1,173
TL Mabote	7,537	7,537
AX Mbambo	200	200

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

49. 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.

In compliance with MFMA, Treasury regulations and Supply Chain Management Policy, the table below depicts the summary of the authorised exemptions by Municipal Manager, for the year ended 30 June 2012:

Deviations	
July 2011	586,971
August 2011	91,289
September 2011	2,797,660
October 2011	1,819,153
November 2011	1,197,564
December 2011	171,718
January 2012	692,139
February 2012	179,433
March 2012	421,753
April 2012	392,624
May 2012	477,497
June 2012	440,296
	9,268,097

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

50. Actual vs Budget (Revenue & Expenditure)

	Current year 2012 Act. Bal. Rand	Current year 2012 Adjusted budget Rand	Variance Rand	Variance %
Revenue				
Property Rates	152,938,125	136,325,137	16,612,988	12.2
Service charges	737,670,225	855,263,668	(117,593,443)	(13.8)
Rental of facilities and equipment	10,492,365	6,720,000	3,772,365	56.1
Interest received (trading)	78,051,520	73,339,704	4,711,815	6.4
Fines	3,623,477	4,000,000	(376,523)	(9.4)
Licences and permits	7,575	-	7,575	100.0
Government grants & subsidies	570,189,011	392,899,000	177,290,011	45.1
Agency fees	-	-	-	-
Commissions received	8,272,557	-	8,272,557	100.0
Other income	20,881,192	23,333,140	(2,451,948)	(10.5)
Interest received-Investment	7,419,622	-	7,419,622	100.0
Fair Value Adjustment - Extended Payment terms	-	-	-	-
	1,589,545,669	**1,491,880,649**	**97,665,019**	**386.1**
Expenses				
Personnel	(427,558,459)	(387,413,292)	(40,145,167)	10.4
Post Employment Liability	(34,823,000)	-	(34,823,000)	100
Remuneration of councillors	(19,998,688)	(43,228,396)	23,229,708	(53.7)
Depreciation	(359,831,518)	-	(359,831,518)	100.0
Impairments	(369,705,510)	(355,899,331)	(13,806,179)	3.9
Finance costs	(85,039,476)	(2,250,000)	(82,789,476)	3,680.0
Repairs and maintenance	(36,209,224)	(127,830,020)	91,620,796	(71.7)
Bulk purchases	(520,781,456)	(350,532,079)	(170,249,377)	48.6
Contracted Services	(8,044,502)	(10,000,000)	1,955,498	(19.6)
General Expenses	(209,132,561)	(187,054,035)	(22,078,526)	11.8
	(2,071,124,394)	**(1,464,207,153)**	**(606,917,241)**	**3,609.7**
Other				
Loss on disposal of assets and liabilities	(290,408)	-	(290,408)	100.0
Fair value adjustments	3,570,335	-	3,570,335	100
Net surplus/(deficit) for the year	**(478,298,799)**	**27,673,496**	**(505,972,295)**	**1,828.0**

51. Investment property

	2012			2011		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	406,858,196	(123,547,846)	283,310,350	406,761,533	(92,681,466)	314,080,067

Notes to the Annual Financial Statements

Figures in Rand	2012	2011

51. Investment property (continued)

Reconciliation of investment property - 2012

	Opening balance	Additions	Depreciation	Total
Investment property	314,080,067	96,663	(30,866,380)	283,310,350

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	344,973,889	(30,893,822)	314,080,067

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.

	2012	2011
Net gains or losses from fair value adjustments	(30,881,154)	(30,881,154)

Appendix A
June 2012

Schedule of external loans as at 30 June 2012

	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
LONG-TERM LOANS								
DBSA @ 10%	08110/102	30/06/2013	3,290,994	-	1,395,196	1,895,798	-	-
DBSA @ 12.5%	102978	30/06/2012	18,240,717	-	860,910	17,379,807	-	-
INCA @ 17.44%	VRG112H-S	30/06/2012	79,805	-	79,805	-	-	-
			21,611,516	**-**	**2,335,911**	**19,275,605**	**-**	**-**
Total external loans			**21,611,516**	**-**	**2,335,911**	**19,275,605**	**-**	**-**