Lejweleputswa District Municipality
Financial statements
for the year ended 30 June 2012
The Auditor - General: Free State

General Information

Legal form of entity	An organ of state exercising legislative and executive authority
Nature of business and principal activities	District Municipality
Mayoral committee	
Executive Mayor	Cllr Selina Nokwanje Leeto
Councillors	Cllr Lennox Rubulana - Speaker
	Cllr M Lekaota - MMC Corporate Services and Administration
	Cllr MJ Pereko - MMC Social Services
	Cllr MH Ntsebeng - MMC Puclic Works, Roads and Infrastructure
	Cllr KR Phukuntsi - MMC LED and Planning, Tourism and Agriculture
	Cllr MP Motshabi - MMC Environmental Health and Disaster Management
	Cllr XJ Toki - MMC Youth, Sport, Arts and Culture Development
	Cllr MMT Matlabe - MMC Finance
Grading of local authority	4
Chief Financial Officer	Mr Jacobus Heunis (Acting)
Accounting Officer	Ms. Nontsikelelo Eunice Aaron
Registered office	Office of the Municipal Manager
Business address	Corner Jan Hofmeyer and Tempest Road Jim Fouche Park WELKOM 9459
Postal address	P.O. Box 2163 WELKOM 9460
Bankers	ABSA Bank Limited
Auditors	The Auditor - General: Free State

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Abbreviations

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

Executive Mayor`s Foreword

LEJWELEPUTSWA DISTRICT MUNICIPALITY ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012 EXECUTIVE MAYOR'S FOREWORD

The changing and shifting socio-economic dynamics of life in Lejweleputswa District have once again necessitated a strategic repositioning of our development and service delivery programmes and objectives, the aim being to ensure that such programmes address the revised needs of our stakeholders and communities in general.

The content of Council's IDP document is informed by new and emerging aspirations and needs of the people of Lejweleputswa District, expressed at duly constituted meetings of the different communities and stakeholders that we called for this purpose.

We believe that, as the sphere of Government that is closest to the people, we carry a pronounced obligation to respond directly, immediately and positively to the needs and frustrations of our stakeholders and communities. I want to commend the people of Lejweleputswa District for dutifully heeding the call to come and assist the District Municipality in revising its development and service delivery agenda for the District and its diversified communities. We could not have achieved this objective if it was not for the active and sustained participation of our communities in the process of setting the direction and pace of our development programmes and projects.

Council's IDP document is thus a direct result of another extensive consultation process. It is an expression of the general interests of our people, and a mirror that reflects the holistic wishes of the Lejweleputswa communities, as expressed during our IDP hearings.

It is for this reason that the current IDP and Budget must and will be externally focused, driven by community needs and geared towards meeting community aspirations gleaned from stakeholder consultations and engagements. I express immense pleasure to present the 2011/2012 financial statements.

In conclusion, I want to dedicate the combined efforts of the political leadership and management of Lejweleputswa District to the task of fulfilling the local interests of our people within the national priority of endeavouring to create a better life for all our people.

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Nokwanje Selina Leeto
Executive Mayor
31 August 2012

Chief Financial Officer Report

1. Heading 1

1.1 Sub-heading 1

2. Heading 2

2.1 Sub-heading 2

Accounting Officer's Responsibilities and Approval

I am responsible for the presentation of these financial statements which are set out on page 12 to 73 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), and which I have signed on behalf of the Municipality.

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 financial statements set out on pages 12 to 73, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2012 and were signed on its behalf by:

Ms. Nontsikelelo Eunice Aaron
Municipal Manager

Report of the Auditor General

To the Council of Lejweleputswa District Municipality

Report on the financial statements

Other matters

The audit report will be included once issued by the Auditor General.

The Auditor - General: Free State

Partner's name
Additional description
Additional description

31 August 2012

Statement of Financial Position

Figures in Rand	Note(s)	2012	2011
Assets			
Current Assets			
Other financial assets	3	16,000,000	20,000,000
Other receivables	4	9,546,192	6,308,506
VAT receivable	5	3,137,755	3,023,682
Cash and cash equivalents	6	15,115,296	23,734,359
		43,799,243	**53,066,547**
Non-Current Assets			
Property, plant and equipment	7	78,733,167	89,723,946
Intangible assets	8	4,953,498	915,545
Investments in controlled entities	9	100	100
		83,686,765	**90,639,591**
Total Assets		**127,486,008**	**143,706,138**
Liabilities			
Current Liabilities			
Other financial liabilities	11	1,793,047	1,553,546
Finance lease obligation	12	-	152,888
Trade and other payables	13	5,521,047	6,132,228
Retirement benefit obligation	14	18,600	16,608
Unspent conditional grants and receipts	15	663,688	666,984
Provisions	16	1,105,466	735,827
		9,101,848	**9,258,081**
Non-Current Liabilities			
Other financial liabilities	11	16,545,187	18,337,503
Retirement benefit obligation	14	5,504,150	4,727,910
Provisions	16	1,857,466	1,580,346
		23,906,803	**24,645,759**
Total Liabilities		**33,008,651**	**33,903,840**
Net Assets		**94,477,357**	**109,802,298**
Net Assets			
Accumulated surplus		94,477,357	109,802,298

Statement of Financial Performance

Figures in Rand	Note(s)	2012	2011
Revenue			
Government grants & subsidies	19	96,214,296	92,938,854
Other income		323,471	154,341
Interest received (trading)		1,034,111	532,830
Interest received - investment	24	2,877,092	3,551,324
Total Revenue		**100,448,970**	**97,177,349**
Expenditure			
General Expenses	20	(36,427,180)	(23,897,653)
Employee Related costs	21	(43,673,940)	(43,397,425)
Remuneration of councillors	22	(6,489,670)	(5,929,071)
Debt impairment	23	(326,337)	(1,248,975)
Depreciation and amortisation	25	(7,814,962)	(5,632,636)
Finance costs	26	(3,106,722)	(3,835,880)
Donation of Property, plant and equipment	29	(7,669,857)	(848,012)
Loss on disposal of assets	7	(511,669)	(316,207)
Repairs and maintenance		(1,575,052)	(802,732)
Transfer to local municipality	28	(5,965,522)	(10,234,340)
Transfer to the development agency		(2,000,000)	(2,000,000)
Total Expenditure		**(115,560,911)**	**(98,142,931)**
Deficit for the year		**(15,111,941)**	**(965,582)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2010	**109,759,420**	**109,759,420**
Changes in net assets		
Surplus for the year	(965,582)	(965,582)
Prior Period Errors	1,008,460	1,008,460
Total changes	42,878	42,878
Balance at 01 July 2011	**109,802,298**	**109,802,298**
Changes in net assets		
Surplus for the year	(15,111,941)	(15,111,941)
2010 Unspent Grant already spent in 2011 deducted from current year Grant income by National Treasury	(213,000)	(213,000)
Total changes	(15,324,941)	(15,324,941)
Balance at 30 June 2012	**94,477,357**	**94,477,357**

Cash Flow Statement

Figures in Rand	Note(s)	2012	2011
Cash flows from operating activities			
Receipts			
Cash receipts from Ratepayers, Government and Other		92,889,196	97,363,449
Interest income		2,877,092	3,082,473
		95,766,288	100,445,922
Payments			
Cash paid to Suppliers and Employees		(50,855,322)	(47,996,968)
Suppliers		(43,673,940)	(43,397,425)
Finance costs		(3,106,722)	(3,835,880)
		(97,635,984)	(95,230,273)
Net cash flows from operating activities	30	**(1,869,696)**	**5,215,649**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(4,643,710)	(9,530,682)
Proceeds from sale of property, plant and equipment	7	107,623	-
Purchase of other intangible assets	8	(4,507,577)	(101,424)
Proceeds from sale of financial assets		4,000,000	25,000,000
Net cash flows from investing activities		**(5,043,664)**	**15,367,894**
Cash flows from financing activities			
Repayment of other financial liabilities		(1,552,815)	(1,361,780)
Finance lease payments		(152,888)	(501,344)
Net cash flows from financing activities		**(1,705,703)**	**(1,863,124)**
Net increase/(decrease) in cash and cash equivalents		**(8,619,063)**	**18,720,419**
Cash and cash equivalents at the beginning of the year		23,734,359	5,013,940
Cash and cash equivalents at the end of the year	6	**15,115,296**	**23,734,359**

Accounting Policies

1. Presentation of Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate

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

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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
Buildings	
• Normal Buildings	30 years
• Tiles	10 years
• Paving	30 years
• Fencing	30 years
• Parking	30 years
Motor Vehicles	7 years
Emergency Equipment	5 years
Office Equipment	4 years
Furniture and Fittings	5 years
Plant and Equipment	5 years
Other assets	5 years
Finance lease assets	5 years

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

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

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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.

1.3 Intangible assets

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

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

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

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

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

Item	Useful life
Computer software, other	3 years

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

Accounting Policies

1.3 Intangible assets (continued)

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

1.4 Financial instruments

Classification

The municipality 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

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.

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

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

Accounting Policies

1.4 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.

Receivables from non- exchange transactions

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

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

Trade and other receivables are classified as loans and receivables.

Payables from exchange transactions

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

Cash and cash equivalents

Cash and cash equivalents comprise 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.

1.4 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.

1.4 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.

1.5 Leases

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

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

1.5 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.

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

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

1.6 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.

Accounting Policies

1.6 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

Accounting Policies

1.6 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.

1.7 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.

1.7 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.

1.8 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.

1.8 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.

Defined benefit plans

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

Actuarial valuations are conducted on an annual basis 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.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

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.

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

1.9 Provisions and contingencies (continued)

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

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

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.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

1.10 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.

Interest

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

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

1.11 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.

1.11 Revenue from non-exchange transactions (continued)

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.

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.

1.12 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.

1.13 Comparative figures

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

1.14 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.

1.15 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.

1.16 Irregular expenditure

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

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

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

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

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

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

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

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

1.17 Use of estimates

The preparation of 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 financial statements are disclosed in the relevant sections of the 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.

1.18 Presentation of currency

These financial statements are presented in South African Rand.

Accounting Policies

1.19 Offsetting

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

1.20 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation (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 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 financial statements.

Comparative information is not required.

1.21 Related parties

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

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

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

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

Figures in Rand	2012	2011

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

IGRAP 3: Determining Whether an Arrangement Contains a Lease

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

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

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

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

The impact of the amendment is not material.

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

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

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

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

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

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)?

2. New standards and interpretations (continued)

- When should revenue from the construction of assets in exchange transactions be recognised?

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

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

The impact of the 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 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 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.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 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 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 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

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

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

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

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

All amendments to be applied retrospectively

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

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

The impact of the amendment is not material.

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

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

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

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

The impact of the amendment is not material.

GRAP 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 financial statements.

The impact of the amendment is not material.

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

The revision resulted in certain terminology changes.

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

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

Interpretations:
In developing the Standard 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 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

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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 financial statements.

The impact of this standard is currently being assessed.

GRAP 23: Revenue from Non-exchange Transactions

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

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

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

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 financial statements.

The impact of this standard is currently being assessed.

GRAP 24: Presentation of Budget Information in the Financial Statements

Notes to the Financial Statements

2. New standards and interpretations (continued)

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

A comparable basis means that the budget and financial statements:

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

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 financial statements.

The impact of this standard is currently being assessed.

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.

2. New standards and interpretations (continued)

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 financial statements.

The impact of this standard is currently being assessed.

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.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 financial statements.

The impact of this standard is currently being assessed.

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;
- 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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 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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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.

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.

Notes to the Financial Statements

2. New standards and interpretations (continued)

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 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 financial statements.

The impact of this amendment is currently being assessed.

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

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

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

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

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

The 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 financial statements.

The impact of this amendment is currently being assessed.

GRAP 20: Related parties

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

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

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

Notes to the Financial Statements

2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

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 financial statements.

The impact of this standard is currently being assessed.

Notes to the Financial Statements

Figures in Rand	2012	2011

3. Other financial assets

Held to maturity		
African Bank Fixed Deposit	4,000,000	5,000,000
The maturity date of the investment is 2012/07/12 and interest is earned at a rate of 5.70% per annum.		
Absa Bank Fixed Deposit	4,000,000	5,000,000
The maturity date of the investment is 2012/07/11and interest is earned at a rate of 5.62% per annum.		
Standard Bank Fixed Deposit	4,000,000	5,000,000
The maturity date of the investment is 2012/07/12and interest is earned at a rate of 5.65% per annum.		
Nedbank Fixed Deposit	-	5,000,000
The investment matured during the year under review.		
First National Bank Fixed Deposit	4,000,000	-
The maturity date of the investment is 2012/07/12 and interest is earned at a rate of 5.66% per annum.		
	16,000,000	**20,000,000**

Current assets		
Held to maturity	16,000,000	20,000,000

Fair value information

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

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

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

Level 1 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 2		
African Bank Fixed Deposit	4,000,000	5,000,000
Absa Bank Fixed Deposit	4,000,000	5,000,000
Standard Bank Fixed Deposit	4,000,000	5,000,000
Nedbank Fixed Deposit	-	5,000,000
First National Bank Fixed Deposit	4,000,000	-
	16,000,000	**20,000,000**

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.

3. Other financial assets (continued)

Fair value of held to maturity investments

Fixed Deposits	16,000,000	20,000,000

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.

4. Other receivables

Deposits	4,700	4,700
Payments made in Advance	1,008	1,008
Sundry Debtors	10,982,184	14,342,188
Provision for impairment	(1,441,700)	(8,039,390)
	9,546,192	**6,308,506**

Included in Other receivables are irregular expenditure incurred during the year which will be recovered. Refer to note 41.

Fair value of other receivables

Other receivables	9,540,484	6,302,798

The average credit period for Sundry Debtors is 30 days. No interest is charged for the first 30 days form the date of the invoice. Thereafter interest is charged at the prime rate, charged by the municipality`s banker, plus one percent per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of Sundry Debtors.

The management of the municipality is of the opinion that the carrying value of Sundry Debtors are approximate their fair values.

The fair value of Sundry Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and National/Provincial Departments as well as Sundry Debtors. The current payment ratio`s of Sundry Debtors were also taken into account for fair value determination

Other receivables past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2012, R 9,540,484 (2011: R 6,302,798) were past due but not impaired.

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

0 - 30 Days	113,944	590,227
61 - 90 Days	137,656	12,366
+ 120 Days	9,288,884	5,700,205
	9,540,484	**6,302,798**

Figures in Rand	2012	2011

4. Other receivables (continued)

Other receivables impaired

As of 30 June 2012, other receivables from non-exchange transactions of R 1,441,700 (2011: R 8,039,390) were impaired and provided for.

The amount of the provision was R 1,441,700 as of 30 June 2012 (2011: R 8,039,390).

The ageing of these loans is as follows:

Over 6 months	1,441,700	8,039,390

Reconciliation of provision for impairment of other receivables

Opening balance	8,039,390	7,509,483
Provision for impairment	326,337	1,248,975
Amounts written off as uncollectable	(6,924,027)	(719,068)
	1,441,700	**8,039,390**

The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payment rations for the groupings an by assuming that the future payment rations would be similar to the historical payment ratios.

The Provision for Impairment on the Sundry Debtors (loans and receivables) exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining the recoverability of a Debtor, the municipality considers any changes in the credit quality of the Debtor form the date credit was initially granted up to the reporting date. Management believe that there is no further credit provision required in excess of the Provision for Impairment.

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

5. VAT receivable

VAT	3,137,755	3,023,682

VAT is payable to the South African Revenue Service on the receipt basis. Only when payment is made to creditors, Input VAT is claimed from the South African Revenue Service.

No interest is payable to the South African Revenue Service if the VAT is paid over timeously, but interest for late payments is charged according to the South African Revenue Service`s policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,200	2,200
Bank balances	15,113,096	23,732,159
	15,115,296	**23,734,359**

Notes to the Financial Statements

6. Cash and cash equivalents (continued)

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Cash and Cash Equivalents include Cash on hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

The management of the municipality is of the opinion that the carrying value of Bank balances, Cash and Cash equivalents recorded at amortised costs in the Annual Financial statements approximate their fair values.

The fair value of Bank balances, Cash and Cash equivalents was determined after considering the standard terms and conditions of agreements entered into between the municipality and financial institutions.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2012	**30 June 2011**	**30 June 2012**	**30 June 2011**
ABSA Bank - Cheque Account - 1340000117	5,579,247	4,998,107	5,113,096	3,732,159
ABSA Bank - Call Account - 2071228328	-	10,000,000	-	10,000,000
Nedbank- Call Account - 000009	-	10,000,000	-	10,000,000
Nedbank - Call Account- 000001	5,000,000	-	5,000,000	-
Nedbank- Call Account- 000002	5,000,000	-	5,000,000	-
Total	**15,579,247**	**24,998,107**	**15,113,096**	**23,732,159**

7. 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	2,870,000	-	2,870,000	2,870,000	-	2,870,000
Buildings	73,328,600	(8,022,317)	65,306,283	72,927,772	(5,515,436)	67,412,336
Furniture and fixtures	6,230,796	(1,607,708)	4,623,088	4,354,179	(486,185)	3,867,994
Motor vehicles	1,424,480	(304,635)	1,119,845	5,324,916	(881,466)	4,443,450
Office equipment	5,341,935	(1,216,126)	4,125,809	2,585,431	(427,194)	2,158,237
Other property, plant and equipment	3,549	-	3,549	165,329	(23,321)	142,008
Finance Lease assets	-	-	-	63,514	(5,716)	57,798
Plant and Equipment	704,690	(265,824)	438,866	14,635,295	(5,899,264)	8,736,031
Emergency Equipment	352,777	(107,050)	245,727	39,740	(3,648)	36,092
Total	**90,256,827**	**(11,523,660)**	**78,733,167**	**102,966,176**	**(13,242,230)**	**89,723,946**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	2,870,000	-	-	-	-	2,870,000
Buildings	67,412,336	262,887	-	111,148	(2,480,088)	65,306,283
Furniture and fixtures	3,867,994	1,396,908	(765,669)	1,261,415	(1,137,560)	4,623,088
Motor vehicles	4,443,450	200,000	(1,352,963)	(1,961,834)	(208,808)	1,119,845
Office equipment	2,158,237	2,778,085	(130,583)	179,798	(859,728)	4,125,809
Other property, plant and equipment	142,008	3,549	-	(142,008)	-	3,549
Finance Lease assets	57,798	-	-	(57,798)	-	-
Plant and Equipment	8,736,031	2,281	(5,752,730)	35,277	(2,581,993)	438,866
Emergency Equipment	36,092	-	(287,203)	570,150	(73,312)	245,727
	89,723,946	**4,643,710**	**(8,289,148)**	**(3,852)**	**(7,341,489)**	**78,733,167**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Correction of prior year errors	Depreciation	Total
Land	2,870,000	-	-	-	-	2,870,000
Buildings	19,409,321	19,047,527	-	30,351,261	(1,395,773)	67,412,336
Furniture and fixtures	1,180,719	203,726	(19,002)	2,931,423	(428,872)	3,867,994
Motor vehicles	3,945,939	452,052	(449,762)	910,639	(415,418)	4,443,450
Office equipment	1,579,547	488,979	(199,006)	692,518	(403,801)	2,158,237
Other property, plant and equipment	48,125	21,308	(5,108)	98,145	(20,462)	142,008
Finance lease assets	403,766	-	-	(340,252)	(5,716)	57,798
Plant and Equipment	11,818,974	129,375	(58,500)	(578,969)	(2,574,849)	8,736,031
Emergency Equipment	53,240	398,249	(432,841)	34,442	(16,998)	36,092
	41,309,631	**20,741,216**	**(1,164,219)**	**34,099,207**	**(5,261,889)**	**89,723,946**

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.

Pledged as security

No assets have been pledged as security.

The municipality`s obligation under Finance Leases are secured by the lessors` title to the leased assets, which have a carrying amount of:

Finance Lease assets	-	57,798

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.

Figures in Rand	2012	2011

8. Intangible assets

	2012			2011		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	6,514,594	(1,561,096)	4,953,498	2,002,789	(1,087,244)	915,545

Reconciliation of intangible assets - 2012

	Opening balance	Additions	Transfers	Amortisation	Total
Computer software	915,545	4,507,577	3,848	(473,472)	4,953,498

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software	1,184,868	101,424	(370,747)	915,545

Pledged as security

No Intangible assets had been pledged as security for any liabilities of the municipality.

Restricted title

No restrictions apply to any of the Intangible Assets of the municipality

Other information

The amortisation has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance.

Refer to Appendix B for more detail on Intangible Assets.

9. Investments in controlled entities

Name of company	Held by	% holding 2012	% holding 2011	Carrying amount 2012	Carrying amount 2011
Lejweleputswa Development Agency (Pty) Limited		100.00 %	100.00 %	100	100

The investment in the subsidiary is measured at cost

10. Financial assets by category

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

Figures in Rand	2012	2011

10. Financial assets by category (continued)

2012

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Trade and other receivables	9,546,192	-	-	9,546,192
Cash and cash equivalents	-	-	15,115,296	15,115,296
Other financial assets	-	16,000,000	-	16,000,000
Investment in subsidiary	-	-	100	100
VAT Receivable	3,137,755	-	-	3,137,755
	12,683,947	**16,000,000**	**15,115,396**	**43,799,343**

2011

	Loans and receivables	Held to maturity investments	Available-for-sale	Total
Trade and other receivables	6,308,506	-	-	6,308,506
Cash and cash equivalents	-	-	23,734,359	23,734,359
Other financial assets	-	20,000,000	-	20,000,000
Investment in subsidiary	-	-	100	100
VAT Receivable	3,023,682	-	-	3,023,682
	9,332,188	**20,000,000**	**23,734,459**	**53,066,647**

11. Other financial liabilities

	2012	2011
Held at amortised cost		
DBSA Loan (61003236) Refer to Appendix A for detail	2,532,903	2,667,459
DBSA Loan (61003237) Refer to Appendix A for detail	1,940,990	2,044,101
DBSA Loan (61004020) Refer to Appendix A for detail	432,793	825,157
DBSA Loan (61001256) Refer to Appendix A for detail	369,301	401,022
DBSA Loan (61001257) Refer to Appendix A for detail	91,898	100,815
DBSA Loan (61001258) Refer to Appendix A for detail	473,142	519,054
DBSA Loan (61001259) Refer to Appendix A for detail	945,955	1,027,208
DBSA Loan (61001299) Refer to Appendix A for detail	2,422,817	2,657,920
DBSA Loan (61003159) Refer to Appendix A for detail	9,128,435	9,648,313
	18,338,234	**19,891,049**

	2012	2011
Non-current liabilities		
At amortised cost	16,545,187	18,337,503
Current liabilities		
At amortised cost	1,793,047	1,553,546
	18,338,234	**19,891,049**

Notes to the Financial Statements

Figures in Rand	2012	2011

11. Other financial liabilities (continued)

Fair value of the financial liabilities carried at amortised cost		
DBSA Loans	18,338,234	19,891,049

12. Finance lease obligation

Minimum lease payments due		
- within one year	-	176,517
	-	176,517
less: future finance charges	-	(23,629)
Present value of minimum lease payments	**-**	**152,888**

Present value of minimum lease payments due		
- within one year	-	152,888

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

The average lease term was 3 years and the average effective borrowing rate was 0% (2011: 116%).

The lease expired during the year.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 7.

13. Trade and other payables

Trade payables	1,341,800	2,209,083
Annual Bonus accrued	660,280	812,009
Accrued leave pay	3,431,674	2,958,164
Retention Creditors	87,293	150,679
Other Payables	-	2,293
	5,521,047	**6,132,228**

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

The management of the municipality is of the opinion that the carrying value of payables under exchange transactions approximate their fair values.

The fair value of payables under exchange transactions was determined after consideration the standard terms and conditions of agreements entered into between the municipality and other parties.

The leave accrual accrues to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date.

Notes to the Financial Statements

Figures in Rand	2012	2011

14. Employee benefit obligations

Defined benefit plan

The plan is a post employment medical benefit plan.

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by finding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates as unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2012 by Arch Actuaries. Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

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

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The members of the Post - employment Health Care Benefit Plan are made up as follows:
In - service Members (Employees): 79 (2011: 82)
In - service Members (Employees) - Non - Members : 7 (2011: 10)
Continuation Members (Retirees, widowers and orphans) : 1 (2011:1)

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

	2012	2011
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(5,522,750)	(4,744,518)
Non-current liabilities	(5,504,150)	(4,727,910)
Current liabilities	(18,600)	(16,608)
	(5,522,750)	**(4,744,518)**

The Liability in respect of past service has been estimated as follows:

	2012	2011
In - service Members	5,230,721	4,475,846
Continuation Members	292,029	268,672

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

	2012	2011
Balance at the beginning of the year	4,744,518	3,420,457
Benefits paid	(16,608)	(13,104)
Net expense recognised in the statement of financial performance	794,840	1,337,165
	5,522,750	**4,744,518**

Figures in Rand	2012	2011

14. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

	2012	2011
Current service cost	385,687	338,283
Interest cost	386,005	312,358
Actuarial (gains) losses	23,148	686,524
	794,840	**1,337,165**

Calculation of actuarial gains and losses

	2012	2011
Actuarial (gains) losses - Obligation	23,148	686,524

Key assumptions used

Assumptions used at the reporting date:

	2012	2011
Discount rates used	8.81 %	8.15 %
Health Care Cost Inflation Rate	7.59 %	6.84 %
Net Effective Discount Rate	1.14 %	1.23 %

The basis used to determine the Discount rates is as follows

IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. Consequently, a discount rate of 8.81% per annum has been used. This rate was deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 7 May 2012. This rate does not reflect any adjustment for taxation.

The basis used to determine the Health Care Cost Inflation Rate is as follows:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.
A health care cost inflation rate of 7.59% has been assumed. This is 1.75% in excess of expected CPI inflation over the expected term of the liability, namely 5.84%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.14% which derives from (8.81%-7.59%)/1.0759.
The expected inflation assumption of 5.84% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (2.34%) and those of nominal bonds (8.81%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: (8.81%-0.50%-2.34%)/1.0234.
The next contribution increase was assumed to occur with effect from 1 January 2013.

Other assumptions

	2012	2011
Expected Retirement Age - Females	65	65
Expected Retirement Age - Males	65	65

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

	2012 **R**	**2011** **R**	**2010** **R**
Defined benefit obligation	5,522,750	4,744,518	3,420,457

Figures in Rand	2012	2011

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Financial Management Grant	57,681	60,977
Municipal Service Improvement Grant	24,968	24,968
District Aid Council Grant	7,255	7,255
Department Sport and Recreation Grant	573,784	573,784
	663,688	**666,984**

Movement during the year

Balance at the beginning of the year	666,984	847,508
Receipt during the year	96,211,000	92,758,329
Income recognition during the year	(96,214,296)	(92,938,853)
	663,688	**666,984**

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

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

See note 19 for reconciliation of grants from National/Provincial Government.

Figures in Rand	2012	2011

16. Provisions

Reconciliation of provisions - 2012

	Opening Balance	Additions	Total
Performance bonuses	434,588	381,341	815,929
Long-Term Service Awards	1,881,585	265,418	2,147,003
	2,316,173	**646,759**	**2,962,932**

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Performance bonusses	212,548	434,588	(212,548)	434,588
Long -Term Service awards	1,405,232	476,353	-	1,881,585
	1,617,780	**910,941**	**(212,548)**	**2,316,173**

	2012	2011
Non-current liabilities	1,857,466	1,580,346
Current liabilities	1,105,466	735,827
	2,962,932	**2,316,173**

Performance Bonusses:
Performance bonusses accrue to senior managers on a annual basis, subject to certain conditions. The provision is an estimate of the amount due at the reporting date. The balance of R815 929 includes the performance bonusses for 2011 and 2012 not paid to senior managers.

Long-Term Service Awards:
The municipality operates as unfunded deficit benefit plan for all its employees. Under the plan, a Long-service award is payable and extra leave is accrued after 5 years of continuous service and every 5 years thereafter to employees, from 10 years of service to 45 years of service.

This is the present value of the total Long-Term Service Awards expected to become payable under the employer’s current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected Long-Term Service Awards for current employees.

The most recent actuarial valuations on the Long-Term Service Awards were carried out at 30 June 2012 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

16. Provisions (continued)

Total long service award liability: This is the present value of the total LSA expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected LSA for current employees.

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The IAS19/GRAP25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

The following key assumptions were used:

Key financial assumptions:

Discount Rate - 7.13%
General Salary Inflation (long-term) - 6.51%
Net effective discount rate - 0.58%

Key demographic assumptions:

Average retirement age - 65 years
Mortality during employment - SA85-90
Withdrawal from service (sample annual rates):
Age 20 : 24% Female; 16% Male
Age 30: 15% Female; 10% Male
Age 40: 6% Female; 6% Male
Age 50: 2% Female; 2% Male
Age 55: 0% Female; 0% Male

17. Financial liabilities by category

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

2012

	Financial liabilities at amortised cost	Total
Other financial liabilities	18,338,234	18,338,234
Trade and other payables	5,677,366	5,677,366
	24,015,600	**24,015,600**

2011

	Financial liabilities at amortised cost	Total
Other financial liabilities	19,891,049	19,891,049
Trade and other payables	6,848,245	6,848,245
Finance lease obligation	152,888	152,888
	26,892,182	**26,892,182**

Notes to the Financial Statements

Figures in Rand	2012	2011

18. Revenue

Interest received – trading	1,034,111	532,830
Government grants & subsidies	96,214,296	92,938,854
	97,248,407	**93,471,684**

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

Interest received – trading	1,034,111	532,830

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

Government grants & subsidies	96,214,296	92,938,854

Figures in Rand	2012	2011

19. Government grants and subsidies

Equitable share	21,907,000	21,182,001
Levy Replacement (Transitional) Grant	71,828,000	69,739,744
District Aid Council Grant	-	52,650
Financial Management Grant	1,253,296	1,151,507
EPWP Incentive Grant	436,000	-
LGWSETA Grant	-	86,583
Municipal Service Improvement Programme Grant	790,000	726,369
	96,214,296	**92,938,854**

Equitable Share

Current-year receipts	21,907,000	21,182,001
Conditions met - transferred to revenue	(21,907,000)	(21,182,001)
	-	**-**

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

Levy Replacement (Transitional) Grant

Current-year receipts	71,828,000	69,739,744
Conditions met - transferred to revenue	(71,828,000)	(69,739,744)
	-	**-**

Levy Replacement (Transitional) Grant is a operational grant which is used by the municipality on its own discretion, which is mainly to fund its operational activities.

District Aid Council Grant

Balance unspent at beginning of year	7,255	59,905
Conditions met - transferred to revenue	-	(52,650)
	7,255	**7,255**

Conditions still to be met - remain liabilities (see note 15).

These funds were used for the purposes of district aid council.

EPWP Incentive Grant

Current-year receipts	436,000	-
Conditions met - transferred to revenue	(436,000)	-
	-	**-**

EPWP is a operational grant which is used by the municipality on its own discretion.

LGWSETA Grant

Current-year receipts	-	86,583
Conditions met - transferred to revenue	-	(86,583)
	-	**-**

Notes to the Financial Statements

Figures in Rand	2012	2011

19. Government grants and subsidies (continued)

Municipal Service Improvement Programme Grant

Balance unspent at beginning of year	24,968	1,336
Current-year receipts	790,000	750,000
Conditions met - transferred to revenue	(790,000)	(726,368)
	24,968	**24,968**

Conditions still to be met - remain liabilities (see note 15).

Financial Management Grant

Balance unspent at beginning of year	60,977	212,484
Current-year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,253,296)	(1,151,507)
	57,681	**60,977**

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

Sport and Recreation Grant

Balance unspent at beginning of year	573,783	573,783

Conditions still to be met - remain liabilities (see note 15).

Notes to the Financial Statements

Figures in Rand	2012	2011

20. General expenses

Advertising	328,318	210,444
Auditors remuneration	2,055,570	2,236,301
Bank charges	71,741	96,314
Cleaning	62,424	141,499
Consulting and professional fees	3,541,924	1,930,337
Entertainment	430,191	525,990
Financial Management Reforms	1,253,296	1,151,507
Festivals	1,688,011	-
Insurance	296,639	269,092
Coffin making project	1,000,000	-
Internet expenses	237,790	274,057
Magazines, books and periodicals	76,096	35,551
OR Tambo Games	647,502	213,060
Gender Disability	491,701	367,287
Grant in aid	1,377,910	280,741
LED Development	199,525	499,461
Printing and stationery	377,899	429,874
PPP (Call Centre)	771,930	-
Poverty alleviation	1,734,943	1,901,511
Skills development Levy	320,865	358,910
Security (Guarding of municipal property)	187,571	148,955
Telephone and fax	712,426	803,678
Training	2,510,053	1,332,806
Children`s Programme	362,005	-
Electricity	247,078	236,111
Sewerage and waste disposal	629	629
Refuse	9,026	8,937
Property Rates	49,053	60,163
Tourism development	2,580,302	1,783,671
Branding of the municipality	588,030	770,305
Bursaries	785,348	514,035
Capacity development programmes	790,000	726,369
Campaigns	2,101,771	2,027,083
Environmental development	362,928	504,113
Moral Regenertion	1,698,580	162,261
Youth development	2,866,069	101,410
Other expenses	3,612,036	3,795,191
	36,427,180	**23,897,653**

Notes to the Financial Statements

Figures in Rand	2012	2011

21. Employee related costs

Basic	26,066,111	25,768,167
Bonus	1,815,428	2,097,705
Medical aid - company contributions	2,143,114	1,935,997
UIF	156,926	154,176
WCA	271,514	491,064
Post-employment benefits	1,371,295	1,818,351
Overtime payments	482,947	258,586
Travel allowances	5,085,950	4,832,252
Housing benefits and allowances	243,733	230,344
Acting Allowances	76,893	76,920
Group Life Insurance	350,865	323,631
Leave	1,632,790	1,814,628
Contribution to Pension and Provident funds	3,976,374	3,595,604
	43,673,940	**43,397,425**

Remuneration of Municipal Manager

Annual Remuneration	611,322	592,362
Car and Travel Allowance	137,422	127,438
Annual Bonus	51,138	49,971
Performance Bonuses	107,025	46,500
Contributions to UIF, Medical and Pension Funds	158,005	150,377
Telephone allowance	2,400	-
Housing allowance	59,000	54,000
	1,126,312	**1,020,648**

Remuneration of Acting Municipal Manager

Acting Allowance	31,846	-

Remuneration of the Acting Municipal Support Executive

Annual Remuneration	432,648	407,844
Annual bonus	36,054	33,987
Performance Bonuses	-	34,440
Contributions to UIF, Medical and Pension Funds	116,237	107,959
Housing Allowance	5,973	5,676
Car and Travel Allowance	209,357	196,541
Telephone allowance	2,400	-
	802,669	**786,447**

Remuneration of Chief Financial Officer

Annual Remuneration	-	438,629
Car and Travel Allowance	-	193,427
Performance Bonuses	-	34,636
Annual Bonus	-	30,631
Contributions to UIF, Medical and Pension Funds	-	61,943
	-	**759,266**

Remuneration of Acting Chief Financial Officer

Performance Bonuses	96,880	-
Acting Allowance	120,000	51,935

21. Employee related costs (continued)

	216,880	**51,935**

Remuneration of Acting Manager Corporate Services

Annual Remuneration	339,545	318,937
Car and Travel Allowance	141,394	148,433
Performance Bonuses	74,331	33,960
Contributions to UIF, Medical and Pension Funds	103,761	96,384
Annual Bonus	28,147	56,985
Acting Allowance	87,595	82,181
Housing Allowance	5,973	5,676
Telephone Allowance	1,500	-
	782,246	**742,556**

Remuneration of Acting Manager Social and Health Services

Annual Remuneration	209,424	324,483
Car and Travel Allowance	91,022	143,616
Performance Bonuses	-	29,763
Contributions to UIF, Medical and Pension Funds	70,124	87,074
Acting Allowance	48,829	55,917
Housing Allowance	3,885	5,676
	423,284	**646,529**

The period from which there was an Acting Manager Social Health Services was from 1 July 2011 to 31 January 2012.

Remuneration of Manager Social Health Services

Annual Remuneration	133,973	-
Car and Travel Allowance	129,685	-
Performance Bonuses	71,957	-
Contributions to UIF, Medical and Pension Funds	103,985	-
Annual Bonus	15,374	-
	454,974	**-**

The Manager of Social Health Services was appointed on 1 February 2012.

Remuneration of Acting Manager Strategic Economic Development

Annual Remuneration	188,602	-
Car and Travel Allowance	81,761	-
Performance Bonuses	18,369	-
Contributions to UIF, Medical and Pension Funds	47,025	-
Housing Allowance	1,800	-
Acting Allowance	30,715	22,353
	368,272	**22,353**

The period from which there was an Acting Manager Strategic Economic Development was from 1 July 2011 to 31 January 2012.

Remuneration of Manager Strategic Economic Development

Annual Remuneration	174,596	255,007
Car and Travel Allowance	110,135	86,397

Notes to the Financial Statements

Figures in Rand	2012	2011

21. Employee related costs (continued)

Performance Bonuses	12,776	33,249
Contributions to UIF, Medical and Pension Funds	7,302	67,093
Annual Bonus	-	48,333
Annuity Allowance	-	31,815
	304,809	**521,894**

The Manager of Strategic Economic Development was appointed on 1 February 2012.

22. Remuneration of councillors

Executive Major	683,445	309,052
Speaker	535,445	270,011
Mayoral Committee Members	2,913,301	1,665,804
Other Councillors	2,357,479	3,684,204
	6,489,670	**5,929,071**

The Salaries, allowances and benefits paid to all Councillors are not within the Remuneration of Public Office Act. Determination of upper limits salaries, allowances and benefits of different members of municipal councils are not within section 219 of the Constitution, read with the Remuneration of the Public Officer Bearers Act, however, this matter is receiving attention. Overpayment of Councillors on upper limits are included in the Irregular expenses and has been transferred to Sundry Debtors.

In-kind benefits

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at Council`s cost. The Executive Mayor has the use of a council owned vehicle for official duties as well as two drivers.

23. Debt impairment

Impairment Losses Recognised on Sundry Debtors	326,337	1,248,975

24. Investment revenue

Interest revenue		
Interest Received on Bank and Investment accounts	2,877,092	3,551,324

25. Depreciation and amortisation

Property, plant and equipment	7,814,962	5,632,636

26. Finance costs

Non-current borrowings	3,081,555	3,271,642
Other interest paid	25,167	564,238
	3,106,722	**3,835,880**

27. Auditors' remuneration

Fees	2,055,570	2,155,501
Consulting	-	80,800
	2,055,570	**2,236,301**

28. Transfer to local municipalities

Expenditure during the year	5,965,522	10,234,340

Notes to the Financial Statements

Figures in Rand	2012	2011

28. Transfer to local municipalities (continued)

The municipality paid loan re-payments on behalf of the Local municipality during the year.

29. Donation of Property, plant and equipment

Donations to Matjhabeng Local Municipality	7,669,857	848,012

The municipality donated Property, plant and equipment to the Local Municipality during the year.

30. Cash (used in) generated from operations

Deficit	(15,111,941)	(965,582)
Adjustments for:		
Depreciation and amortisation	7,814,962	5,632,636
Gain on sale of assets and liabilities	511,669	316,207
Debt impairment	326,337	-
Movements in retirement benefit assets and liabilities	778,232	1,320,557
Movements in provisions	646,759	596,642
Prior Year error	-	(146,451)
Donation of Property , Plant and Equipment	7,669,857	848,012
Other non-cash items	(213,000)	-
Changes in working capital:		
Other receivables from non-exchange transactions	(3,237,686)	(679,879)
Consumer debtors	(326,337)	-
Trade and other payables	(611,179)	(1,706,493)
VAT	(114,073)	-
Unspent conditional grants and receipts	(3,296)	-
	(1,869,696)	**5,215,649**

31. Commitments

Capital and other expenditure

Approved and Contracted for:		
• Property, plant and equipment	-	6,805,203
• Professional Fees	1,724,273	-
	1,724,273	**6,805,203**

Notes to the Financial Statements

Figures in Rand	2012	2011

32. Contingencies

Contingent liabilities

4 Current employees claiming long service bonus and leave	303,853	303,853
CCMA cases involving three former employees	-	1,169,736
	303,853	**1,473,589**

Contingent assets

Lejweleputswa vs Dikgabolokwe CC	3,760,810	3,760,810
Lejweleputswa vd Lezmin 2815 CC	-	1,339,500
	3,760,810	**5,100,310**

Lejweleputswa vs Dikgabolokwe CC

The service provider was contracted to build VIP toilets for the District Municipality and was overpaid upon submission of an invoice. After a long legal battle the high court ruled that the service provider must refund the amount paid in excess.It is however unsure if the money will be recovered and when recovery will take place.

33. Related parties

Relationships

Subsidiary	Lejweleputswa Development Agency (Pty) Ltd

Related party balances

Investment in subsidiary		
Lejweleputswa Development Agency	100	100

Related party transactions

Transfers to related Parties		
Lejweleputswa Development Agency (Pty) Ltd	2,000,000	2,000,000

Figures in Rand	2012	2011

34. Prior period errors

Cash and Cash Equivalents:
Stale cheques to the amount of R5 076 were not written back.

Property, Plant and Equipment and Accounts Payable:

An addition amounting to R206 778 was capitalised during the 2011 financial year end, however this invoice was only paid in the 2012 financial year end. No Creditor was raised for the outstanding amount.

Accounts Payable:

Creditors to the amount of R610 628.05 was incorrectly provided in the prior years.
A creditor to the Auditor General with regards to the Development Agency to the amount of R90 718 was incorrectly provided for as the Development Agency settled the full amount.

Accounts Payable and Sundry Debtors:

A creditor and debtor amounting to R61 915 was incorrectly raised for UIF on Councillors remuneration in the prior year, according to SALGA no UIF is payable on Councillors remuneration.

Sundry Debtors:

A debtor amounting to R440 000 with regards to the Lezmin settlement due to the municipality was not provided as a debtor in the prior year.

Retention creditors:

Retention creditors amounting to R159 529.40 was incorrectly raised in the prior years.

The correction of the errors results in adjustments as follows:

Statement of financial position		
Other Receivables	-	378,084
Cash and Cash Equivalents	-	5,077
Accounts Payable	-	(716,012)
Opening Accumulated Surplus or Deficit	-	1,099,176
Statement of Financial Performance		
General Expenses	-	(90,718)

Cash flow statement

Figures in Rand	2012	2011

35. Comparative figures

Certain comparative figures have been restated due to Prior year errors, refer to note 34 for detail.

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.
Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed.

Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparative are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Prior year comparatives:
When the presentation or classification of items in the annual financial statements is amended, prior year comparative amounts are reclassified. The nature and reason for the reclassification is disclosed

Statement of financial position		
Finance Lease obligation	-	152,888
Other financial liabilities	-	(152,888)
Provisions	-	(16,608)
	-	16,608

Figures in Rand		2012	2011

36. 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 12 and 11, cash and cash equivalents disclosed in note 6 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.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

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

There are no externally imposed capital requirements.

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

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

Total borrowings			
Finance lease obligation	12	-	152,888
Other financial liabilities	11	18,338,234	19,891,049
		18,338,234	**20,043,937**
Less: Cash and cash equivalents	6	15,115,296	23,734,359
Net debt		3,222,938	(3,690,422)
Total equity		94,477,357	109,802,298
Total capital		**97,700,295**	**106,111,876**

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,

36. 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
.

As at 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other Financial Liabilities	1,793,047	1,585,085	6,494,759	8,465,362
Trade and other payables	5,521,046	-	-	-

As at 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Other Financial Liabilities	1,552,817	1,793,047	5,577,963	10,967,243
Trade and other payables	6,132,228	-	-	-
Finance Lease Obligation	152,888	-	-	-

Interest rate risk

The Municipality is mainly exposed to interest rate risk due to the movements in long-term and short term interest rates.

The risk is managed on an on-going basis.

36. Risk management (continued)

Credit risk

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

Cash and Cash equivalents

The municipality`s 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 practice of the municipality to limit its credit risk by only investing in registered banks in terms of the Bank Act, 94 of 1990. Given the high credit ratings of these financial institutions of the municipality does not expect any counterpary to fail to meet its obligation.

Sundry Debtors

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

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

Financial instrument	**2012**	**2011**
Cash and Cash Equivalents	15,115,296	23,734,359
Other financial assets	16,000,000	20,000,000
Other Receivables	9,546,192	6,308,306

37. Going concern

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

38. Events after the reporting date

No events after reporting date has occurred

39. Unauthorised expenditure

Opening Balance	1,140,100	1,140,100
Unauthorised Expenditure during the year	-	617,890
Approved by Council or condoned	-	(617,890)
	1,140,100	**1,140,100**

Council and auditors to agree on unauthorised expenditure

40. Fruitless and wasteful expenditure

Opening balance	287,143	260,015
Fruitless and wasteful expenditure during the year	1,537	27,128
	288,680	**287,143**

40. Fruitless and wasteful expenditure (continued)

The expenditure include interest paid for late payment to suppliers.

Council and auditors to agree on Fruitless and wasteful expenditure

41. Irregular expenditure

	2012	2011
Opening balance	14,612,378	16,550,622
Add: Irregular Expenditure - current year	1,260,220	1,969,582
Add: Irregular Expenditure - Supply Chain	1,319,384	1,241,889
Less: Amounts recoverable (transfer to receivables)	(1,260,220)	(5,149,715)
Less: Amounts condoned by Council	(1,319,384)	-
	14,612,378	**14,612,378**

Details of irregular expenditure – current year

	Details	
Councillors Remuneration	Councillors qualify as Grade 4, but were paid as Grade 5 Councillors	1,260,220
Supply Chain	Non- Compliance to the Municipal Supply Chain Regulations	1,319,384
		2,579,604

Details of irregular expenditure condoned

	Condoned by (condoning authority)	
Supply Chain	Council	1,319,384

Details of irregular expenditure recoverable (not condoned)

Councillors qualify as Grade 4, but were paid as Grade 5 Councillors	1,260,220

Council and auditors to agree on Irregular expenditure.

42. Reconciliation between budget and statement of financial performance

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

	2012	2011
Net deficit per the statement of financial performance	(15,111,941)	(965,582)

43. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2012	2011
Current year subscription / fee	330,047	329,154
Amount paid - current year	(330,047)	(329,154)
	-	-

Audit fees

	2012	2011
Current year subscription / fee	2,055,569	2,327,020
Amount paid - current year	(2,055,569)	(2,327,020)
	-	-

Notes to the Financial Statements

Figures in Rand	2012	2011

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

PAYE , SDL and UIF

Current year subscription / fee	8,707,995	8,888,112
Amount paid - current year	(8,707,995)	(8,888,112)
	-	-

VAT

VAT receivable	3,137,755	3,023,682

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

44. Actual operating expenditure versus budgeted operating expenditure

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

45. 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 financial statements.

Deviations from supply chain management regulations did occur. A detailed deviation register is available at the municipality for inspection.

Lejweleputswa District Municipality
Appendix A
Schedule of external loans
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
Annuity loans								
DBSA-61004020:Bothaville	1	2013	825,157	-	392,364	432,793	-	-
DBSA-61001299:Henneman	2(a)	2019	2,657,920	-	235,103	2,422,817	-	-
DBSA-61001258:Ventersburg	2(b)	2019	519,054	-	45,912	473,142	-	-
DBSA-61001256: Boshoff	2(c)	2019	401,022	-	31,722	369,300	-	-
DBSA-61001257: Dealesville	2(d)	2019	100,815	-	8,917	91,898	-	-
DBSA-61001259:Wesselsbron	2(e)	2019	1,027,208	-	81,254	945,954	-	-
DBSA-61003159:Bothaville2	3(a)	2020	9,648,313	-	519,878	9,128,435	-	-
DBSA-61003236:Henneman2	3(b)	2020	2,667,459	-	134,555	2,532,904	-	-
DBSA-61003237:Brandfort	3(c)	2020	2,044,101	-	103,110	1,940,991	-	-
			19,891,049	**-**	**1,552,815**	**18,338,234**	**-**	**-**
Total external loans								
Annuity loans			19,891,049	-	1,552,815	18,338,234	-	-
			19,891,049	**-**	**1,552,815**	**18,338,234**	**-**	**-**

Lejweleputswa District Municipality
Appendix B
Analysis op property, plant and equipment
June 2012

	COST					ACCUMULATED DEPRECIATION						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings												
Land	2,870,000	-	-	-	**2,870,000**	-	-	-	-	-	**-**	2,870,000
Buildings	72,927,772	262,887	-	137,942	**73,328,601**	(5,515,436)	-	(26,794)	(2,480,088)	-	**(8,022,318)**	65,306,283
	75,797,772	**262,887**	**-**	**137,942**	**76,198,601**	**(5,515,436)**	**-**	**(26,794)**	**(2,480,088)**	**-**	**(8,022,318)**	**68,176,283**
Other assets												
Motor vehicles	5,324,916	200,000	(1,824,799)	(2,275,637)	**1,424,480**	(881,466)	471,836	313,803	(208,808)	-	**(304,635)**	1,119,845
Plant & equipment	14,635,295	2,281	(13,975,130)	42,244	**704,690**	(5,899,264)	8,222,400	(6,967)	(2,581,993)	-	**(265,824)**	438,866
Other Property, plant and equipment	165,329	3,549	-	(165,329)	**3,549**	(23,321)	-	23,321	-	-	**-**	3,549
Finance Lease assets	63,514	-	-	(63,514)	**-**	(5,716)	-	5,716	-	-	**-**	-
Furniture & Fittings	4,354,179	1,396,908	(950,295)	1,430,005	**6,230,797**	(486,185)	184,626	(168,589)	(1,137,561)	-	**(1,607,709)**	4,623,088
Office Equipment	2,585,431	2,778,085	(173,901)	152,320	**5,341,935**	(427,194)	43,318	27,478	(859,728)	-	**(1,216,126)**	4,125,809
Emergency Equipment	39,740	-	(424,704)	737,741	**352,777**	(3,648)	137,501	(167,591)	(73,312)	-	**(107,050)**	245,727
	27,168,404	**4,380,823**	**(17,348,829)**	**(142,170)**	**14,058,228**	**(7,726,794)**	**9,059,681**	**27,171**	**(4,861,402)**	**-**	**(3,501,344)**	**10,556,884**
Total property plant and equipment												
Land and buildings	75,797,772	262,887	-	137,942	**76,198,601**	(5,515,436)	-	(26,794)	(2,480,088)	-	**(8,022,318)**	68,176,283
Other assets	27,168,404	4,380,823	(17,348,829)	(142,170)	**14,058,228**	(7,726,794)	9,059,681	27,171	(4,861,402)	-	**(3,501,344)**	10,556,884
	102,966,176	**4,643,710**	**(17,348,829)**	**(4,228)**	**90,256,829**	**(13,242,230)**	**9,059,681**	**377**	**(7,341,490)**	**-**	**(11,523,662)**	**78,733,167**
Intangible assets												
Computers - software & programming	2,002,789	4,507,577	-	4,228	**6,514,594**	(1,087,244)	-	(380)	(473,472)	-	**(1,561,096)**	4,953,498
	2,002,789	**4,507,577**	**-**	**4,228**	**6,514,594**	**(1,087,244)**	**-**	**(380)**	**(473,472)**	**-**	**(1,561,096)**	**4,953,498**
Total												
Land and buildings	75,797,772	262,887	-	137,942	**76,198,601**	(5,515,436)	-	(26,794)	(2,480,088)	-	**(8,022,318)**	68,176,283
Other assets	27,168,404	4,380,823	(17,348,829)	(142,170)	**14,058,228**	(7,726,794)	9,059,681	27,171	(4,861,402)	-	**(3,501,344)**	10,556,884
Intangible assets	2,002,789	4,507,577	-	4,228	**6,514,594**	(1,087,244)	-	(380)	(473,472)	-	**(1,561,096)**	4,953,498
	104,968,965	**9,151,287**	**(17,348,829)**	**-**	**96,771,423**	**(14,329,474)**	**9,059,681**	**(3)**	**(7,814,962)**	**-**	**(13,084,758)**	**83,686,665**

Lejweleputswa District Municipality
Appendix C
Segmental Analysis of PPE
June 2012

Segmental analysis of property, plant and equipment as at 30 June 2012

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Other changes, movements Rand	Carrying value Rand
Municipality						
Corporate Services	518,274	(109,791)	-	(5,775)	-	402,708
Human Resources	-	1,120	-	5,775	-	6,895
Information Technology	1,382,118	(44,209)	(1,006)	-	-	1,336,903
Council General	2,379,273	(299,585)	(298,607)	-	-	1,781,081
Social Services	129,988	(21,057)	(2,507)	-	-	106,424
Economic Development	190,383	(24,563)	-	-	-	165,820
Technical Services	127,081	(31,673)	-	-	-	95,408
Environmental Health	290,809	(21,449)	-	-	-	269,360
Disaster Management	10,071,654	6,527,430	(251,465)	-	-	16,347,619
Property	63,454,696	(1,933,590)	-	-	-	61,521,106
Executive Mayor	327,556	(15,107)	(8,849)	4,037	-	307,637
Financial Services	579,262	(61,222)	(21,720)	-	-	496,320
Municipal Support	958,872	(76,710)	(802,087)	-	-	80,075
Rural Roads	9,603,644	(2,588,520)	(6,868,079)	-	-	147,045
Municipal Manager	185,834	51,631	(4,938)	(4,037)	-	228,490
Speaker	172,230	(17,181)	(4,671)	-	-	150,378
Mayoral Committee	267,815	796	(25,215)	-	-	243,396
	90,639,489	**1,336,320**	**(8,289,144)**	**-**	**-**	**83,686,665**

Lejweleputswa District Municipality
Appendix D
Segmental Statement of Financial Performance for the year ended 30 June 2012
June 2012

Prior Year				Current Year		
Actual Income Rand	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**		**Actual Income Rand**	**Actual Expenditure Rand**	**Surplus /(Deficit) Rand**
			Municipality			
6,654,450	5,722,688	931,762	Corporate Services	94,343,486	4,978,033	89,365,453
2,504,330	1,360,640	1,143,690	Human Resources	-	2,123,483	(2,123,483)
1,881,659	1,496,820	384,839	Information Technology	-	1,887,419	(1,887,419)
17,880,985	26,534,631	(8,653,646)	Council General	-	25,849,883	(25,849,883)
3,252,056	1,905,365	1,346,691	Social Services	-	2,187,493	(2,187,493)
4,668,505	4,167,205	501,300	Economic Development	790,000	5,348,092	(4,558,092)
1,047,989	776,463	271,526	Finance Technical Services	-	-	-
11,162,743	9,526,592	1,636,151	Environmental Health	-	9,228,605	(9,228,605)
2,186,022	1,848,152	337,870	Disaster Management	-	2,542,159	(2,542,159)
1,653,805	1,254,764	399,041	Property	-	4,157,344	(4,157,344)
11,511,128	11,742,154	(231,026)	Executive Mayor	-	19,771,887	(19,771,887)
10,523,358	10,116,419	406,939	Financial Services	5,315,484	10,401,323	(5,085,839)
1,099,325	1,210,989	(111,664)	Municipal Support	-	1,348,790	(1,348,790)
1,859,147	3,191,239	(1,332,092)	Rural Roads	-	4,951,819	(4,951,819)
6,730,510	7,846,256	(1,115,746)	Municipal Manager	-	8,219,364	(8,219,364)
3,270,473	2,859,803	410,670	Speaker	-	2,550,012	(2,550,012)
5,842,846	5,422,780	420,066	Mayoral Committee	-	4,352,402	(4,352,402)
1,382,937	1,394,758	(11,821)	Technical Services	-	1,394,490	(1,394,490)
1,985,000	1,777,379	207,621	Tourism	-	4,268,313	(4,268,313)
97,097,268	**100,155,097**	**(3,057,829)**		**100,448,970**	**115,560,911**	**(15,111,941)**

Lejweleputswa District Municipality
Appendix E(1)
Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2012
June 2012

	Act. Bal. Rand	Adjusted budget Rand	Variance Rand	Var
Revenue				
Government grants & subsidies	96,214,296	99,137,000	(2,922,704)	(2.9)
Other income	323,471	-	323,471	-
Interest Received	3,911,203	3,615,260	295,943	8.2
	100,448,970	102,752,260	(2,303,290)	(2.2)
Expenses				
Personnel	(43,673,940)	(45,381,442)	1,707,502	(3.8)
Remuneration of councillors	(6,489,669)	(7,447,406)	957,737	(12.9)
Depreciation	(7,814,962)	(7,423,395)	(391,567)	5.3
Finance costs	(3,106,722)	(3,079,918)	(26,804)	0.9
Debt impairment	(326,337)	(504,000)	177,663	(35.3)
Repairs and maintenance - General	(1,575,052)	(1,500,078)	(74,974)	5.0
Donation of PPE	(7,669,857)	(7,716,620)	46,763	(0.6)
General Expenses	(36,427,180)	(42,132,859)	5,705,679	(13.5)
Transfer to the development agency	(2,000,000)	(2,000,000)	-	-
Transfer to local municipality	(5,965,522)	(6,150,000)	184,478	(3.0)
	(115,049,241)	(123,335,718)	8,286,477	(6.7)
Other revenue and costs				
Gain or loss on disposal of assets	(511,670)	-	(511,670)	-
	(511,670)	-	(511,670)	-
Net surplus/ (deficit) for the year	(15,111,941)	(20,583,458)	5,471,517	(26.6)

Lejweleputswa District Municipality
Appendix E(2)
Budget Analysis of Capital Expenditure as at 30 June 2012
June 2012

	Additions Rand	Revised Budget Rand	Variance Rand	Variance %
Municipality				
Council General	90,913	101,676	10,763	**11**
Speaker	26,852	58,000	31,148	**54**
Executive Mayor	74,148	60,000	(14,148)	**(24)**
Mayoral Committee	69,309	70,654	1,345	**2**
Municipal Manager	105,873	200,000	94,127	**47**
Corporate Services	642	-	(642)	**-**
Human Resources	8,759	10,000	1,241	**12**
Information Technology	544,210	845,000	300,790	**36**
Property	786,666	1,150,000	363,334	**32**
Social Services	9,267	20,000	10,733	**54**
Disaster Management	7,250,871	7,919,000	668,129	**8**
Environmental Health	49,691	50,000	309	**1**
Economic Development	23,538	30,000	6,462	**22**
Technical Support	-	10,000	10,000	**100**
Financial Services	86,395	140,000	53,605	**38**
Municipal Support	17,754	20,000	2,246	**11**
Rural Roads	6,399	20,000	13,601	**68**
	9,151,287	**10,704,330**	**1,553,043**	**15**

Appendix F
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2012

Name of Grants	Quarterly Receipts					Quarterly Expenditure					Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act
	Jul	Oct	Jan	Apr	Jun	Jul	Oct	Jan	Apr	Jun	Yes/ No
Municipal Service Improvement Grant	-	(790,000)	-	-	-	-	185,000	335,000	97,720	172,280	Yes
Financial Management Grant	-	(1,250,000)	-	-	-	27,388	397,260	261,290	226,356	341,002	Yes
	-	-	-	-	-	-	-	-	-	-	
	-	-	-	-	-	-	-	-	-	-	
	-	(2,040,000)	-	-	-	27,388	582,260	596,290	324,076	513,282	