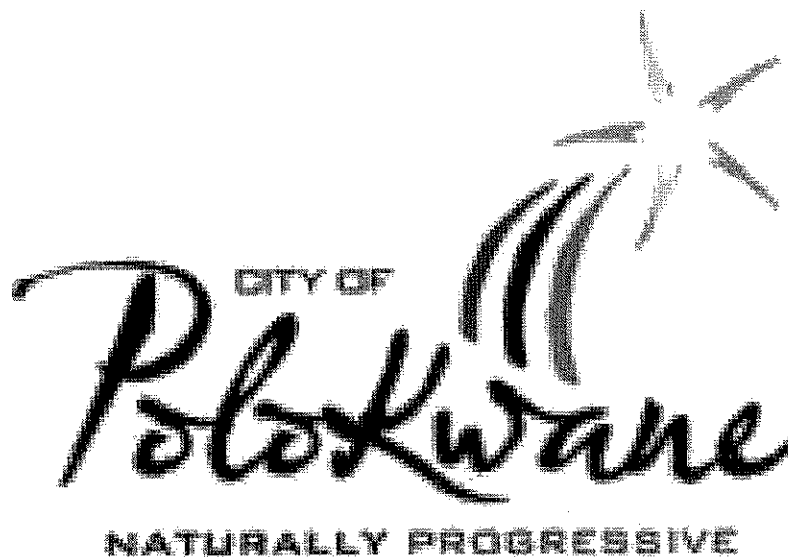


**POLOKWANE  
LOCAL MUNICIPALITY**



**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2012  
AUDITED**

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**POLOKWANE MUNICIPALITY  
ANNUAL FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**APPROVAL AND CERTIFICATION**

I am responsible for the preparation of these annual financial statements, which are set out on pages 2 to 67, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act.

**Ms TC Mametja  
MUNICIPAL MANAGER**

**DATE**

**POLOKWANE MUNICIPALITY  
FINANCIAL STATEMENTS 30 JUNE 2012**

**General information**

**Members of the Council**

FP Greaver	Executive Mayor
MC Mathiba	Speaker
MM Peta	Member of the Executive Committee
MJ Kaka	Member of the Executive Committee
MD Madikoto	Member of the Executive Committee
ME Maleka	Member of the Executive Committee
PJ Modikoa	Member of the Executive Committee
TJ Mogale	Member of the Executive Committee
RC Molepo	Member of the Executive Committee
LE Hardy	Member of the Executive Committee
MJ Ralefatane	Member of the Executive Committee
MK Teffo	Member of the Executive Committee
AH Botha	Member of Council
HE Chauke	Member of Council
FA Haas	Member of Council
ME Khalo	Member of Council
A Kirkpatrick	Member of Council
MF Kubjane	Member of Council
LM Legodi	Member of Council
MJ Lekota	Member of Council
MM Lemekoana	Member of Council
MW Letsoalo	Member of Council
M Maake	Member of Council
MG Mabelebele	Member of Council
MM Mabitsele	Member of Council
MT Mabutla	Member of Council
NE Machaba	Member of Council
TJ Magoro	Member of Council
RT Makgabo	Member of Council
KP Makgoba	Member of Council
MP Maifala	Member of Council
MM Mailula	Member of Council
MM Maja	Member of Council
MA Malemati	Member of Council
SJ Malope	Member of Council
CM Mamabolo	Member of Council
ML Mamabolo	Member of Council
SN Mamabolo	Member of Council
MA Manong	Member of Council
SM Mashabela	Member of Council
MC Mashiane	Member of Council
A Mashie	Member of Council
MR Mashitsho	Member of Council
MA Mathabatha	Member of Council
JM Matlou	Member of Council
MJ Manamela	Member of Council
QN Mehlape	Member of Council
ST Mehlape	Member of Council
JA Moabelo	Member of Council
MA Moakamedi	Member of Council
RK Mogashoa	Member of Council
TSP Mojapelo	Member of Council
NJ Mokgokong	Member of Council

**POLOKWANE MUNICIPALITY  
FINANCIAL STATEMENTS 30 JUNE 2012**

JS Mokonyama	Member of Council
MH Morwana	Member of Council
M Mothiba	Member of Council
ML Motshekga	Member of Council
W Naumann	Member of Council
SE Nkadimeng	Member of Council
MP Phadu	Member of Council
RH Phoshoko	Member of Council
MJ Raletjena	Member of Council
CS Ramabu	Member of Council
DM Ramakgwakgwa	Member of Council
MS Rammala	Member of Council
MJ Sedibane	Member of Council
MR Sekgobela	Member of Council
MJ Sello	Member of Council
ND Setjie	Member of Council
TC Shilajoe	Member of Council
MMP Sono	Member of Council
MS Tjale	Member of Council
KG Tsheola	Member of Council
MA Thobejane	Member of Council
MJ Willemse	Member of Council
ER Wilson	Member of Council

**Municipal Manager**  
T C Mametja

**Acting Chief Financial Officer**  
T G Maponya

**Auditors**  
Auditor-General

**Grading of Local Authority**  
Grade 10

**Bankers**  
Standard Bank

**POLOKWANE MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012	2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	15	11,273,530	5,241,310
Trade and other receivables from exchange transactions	12	263,452,951	207,673,599
Other receivables from non-exchange transactions	13	14,061,682	5,189,289
Inventories	11	60,155,470	53,879,838
Investments	9	223,808,054	219,993,222
Current portion of receivables	10	7,502,238	21,371,735
VAT receivable	14	65,908,014	15,296,267
<b>Total Current Assets</b>		<b>646,161,938</b>	<b>528,645,260</b>
<b>Non-current assets</b>			
Non-current receivables	10	8,667,466	8,396,949
Investments	9	67,217,189	8,217,389
Property, plant and equipment	8	5,573,512,985	5,437,403,828
Intangible assets	8.1	34,427,631	41,185,281
Investment property carried at fair value	8.2	138,359,667	138,359,667
Biological assets	8.3	7,304,647	14,609,293
<b>Total Non-current assets</b>		<b>5,829,489,585</b>	<b>5,648,172,406</b>
<b>Total Assets</b>		<b>6,475,651,524</b>	<b>6,176,817,667</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables from exchange transactions	6	218,419,045	180,308,585
Consumer deposits	5	62,072,194	57,596,427
Current portion of unspent conditional grants and receipts	7	174,566,948	166,832,457
Current portion of borrowings	4	35,807,907	26,578,289
Current portion of finance lease liability	38	2,597,004	3,969,296
<b>Total Current Liabilities</b>		<b>493,463,098</b>	<b>435,285,053</b>
<b>Non-current liabilities</b>			
Non-current borrowings	4	298,587,916	254,480,801
Non-current finance lease liability	38	-	2,597,004
Non-current Provisions	35	177,751,749	158,810,424
<b>Total Non-current Liabilities</b>		<b>476,339,665</b>	<b>415,888,228</b>
<b>Total liabilities</b>		<b>969,802,763</b>	<b>851,173,282</b>
<b>Net assets</b>		<b>5,505,848,761</b>	<b>5,325,644,385</b>
<b>NET ASSETS</b>			
Housing Development	2	11,247,728	11,155,453
Revaluation Reserves	3	770,838,771	770,838,771
Accumulated surplus		4,723,762,262	4,543,650,161
<b>Total net assets</b>		<b>5,505,848,761</b>	<b>5,325,644,385</b>

**POLOKWANE MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 R	2011 R
<b>REVENUE</b>			
Property rates	17	229 422 699	211 929 612
Service charges	18	781 281 433	620 813 560
Rental of facilities	19	5 509 961	4 336 869
Investment Revenue – external investments	22	24 554 093	8 732 113
Interest earned – outstanding debtors		17 678 491	20 190 077
Fines		4 496 562	4 796 811
Licenses and permits		8 234 418	8 065 163
Income for agency services		13 827 380	13 460 412
Government grants recognised - operating	20	367 484 803	358 908 609
Government grants recognised - capital	20	213 510 998	127 554 532
Public contributions, donated and contributed property, plant and equipment	21	36 649 036	3 528 444
Other revenue	23	95 839 625	72 569 750
<b>Total Revenue</b>		<b><u>1 798 489 499</u></b>	<b><u>1 454 885 953</u></b>
<b>EXPENDITURE</b>			
Employee related costs	24	399 033 020	362 171 819
Remuneration of councillors	25	20 614 731	19 778 889
Bad debts	12	38 191 993	47 599 029
Collection costs		817 561	1 463 112
Depreciation		231 254 348	176 460 819
Repairs and maintenance		96 881 394	95 300 758
Finance cost	26	29 426 803	13 072 740
Bulk purchases	27	518 796 538	418 402 194
Grants and subsidies paid	28	6 121 695	240 000
General expenses	29	281 118 928	239 712 809
<b>Total Expenditure</b>		<b><u>1 622 257 011</u></b>	<b><u>1 374 202 171</u></b>
Less: Impairment loss	44	1,202,194	
<b>NET SURPLUS FOR THE YEAR</b>		<b><u>175 030 294</u></b>	<b><u>80 683 782</u></b>

POLOKWANE MUNICIPALITY  
STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2012

	Notes	Note	Housing Fund	Revaluation Reserve	Total	Accumulated Surplus/ (Deficit)	Total
<b>Balance at 30 June 2010</b>				<b>R</b>		<b>R</b>	
Surplus on revaluation of property, plant and equipment			10 968 651	359 565 517	370 534 168	4 392 947 182	4 763 481 350
Prior Year Adjustment				1 578 940	1,578,940	46 884 793	1,578,940
Prior Year Adjustment : Surplus on revaluation of property, plant and equipment				423 011 555	423,011,555		46,884,793
Net gains and losses not recognised in the statement of financial performance			186 802	(13 317 241)	(13,130,439)	23 134 404	423,011,555
Transfers to/ from accumulated surplus						80 683 782	10,003,965
Surplus for the period						4 543 650 161	80,683,782
<b>Balance at 30 June 2011</b>			<b>11 155 453</b>	<b>770 838 771</b>	<b>781 994 224</b>	<b>4 543 650 161</b>	<b>5 325 644 385</b>
Surplus on revaluation of property, plant and equipment			92 275		92,275		92,275
Net gains and losses not recognised in the statement of financial performance						5 081 808	5,081,808
Transfers to/ from accumulated surplus						175 030 294	175,030,294
Surplus for the period						4 723 762 262	175,030,294
<b>Balance at 30 June 2012</b>			<b>11 247 728</b>	<b>770 838 771</b>	<b>782 086 499</b>	<b>4 723 762 262</b>	<b>5 505 848 761</b>



**POLOKWANE MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2012**

	Note	2012 R	2011 R
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash received from ratepayers, government and others		1 567 135 930	1 460 078 412
Cash paid to suppliers and employees		<u>(1224 033 638)</u>	<u>(1163 088 200)</u>
<b>Cash generated from operations</b>	<b>31</b>	<b>343 102 292</b>	<b>296 990 212</b>
Interest received		42 232 584	28 922 190
Finance cost		<u>(29 426 803)</u>	<u>(13 072 740)</u>
<b>Net cash from operating activities</b>		<b><u>355 908 072</u></b>	<b><u>312 839 662</u></b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
Purchase of property, plant and equipment		(346 104 026)	(276 861 457)
Purchase of intangible assets		(8 399 378)	(11 024 640)
Proceeds on disposal of property, plant and equipment			1 847 330
(Increase)/decrease in non-current receivables		13 598 980	2 690 273
(Increase)/decrease in non-current investments		(58 999 800)	0
(Increase)/decrease in current investments		<u>(3 814 832)</u>	<u>(160 993 422)</u>
<b>Net cash from investment activities</b>		<b><u>(403 719 056)</u></b>	<b><u>(444 341 916)</u></b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Increase/(decrease) in long term loans		53 336 733	230 277 095
Increase/(decrease) in deposits		4 475 768	5 759 569
Decrease in finance lease liability		<u>(3 969 295)</u>	<u>(3 642 856)</u>
<b>Net cash from financing activities</b>		<b><u>53 843 206</u></b>	<b><u>232 393 808</u></b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b><u>6 032 222</u></b>	<b><u>100 891 555</u></b>
Cash and cash equivalents at beginning of the year	<b>15</b>	5 241 310	(95 650 243)
Cash and cash equivalents at end of the year	<b>15</b>	<u>11 273 530</u>	<u>5 241 310</u>

## Accounting Policies

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005. These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

#### 1.1 Significant judgments and sources of estimation uncertainty

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

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

The municipality assesses its loans and receivables for impairment at each statement of financial performance, the municipality makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for 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.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value Management have made estimates of the selling price and direct cost to sell on certain inventory items.

The write down is included in the impairment of assets note.

##### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the statement of financial

position date. The quoted market price used for financial assets held by the municipality is the current bid price. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the

assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in note 36 - Provisions.

### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

### **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 22.

### **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.

### **1.2 Presentation of Currency**

These annual financial statements are presented in South African Rand which is the functional currency of the municipality.

### 1.3 Going concern assumption

In terms of the accounting standard GRAP 1 paragraphs 27 to 30 the annual financial statements are prepared on a going concern basis. The assumption is based on the fact that the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

However based on the current solvency and liquidity ratio's tests performed, the municipality's ability to operate as a going concern is under threat.

#### 1.4.1 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were terminated on 1 April 1998 and transferred to a Housing Development Fund. Housing selling scheme, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

#### 1.4.2 Revaluation Reserve

The surplus arising from the revaluation of land and buildings is credited to a revaluation reserve. The revaluation surplus is realised as re-valued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/(deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on re-valued amounts, are credited or charged to the Statement of Financial Performance.

### 1.5 Investment property

#### Initial Recognition:

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion

#### Subsequent Measurement:

Investment property is measured at fair value. After initial recognition all investment property is measured at fair value at each Statement of financial position date. No depreciation is calculated on these properties.

### 1.6 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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at re-valued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is re-valued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after re-valuation equals its re-valued amount.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a re-valuation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the re-valued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value. Property, plant and equipment is carried at cost less accumulated depreciation and any impaired costs.

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

Item Average useful life

Infrastructure

→ Roads and paving	30 years
→ Pedestrian malls	5 years
→ Electricity	20-30 years
→ Sewerage	15-20 years
→ Water	15-20 years
→ Housing	30 years
→ Refuse sites	15 years

Community

→ Recreational facilities	20 - 30 years
→ Cemeteries	30 years
→ Halls	30 years
→ Libraries	30 years
→ Parks and gardens	10 - 30 years
→ Fire services	30 years
→ Clinics	20 - 30 years
→ Sport fields	20 - 30 years

Other

→ Motor vehicles	5 years
→ Plant and equipment	2-15 years
→ Security measures	3-10 years
→ Buildings	30 years
→ Specialised vehicles	10 years
→ IT equipment	3-5 years
→ Office equipment	3-7 years

Land is not depreciated as it is regarded as having an infinite useful life.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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

The gain or loss arising from the de-recognition of an item of Intangible assets is included in surplus or deficit when the items derecognised. The gain or loss arising from the de-recognition 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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

## 1.7 Biological Assets

### Initial Recognition

A biological asset or agricultural produce is recognised when, and only when:

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

### Subsequent Measurement:

Biological assets are measured at their fair value less estimated point-of-sale costs.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit. The fair value of milk is determined based on market prices in the local area. The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises.

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

An unconditional government grant related to a biological asset measured at its fair value less estimated point-of-sale costs is recognised as income when the government grant becomes receivable.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on biological assets where fair value cannot be determined, to write down the cost, less residual value. The annual depreciation rates are based on the following estimated average asset lives:

### 1.8 Inventories

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

The cost at reporting date comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Unsold properties are at the lower cost and net realisable value. Direct cost are accumulated for each separately identifiable development. Cost also includes a portion of the overhead costs.

### 1.9 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or un-collectability.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

De-recognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment,

call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, (see the Standard of GRAP on Revenue from Exchange Transactions) transaction costs, and all other premiums or discounts. There is a presumption



that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in

market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted

market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

#### **Classification**

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

#### **Class Category**

Cash and cash equivalents Financial asset measured at amortised cost  
Trade and other receivables from non-exchange transactions Financial asset measured at amortised cost  
Trade and other receivables from exchange transactions Financial asset measured at amortised cost

Long term receivables Financial asset measured at amortised cost

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

#### **Class Category**

Long term liabilities Financial liability measured at amortised cost

Trade and other payables Financial liability measured at amortised cost

#### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument. The entity recognises financial assets using trade date accounting.

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately.

The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and

Presentation of Financial Statements, where it is the issuer of the loan; or  
→ non-exchange revenue, in accordance with the Standard of GRAP on Revenue from  
Non exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation

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

#### **Reclassification**

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value.

This requires a reclassification of the instrument from amortised cost or cost to fair value. If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability

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

#### **Impairment and un-collectability of financial assets**

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

Financial assets measured at amortised cost:

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

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

#### **Financial assets measured at cost**

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

#### **De-recognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any

difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

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

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On de-recognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit. If the transferred asset is part of a larger financial asset and the part transferred qualifies for de-recognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in de-recognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

### **Financial liabilities**

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

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

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

### **Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit. Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for de-recognition, the entity does not offset the transferred asset and the associated liability.

### **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.

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

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

#### **Measurement**

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

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

#### **Rendering of services**

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

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

- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable. Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by.

### **Interest, royalties and dividends**

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. Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.11 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service

potential is required to be returned to the transferor if not deployed as specified. Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government.

Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### **Measurement**

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

### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset

and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality. Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

### **Bequests**

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality,



and the fair value of the assets can be measured reliably.

#### **Gifts and donations, including goods in-kind**

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

#### **1.12 Conditional Grants and receipts**

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

#### **1.13 Provisions and contingencies**

Provisions are recognised when:

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

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

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

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense. A provision is used only for expenditure 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. 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 agreement.

After their initial recognition contingent liabilities recognised in business 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 33

#### **1.14 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- 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 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), The Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.16 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.

#### **1.17 Translation of foreign currencies**

##### **Foreign currency transactions**

A foreign currency transaction is recorded, on initial recognition in Rand's, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

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

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

#### **1.18 Comparative figures**

Current year comparatives

Budgeted amounts have been included in the statement of comparison of budget and actual amounts for the current financial year only.

Prior year comparatives

When presentation or classification of items in the annual financial statements is amended,

prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. 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.

### 1.19 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.

#### Finance leases – lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

#### Operating leases – lessor

Operating lease income is recognised as an income 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 income.

Income for leases is disclosed under revenue in the 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. This liability is not discounted.

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

### 1.20 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 that are attributable to the asset will flow to the entity; and
- the cost 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.
- 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. Amortisation is not provided for these property, plant and equipment. 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 every period-end. Reassessing the useful life of an intangible asset with a definite 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:

Computer software, internally generated 3 - 5 years  
Computer software, other 3 - 5 years

Intangible assets are derecognised:

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

#### **1.21 Non-current assets held for sale**

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

Non-current assets held for sale are measured at the lower of its carrying amount and fair value less costs to sell. A non-current asset is depreciated (or amortised) while it is classified as a "held for sale" asset.

Interest and other expenses attributable to the liabilities of the "held for sale assets" are recognised in surplus or deficit.

#### **1.22 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.

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. Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

#### **Identification**

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

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance.

Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and  
→ estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### **Composition of estimates of future cash flows**

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### **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.

#### **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 re-valued 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.

#### **Re-designation**

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

### **1.23 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are 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.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment. Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the



prepayment will lead to, for example, a reduction in future payments or a cash refund; and

→ as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

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

### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment. Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

#### **Post-employment benefits: Defined contribution plans**

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

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

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

→ as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting municipality) that are held by an municipality (a fund) that is legally separate from the reporting municipality and exists solely to pay or fund

employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting municipality's own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies. The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself. The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

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

The amount determined as a defined benefit liability may be negative (an asset). The municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
  - interest cost;
  - the expected return on any plan assets and on any reimbursement rights;
  - actuarial gains and losses;
  - past service cost;
  - the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability)

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices). When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled. The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money.

The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

**Pension Obligations:** The municipality and its employees contribute to 5 different Pension Funds, of which 3 (The Municipal Employees Pension Fund, Municipal Gratuity Fund and Samwu National Provident Fund) cater for the majority of the staff. The Joint Municipal Pension Fund, Municipal Employees Pension Fund, Municipal Gratuity Fund, Samwu National Provident Fund, and National Fund for Municipal Workers are defined contribution funds.

The schemes are funded through payments to financial consultant companies or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Municipality pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in

the future payments is available.

#### **1.24 Investment income**

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

#### **1.25 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset

is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.21. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted. Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **1.26 Use of Estimates**

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these

estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

#### **1.27 Offsetting**

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

#### **1.28 Investments**

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

#### **1.29 Grants in aid**

The Polokwane Municipality transfers money to individuals, institutions and organisations. When making these transfers, The Municipality does not: Receive any goods or services directly in return, as would be expected in a purchase or sale transaction Expect to be repaid in future; or Expect a financial return, as would be expected from an investment These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

### 1.30 Impairment of non-cash-generating assets

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.

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.

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:

- > the period of time over which an asset is expected to be used by the municipality; or
- > the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

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

#### Value in use

Value in use of an asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of an asset is determined using the following approach:

#### Depreciated replacement cost approach

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

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

thus reflects the service potential required of the asset.

#### **Restoration cost approach**

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

#### **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 re-valued 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.

#### **Re-designation**

The re-designation of assets from a cash-generating asset to a non-cash-generating asset

or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a re-designation is appropriate.

### 1.31 Presentation of Budget Information in the Financial Statements

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

- 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 entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

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

A comparable basis means that the budget and annual financial statements:

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

### 1.32 Heritage Assets

#### Recognition of Assets

Heritage assets is recognised when it has a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset is further recognised as an asset only if:

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

#### Subsequent Measurement

Heritage asset is measured at its cost value and should it be acquired through a non-exchange transaction will it be measured at its fair value as at the date of acquisition and is carried at its cost less any accumulated impairment losses.

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



respect of that heritage asset.

Although a heritage asset is not depreciated is the heritage asset assess at each reporting date to disclose whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

The municipality will treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. Should any item of property, plant and equipment or an intangible asset carried at a re-valued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a re-valued amount, the entity applies the applicable Standard to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard relating to that asset. Transfer of investment property carried at fair value, or inventories to heritage assets at a re-valued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

Item use Fill Live

Property and building – Indefinite  
Other Assets - 5 to 50 years

De-recognition of Asset

The carrying amount of a heritage is de-recognised:

→ on disposal, or

→ when no future economic benefits or service potential are expected from its use or disposal.

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

## **2. New standards and interpretations**

### **2.1 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 - Issued March 2005**

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 entity. 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 entity'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.

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

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements. It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP 20: Related Party – Issued June 2011**

Related party relationships exist throughout the public sector, because:

- (a) The Municipalities is subject to the overall direction of an executive government or Council and ultimately, parliament, and operate together to achieve the policies of the government
- (b) The Municipality conduct activities necessary for the achievement of different parts of their responsibilities and objectives through separate controlled entities, and through entities over which they have significant influence
- (c) Public entities enter into transactions with other government entities on a regular Basis, and
- (d) Ministers, councillors or other elected or appointed members of the government and other members of management can exert significant influence over the operations of an entity.

The mere existence of related party relationships means that one party can control, jointly control or significantly influence the activities of another party. This provides the opportunity for transactions to occur on a basis that may give one party an advantage at the expense of another. Therefore the disclosure of related party transactions, outstanding balances, and the relationship underlying those transactions is necessary for accountability purposes.

Management could hold positions of responsibility within an entity and therefore members of management will be responsible for the strategic direction and operational management of an entity and are entrusted with significant authority. However, their responsibilities may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

Close members of the family of persons related to the entity may influence, or be influenced by them in their transactions with the entity.

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 effective date of the standard is for years beginning on or after 01 April 2013. The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operation.

At present the impact of the standard is not material.

**GRAP 25: Employee benefits - Issued November 2009**

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits.

The Standard requires a municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when 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.

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

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

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

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

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

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

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

The standard prescribes recognition and measurement for:

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

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 2011. The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

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

**"GRAP 105: Transfer of Functions between Entities under Common Control – Issued November 2010"**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future it be necessary to transfer functions between entities under common control will the accounting policy be amended to cater for such transfer."

**"GRAP 106: Transfer of Function between Entities Not Under Common Control – Issued November 2010"**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future it be necessary to transfer functions between entities not under common control will the accounting policy be amended to cater for such transfer."

**GRAP 107: Mergers – Issued November 2010**

"The compliance to the standard would have no effect on the present presentation of the Annual Financial Statement. However should in the future there be a merger between entities will the accounting policy be amended to cater for such merger transactions and disclosure."

POLOKWANE MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
<b>2. HOUSING DEVELOPMENT FUND</b>	<b>11 247 728</b>	<b>11 155 453</b>
Unappropriated Surplus	8 267 757	8 175 482
Loans extinguished by Government in April 1998	2 979 971	2 979 971
The Housing Fund is represented by the following assets and liabilities:		
Property, plant and equipment	507 721	507 721
Housing selling scheme loans	2 243 264	2 397 719
Bank and cash	8 496 743	8 250 013
	<b>11 247 728</b>	<b>11 155 453</b>
 <b>3. RESERVES</b>		
Revaluation Reserve	770 838 771	770 838 771
 <b>4. BORROWINGS</b>		
<b>Non-Current Borrowings</b>		
Local Registered Stock loans	516 595	781 995
Annuity loans	333 879 229	280 277 095
	334 395 823	281 059 090
 <b>Current Portion of Borrowings</b>	<b>35 807 907</b>	<b>26 578 289</b>
Local Registered Stock loans	0	65 400
Annuity loans	35 807 907	26 512 889
	<b>298 587 916</b>	<b>254 480 801</b>
Refer to Appendix A for more detail on long term liabilities.		
The Fair value of all long term loans approximates their book value		
Long term loan commitments: The Municipality had entered into a loan agreement with the Development Bank of Southern Africa on 18 February 2011 to borrow R320 million at a interest rate of 8.875% over 10 years.		
The Municipality has made a drawdown of R86.9 million (2011:R233.1 million) from this facility in the financial year ending 30 June 2012		
 <b>5. CONSUMER DEPOSITS</b>		
Water and electricity	62 072 194	57 596 427
No interest is paid on consumer deposits.		
Guarantees held in lieu of electricity and water deposits	8 888 046	9 170 371

POLOKWANE MUNICIPALITY  
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	2012 R	2011 R
<b>6. TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade Creditors	91 546 775	70 842 072
Amounts received in advance	28 555 906	15 568 871
Other	11 318 258	9 694 984
Guarantees	261 795	261 795
Leave bonus (13th cheque)	7 701 607	7 384 390
Staff leave	43 831 646	40 099 206
Retention withheld on projects	35 203 058	36 457 268
	<b>218 419 045</b>	<b>180 308 585</b>
 <b>7. CURRENT UNSPENT CONDITIONAL GRANTS FROM GOVERNMENT AND PUBLIC DONATIONS</b>		
Local Government Restructuring Grant	953 927	953 927
Public Transport Infrastructure and Systems Grant	34 276 855	5 250 000
Municipal Infrastructure Grant	111 398 780	118 520 006
Limpopo Provincial Government	2 949 710	2 949 710
Water Services Refurbishment Grant	6 407 000	0
Integrated National Electrification Programme Grant	0	7 992 204
Electricity Demand Side Management Grant	8 537 558	257 208
Housing Accreditation Grant	349 572	333 424
Local Government Transition Grant	649 874	649 874
Local Economic Development Grant	54 714	54 714
Neighbourhood Development Partnership Grant	0	2 605 292
Expanded Public Works Programme Incentive Grant	2 464 617	970 098
Sport & Recreation	371 197	0
Local Organising Committee	0	25 000 000
National Lottery	6 153 144	0
Anglo Platinum	0	1 296 000
	<b>174 566 948</b>	<b>166 832 457</b>

See note 20 and 21 for reconciliation of unspent grants. These amounts are invested until utilised.

**B PROPERTY, PLANT & EQUIPMENT**

	Land and Buildings R	Infrastructure R	Other and Movable R	Heritage R	Finance lease R	Total R
Carrying values at 30 June 2010	2 159 454 434	2 597 335 397	122 226 825	8 429 127	45 640 795	4 896 217 167
Cost	2 262 466 216	2 767 254 401	154 686 653	8 429 632	46 506 810	5 201 610 287
Accumulated depreciation – cost	(103 013 782)	(169 919 004)	(32 459 828)	( 505)	(12 866 015)	(305 393 119)
Other movements/transfers	2 244 816	9 261 199	( 210 684)	( 316 604)	(10 978 527)	10 978 527
Acquisitions	6 736 173	96 389 615	20 539 034	275 549	7 015 090	123 949 371
Capital under construction	13 975 322	136 899 448	36 317		4 009 550	152 912 086
Depreciation – based on cost	-81 346 525	-79 342 534	-28 990 556	-1 708 970	-4 502 134	(174 986 695)
Revaluation/impairment	423 011 555	-861 359				423 728 226
Prior year adjustments – acquisitions	1 457 539	-18 380 295	22 946 269	0	1 012	6 022 513
Prior year adjustments – depreciation		4 316 670	0	0	-505	4 316 570
Carrying value of disposals					-769 868	(769 868)
Cost/Accumulated depreciation			417 427			417 427
Landfill site	0					0
Major spare parts & stand-by equipment		1 942 813				1 942 813
Prior Year Adjustments					0	0
Other movements/transfers	-227 014 336	184 634 304	42 380 040	0	0	6
Depreciation- movements/transfers	2 752 226	-2 691 932	-160 295		1	( 0)
Carrying values at 30 June 2011	2 320 669 202	2 891 611 215	172 277 872	6 679 103	6 167 336	5 437 403 828
Cost	2 482 876 283	3 179 148 215	228 014 198	8 388 577	11 594 362	5 910 021 635
Accumulated depreciation – cost	-162 206 080	-247 537 000	-56 736 228	-1 709 473	-5 427 025	-472 617 807
Other movements/transfers	15 096 097	105 144 643	15 097 927			136 330 666
Acquisitions	37 736 300	172 037 199				209 773 499
Capital under construction	-62 046 153	-109 712 325	-26 025 092	-3 340 402	-3 834 346	-204 958 328
Depreciation – based on cost						-1 202 194
Revaluation/impairment			-41	0		-41
Other movements/transfers			0			0
Carrying value of disposals						0
Depreciation- movements/transfers			-3 834 346			-3 834 346
Carrying values at 30 June 2012	2 311 446 427	3 100 099 600	156 314 267	3 338 701	2 332 991	5 573 512 985
Cost	2 535 700 670	3 457 329 926	241 909 531	8 388 577	11 594 362	6 254 923 466
Accumulated depreciation – cost	-224 254 243	-357 249 326	-86 595 684	-5 049 877	-9 261 371	-691 410 469

All assets were revalued by using depreciated replacement values. The effective date of the revaluation was 1 July 2008.

Refer to Appendix B for more detail on property, plant & equipment, including those in the course of construction.

The municipality did engage into projects where certain roads were resurfaced during the 2011-12 financial year. The new surfaces layers was added to the register and the old surface layer was demolished.

During the Physical verification it was found that movable assets that relates to Machinery and equipment, furniture and fittings and computer equipment was not on the asset register. These assets was fully valued by using the DRC (Depreciated replacement cost) method. A reconciliation of off vehicles between the asset register and eNotes was done and it was found that some vehicles was not on the asset register. These vehicles was valued using the Trans Union auto dealers guides.

During the physical verification of all movable assets a condition assessment of each asset was done. This formed the basis of the impairment test. It was found that a number of assets condition was either poor or very poor. The recoverable service amount was determined by estimating what the entity could sell the asset for to another party in an arm's length transaction.

It was found that Land assets depreciated incorrectly in the previous financial year. The depreciation was corrected.

Infrastructure Assets: All the infrastructure assets was reviewed for impairment. There was a process in place where impairment meetings was held with the applicable technical managers. After consideration and review it was decided not to impair the infrastructure assets value. The useful life of the infrastructures where reviewed and where an assets condition was poor or very poor the remaining useful life was adjusted according to the condition factor. This inflated the depreciation for the year

Movable assets: The useful life of movable assets was reviewed as at 01 July 2011. It was found that some movable assets would have fully depreciated within the current financial year. The useful life of these assets where extended with 2 years after review.

The Land register was reconciled to the valuation roll. It was found that some properties was not in the register and it was added to the register. It was also found that some of the properties value on the register did not correspond with the value on the valuation roll. The values on the asset register was revalued so that it balances with the valuation roll.

**8.1 INTANGIBLE ASSETS**

	Intangible R
Carrying values at 30 June 2011	41 185 281
Cost	48 555 935
Accumulated depreciation – cost	-7 370 654
Other movements/transfers	
Acquisitions	1 689 406
Capital under construction	6 708 972
Depreciation – based on cost	-15 157 028
Depreciation- movements/transfers	
Carrying values at 30 June 2012	34 427 631
Cost	56 855 313
Accumulated depreciation – cost	-22 627 682

**8.2 INVESTMENT PROPERTY**

Carrying values at 1 July 2010	125 510 500
Cost	126 510 500
Accumulated depreciation – cost	0
Other movements/transfers	
Prior year adjustments – acquisitions	12 849 167
Depreciation- movements/transfers	
Carrying values at 30 June 2011	138 359 667
Cost	138 359 667
Accumulated depreciation – cost	0
Carrying values at 1 July 2011	138 359 667
Cost	138 359 667
Accumulated depreciation – cost	0
Other movements/transfers	
Depreciation- movements/transfers	
Carrying values at 30 June 2012	138 359 667
Cost	138 359 667
Accumulated depreciation – cost	0

The investment property register was reviewed for completeness. All the lease contracts was reviewed and compared to the GRAP 16 decision tree on investment property. It was found that some pieces of land and buildings was not on the investment property register. These assets where brought on to the register with the value as it is in the valuation roll.



**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012**

**8.3 BIOLOGICAL ASSETS**

**8.3.1 Reconciliation of Carrying Value**

	Game	Other Assets	Total
	R	R	R
<b>as at 1 July 2010</b>	<b>8,774,385</b>	-	<b>8,774,385</b>
Cost/Valuation	8,774,385	-	8,774,385
Correction of error (note 48)	-	-	-
Change in accounting policy (note 47)	-	-	-
Accumulated depreciation and impairment losses	-	-	-
Acquisitions	-	-	-
Decrease due to harvest/sales	-	-	-
Gains from changes in fair value	5,834,908	-	5,834,908
Carrying value of disposals	-	-	-
Cost/Valuation	-	-	-
Accumulated depreciation and impairment losses	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
<b>as at 30 June 2011</b>	<b>14,609,293</b>	-	<b>14,609,293</b>
Cost/Valuation	14,609,293	-	14,609,293
Accumulated depreciation and impairment losses	-	-	-

\* Other movements consist of.....

	Game	Other Assets	Total
	R	R	R
<b>as at 1 July 2011</b>	<b>14,609,293</b>	-	<b>14,609,293</b>
Cost/Valuation	14,609,293	-	14,609,293
Correction of error (note 48)	-	-	-
Change in accounting policy (note 47)	-	-	-
Accumulated depreciation and impairment losses	-	-	-
Acquisitions	-	-	-
Decrease due to harvest/sales	-	-	-
Gains from changes in fair value	-	-	-
Carrying value of disposals	<b>(7,304,647)</b>	-	<b>(7,304,647)</b>
Cost/Valuation	-	-	-
Accumulated depreciation and impairment losses	(7,304,647)	-	(7,304,647)
Impairment loss/Reversal of impairment loss	-	-	-
Transfers	-	-	-
Other movements*	-	-	-
<b>as at 30 June 2012</b>	<b>7,304,647</b>	-	<b>7,304,647</b>
Cost/Valuation	14,609,293	-	14,609,293
Accumulated depreciation and impairment losses	-7,304,647	-	(7,304,647)

	2012	2011
	R	R
<b>9. INVESTMENTS</b>		
<b>Long Term Investments</b>		
Standard Bank	58 999 800	
Investment in municipal entity (THA)	8 217 389	8 217 389
	<b>67 217 189</b>	<b>8 217 389</b>
<b>Short Term Fixed Deposits</b>		
ABSA Bank	50 000 000	80 576 137
First National Bank	40 000 000	20 000 000
Ned bank	60 000 000	40 279 912
Standard Bank	73 808 054	79 137 173
	<b>223 808 054</b>	<b>219 993 222</b>
<b>Total Investments</b>	<b>291 025 243</b>	<b>228 210 611</b>
Council's valuation of investments	<b>291 025 243</b>	<b>228 210 611</b>

No investments have been written off during the  
 The Standard Bank long term investment serves  
 as guarantee for Eskom bulk purchases

	2012	2011
<b>10. RECEIVABLES</b>		
<b>Non-Current Portion of Receivables</b>		
Housing selling scheme loans	2 243 264	2 397 719
Sport loans	662 638	932 016
Erven loans	7 419 480	21 312 350
Loan to Subsidiary - Polokwane Housing Association	5 844 323	5 126 599
	<b>16 169 704</b>	<b>29 768 684</b>
<b>Current Portion of Receivables</b>		
Current portion transferred to current receivables	<b>7 502 238</b>	<b>21 371 735</b>
Housing selling scheme loans	132 494	141 686
Sport loans	0	88 200
Erven loans	7 369 744	21 141 849
	<b>8 667 466</b>	<b>8 396 949</b>

**Housing selling scheme loans**  
 These loans have different interest rates and loans were given over a period of 30 years.

**Sport loans**  
 These loans were given to sporting bodies at an interest rate of 10% repayable over 10 years. These loans are repayable in 2016.

**Erven loans**  
 These loans were granted to the community for the purchase of stands. The loans attract different interest rates.

**Loan to Subsidiary**  
 An interest free loan was given to the Polokwane Housing Association. The loan is repayable in 2017.

	2012 R	2011 R
<b>11. INVENTORY</b>		
<b>Opening balance of inventories</b>	53 879 838	52 629 647
Consumables stores - at cost	50 056 087	48 961 426
Other goods held for resale - at cost	3 564 847	3 246 426
Water	258 904	421 795
<b>Additions</b>	161 489 844	151 414 733
Consumables stores	34 696 568	46 284 461
Other goods held for resale	10 768 716	318 421
Water	116 024 560	104 811 851
<b>Issued (Expensed)</b>	(155 214 212)	(144 854 652)
Consumables stores	(37 907 184)	(39 879 910)
Other goods held for resale	(1 264 912)	
Water	(116 042 116)	(104 974 742)
<b>write-down/ (reversal of write-down) to Net replacement Value and stolen</b>	0	(5 309 890)
Consumables stores	0	(5 309 890)
<b>Closing balances of inventories</b>	80 155 470	53 879 838
Consumable stores - at cost	46 845 471	50 056 087
Unsold properties held for resale	13 068 651	3 564 847
Water - at cost	241 348	258 904

Only unsold properties listed under inventory

which were sold during the year, were expensed.  
Consumable stores fair value disclosed is based on the weighted average calculation method

**12. TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSCATIONS**

Consumer Debtors	408 225 260	333 472 121
Sale of water and electricity 15 to 30June	26 246 588	20 058 221
Less Provision for bad debts	(168 346 946)	(145 856 743)
Less contra debtors suspense account	(2 806 684)	
Plus outstanding RD cheques	134 733	
	<b>263 452 951</b>	<b>207 673 599</b>
<b>Ageing of consumer debtors</b>		
Current (0-30 days)	119 500 842	101 884 601
31-60 days	26 970 400	29 402 051
61-90 days	16 620 294	13 186 022
91-120 days	12 282 698	12 694 151
120+ days	254 090 730	193 376 760
	<b>429 464 964</b>	<b>350 543 585</b>
<b>Consumer debtors per category</b>		
Government	46 425 701	26 367 371
Business	137 343 215	46 660 282
Individuals	234 874 936	268 128 944
Other	10 822 112	9 386 988
	<b>429 465 964</b>	<b>350 543 585</b>

The analysis and ageing of consumer debtors per service could not be provided as the billing system utilised by the municipality was not set up to generate such reports. During the next reporting period will the information be made available

**Reconciliation of bad debt provision**

Balance at beginning of year	145 856 743	106 736 120
Contributions to provision	38 191 993	39 120 623
Bad debts recovered/(written off) against provision	(15 701 790)	
Over provision previous year		
<b>Balance at year end</b>	<b>168 346 946</b>	<b>145 856 743</b>

POLOKWANE MUNICIPALITY  
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		2012 R	2011 R
<b>13.</b>	<b>OTHER RECEIVABLES</b>		
	Other debtors	13 552 382	4 688 389
	Deposits	509 300	500 900
		<u>14 061 682</u>	<u>5 189 289</u>
<b>14.</b>	<b>VAT</b>		
	Vat refundable	<u>65 908 014</u>	<u>15 296 267</u>
	Vat is payable on cash basis.		
<b>15.</b>	<b>CASH AND CASH EQUIVALENTS</b>		
	The municipality has the following bank accounts:		
	<b>Current account (primary bank account)</b>		
	Standard Bank: Polokwane		
	Account number: 030172349		
	Bank statement balance at beginning of year	<u>10 122 899</u>	<u>18 314 811</u>
	Bank statement balance at end of year	<u>9 072 633</u>	<u>10 122 899</u>
	Cash book balance at beginning of year	<u>4 863 581</u>	<u>(96 027 207)</u>
	<b>Cash book balance at end of year</b>	<u>10 866 064</u>	<u>4 863 581</u>
	<b>2010 Account</b>		
	Standard Bank: Polokwane		
	Account number: 330535250		
	Bank statement balance at beginning of year	<u>0</u>	<u>( 70)</u>
	Bank statement balance at end of year	<u>0</u>	<u>0</u>
	Cash book balance at beginning of year	<u>0</u>	<u>( 70)</u>
	<b>Cash book balance at end of year</b>	<u>0</u>	<u>0</u>
	<b>Housing Account</b>		
	Standard Bank: Polokwane		
	Account number: 330535289		
	Bank statement balance at beginning of year	<u>333 424</u>	<u>318 349</u>
	Bank statement balance at end of year	<u>349 572</u>	<u>333 424</u>
	Cash book balance at beginning of year	<u>333 424</u>	<u>318 349</u>
	<b>Cash book balance at end of year</b>	<u>349 572</u>	<u>333 424</u>
	Other	14 134	545
	Petty cash	43 760	43 760
		<u>11 273 530</u>	<u>5 241 310</u>
<b>16.</b>	<b>NON-CURRENT ASSETS HELD FOR SALE</b>	<b>2012</b>	<b>2011</b>
	Property, plant and equipment	-	-
	Investment property	-	-
	Other assets	-	-
		<u>-</u>	<u>-</u>

The municipality did not have Non-current assets held for sale in the current and prior financial years.

		2012 R	2011 R
<b>17</b>	<b>PROPERTY RATES</b>		
	Residential	88 444 976	82 154 432
	Government	24 993 029	22 876 995
	Commercial	90 876 646	85 179 961
	Other	25 108 048	21 718 224
		<b>229 422 699</b>	<b>211 929 612</b>
	<b>VALUATIONS</b>	<b>R000's</b>	<b>R000's</b>
	Residential	20 840 135	20 461 205
	Government	3 481 208	3 328 973
	Commercial	12 394 250	12 325 206
	Municipal	2 045 913	1 878 292
	Other	6 332 941	6 231 994
		<b>45 094 447</b>	<b>44 225 670</b>
	<p>Valuations on land are performed every four years and the last general valuation come into effect on 1 July 2010. The basic rate for 2011/12 was .021501c in the Rand on land. Different rebates are granted to owners dependent on the land value of the property. An additional rebate of 20% was granted to pensioners.</p>		
<b>18</b>	<b>SERVICE CHARGES</b>		
	Sale of electricity	556 892 476	434 520 160
	Sale of water	137 850 018	105 647 778
	Refuse removal	47 227 905	44 289 851
	Sewerage and sanitation charges	39 311 034	36 955 770
		<b>781 281 433</b>	<b>620 813 560</b>
<b>19</b>	<b>RENTAL OF FACILITIES AND EQUIPMENT</b>		
	Rental of facilities	5 509 961	4 336 869
	Rental of equipment	0	0
	<b>Total rentals</b>	<b>5 509 961</b>	<b>4 336 869</b>
<b>20</b>	<b>GOVERNMENT SUBSIDIES &amp; GRANTS</b>		
	<b>Operating Grants</b>	<b>367 484 803</b>	<b>360 475 959</b>
	Equitable share	350 705 000	307 859 481
	Municipal systems improvement grant	790 000	750 000
	Water services operating grant	13 111 000	14 667 000
	Finance management grant	1 250 000	632 128
	Public transport infrastructure and systems grant	0	35 000 000
	Public partners	0	1 567 350
	Sport & Recreation	1 628 803	0
	<b>Capital Grants</b>	<b>213 510 998</b>	<b>129 515 626</b>
	Municipal infrastructural grant	160 800 542	62 236 678
	Finance management grant	0	367 872
	Integrated national electrification programme grant	16 111 934	14 688 067
	Electricity demand side management grant	951 973	14 510 469
	Public transport infrastructure grant	14 792 776	11 528 190
	Expanded public works programme incentive grant	1 248 481	2 478 852
	Neighbourhood development	19 605 292	5 553 258
	Public partners	0	1 961 094
	Water services refurbishment grant	-	16 191 147
	<b>Total Government Grants &amp; Subsidies</b>	<b>580 995 801</b>	<b>489 991 585</b>

	2012 R	2011 R
<b>20 GOVERNMENT SUBSIDIES &amp; GRANTS (CONTINUED)</b>		
<b>20.1 Equitable Share</b>		
Balance unspent at beginning of year	0	0
Current year receipts	350,705,000	307,859,481
Conditions met – transferred to revenue	<u>(350 705 000)</u>	<u>(307 859 481)</u>
	<u>0</u>	<u>0</u>
<p>This grant is an unconditionally grant and is partially utilized for the provision of indigent support through free basic services. Registered indigents receive a maximum monthly subsidy of R160.00 (2011: R141.00) which is funded from this grant</p>		
<b>20.2 Restructuring Grant</b>		
Balance unspent at beginning of year	953 927	953 927
Current year receipts	-	-
Conditions met – transferred to revenue	<u>0</u>	<u>0</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>953 927</u>	<u>953 927</u>
<p>The grant was used for various restructuring initiatives.</p>		
<b>20.3 Finance Management Grant</b>		
Balance unspent at beginning of year	0	0
Current year receipts	1 250 000	1 000 000
Conditions met – transferred to revenue	<u>(1 250 000)</u>	<u>(1 000 000)</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>0</u>	<u>0</u>
<p>This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003. The conditions of the grant were met. No funds have been withheld.</p>		
<b>20.4 Water Services Operating Subsidy Grant</b>		
Current year receipts	13 111 000	14 667 000
Conditions met – transferred to revenue	<u>(13 111 000)</u>	<u>(14 667 000)</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>-</u>	<u>-</u>
<p>The grant was utilised to subsidize salaries of staff and repair and maintenance of water schemes transferred by DWAF.</p>		
<b>20.5 Public Transport Infrastructure and Systems</b>		
Balance unspent at beginning of year	5 250 000	11 528 189
Current year receipts	55 347 000	40 250 000
Conditions met – transferred to revenue	<u>(14 792 776)</u>	<u>(46 528 189)</u>
Paid back to National Treasury	<u>(1 527 369)</u>	<u>0</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>34 276 855</u>	<u>5 250 000</u>
<p>The grant was used for public transport and non motorised transport infrastructure.</p>		
<b>20.5 Municipal Systems Improvement Grant</b>		
Balance unspent at beginning of year	0	0
Current year receipts	790 000	750 000
Conditions met – transferred to revenue	<u>(790 000)</u>	<u>(750 000)</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>0</u>	<u>0</u>
<p>The purpose of the grant is for institutional systems. The grant was utilised.</p>		
<b>GOVERNMENT SUBSIDIES &amp; GRANTS (CONTINUED)</b>		
<b>20.6 Department of Sport &amp; Recreation</b>		
Balance unspent at beginning of year	0	0
Current year receipts	2 000 000	0
Conditions met – transferred to revenue	<u>(1 628 803)</u>	<u>0</u>
<b>Unspent amount transferred to liabilities</b> (see note 7)	<u>371 197</u>	<u>0</u>
<p>This grant was utilised to construct a new 2010 stadium for the 2010 FIFA soccer World Cup. The conditions of the grant were met and no</p>		

	2012 R	2011 R
<b>20.7 Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	118 520 005	28 927 683
Current year receipts	182 607 000	151 829 000
Conditions met – transferred to revenue	(160 800 542)	(62 236 678)
Paid back to National Treasury	(28 927 683)	0
<b>Unspent amount transferred to liabilities</b>	<b>111 398 780</b>	<b>118 520 005</b>
(see note 7)		
This grant was used to construct municipal infrastructure to provide basic services for the benefit of poor households. The conditions of the grant were met and no funds have been withheld.		
<b>20.8 Limpopo Provincial Government</b>		
Balance unspent at beginning of year	2 949 710	2 949 710
Current year receipts	0	0
Conditions met – transferred to revenue	0	0
<b>Unspent amount transferred to liabilities</b>	<b>2 949 710</b>	<b>2 949 710</b>
(see note 7)		
<b>20.9 Water Services Refurbishment Grant</b>		
Balance unspent at beginning of year	-	16 191 147
Current year receipts	6 407 000	0
Conditions met – transferred to revenue	-	(16 191 147)
<b>Unspent amount transferred to liabilities</b>	<b>6 407 000</b>	<b>-</b>
(see note 7)		
The grant was utilised to subsidise water schemes transferred by DWAF.		
<b>20.10 Limpopo Local Government &amp; Housing</b>		
Balance unspent at beginning of year	333 424	318 349
Current year receipts	16 148	15 075
Conditions met – transferred to revenue	0	0
<b>Unspent amount transferred to liabilities</b>	<b>349 572</b>	<b>333 424</b>
(see note 7)		
The grant was used to fund the housing accreditation process		
<b>20.11 Local Government Transition Grant</b>		
Balance unspent at beginning of year	649 874	649 874
Current year receipts	0	0
Conditions met – transferred to revenue	0	0
<b>Unspent amount transferred to liabilities</b>	<b>649 874</b>	<b>649 874</b>
(see note 7)		
The grant was used to fund the local government transitional phase		
<b>20.12 Local Economic Development Grant</b>		
Balance unspent at beginning of year	54 714	54 714
Current year receipts	0	0
Conditions met – transferred to revenue	0	0
<b>Unspent amount transferred to liabilities</b>	<b>54 714</b>	<b>54 714</b>
(see note 7)		
The grant was used to fund local economic development processes.		
<b>20.13 Integrated National Electrification Programme Grant</b>		
Balance unspent at beginning of year	7 992 204	14 680 271
Current year receipts	22 800 000	8 000 000
Conditions met – transferred to revenue	(16 111 934)	(14 686 067)
Paid back to National Treasury	(14 680 270)	0
<b>Unspent amount transferred to liabilities</b>	<b>-</b>	<b>7 992 204</b>
(see note 7)		
The grant was used to fund projects to address electrification backlogs in rural areas.		
<b>Electricity Demand Side Management Grant</b>		
<b>20.14</b>		
Balance unspent at beginning of year	257 208	2 767 678
Current year receipts	12 000 000	12 000 000
Conditions met – transferred to revenue	( 951 973)	(14 510 470)
Paid back to National Treasury	(2 767 677)	0
<b>Unspent amount transferred to liabilities</b>	<b>8 537 558</b>	<b>257 208</b>
(see note 7)		
The grant was used to fund projects in order to mitigate the risk of load shedding and supply		

	2012 R	2011 R
<b>Expanded Public Works Programme Incentive</b>		
<b>20.15 Grant</b>		
Balance unspent at beginning of year	970 098	0
Current year receipts	2 743 000	3 448 950
Conditions met – transferred to revenue	(1 248 481)	(2 478 852)
<b>Unspent amount transferred to liabilities</b> (see note 7)	<b>2 464 617</b>	<b>970 098</b>
The grant was used to fund projects in order to maximise job creation and skills development .		
<b>Neighbourhood Development Partnership</b>		
<b>20.16 Grant</b>		
Balance unspent at beginning of year	2 605 292	0
Current year receipts	17 000 000	8 158 550
Conditions met – transferred to revenue	(19 605 292)	(5 553 258)
<b>Unspent amount transferred to liabilities</b> (see note 7)	<b>-</b>	<b>2 605 292</b>
The grant was used to fund projects in order to provide community infrastructure to improve quality of life of residents in townships .		
<b>PUBLIC CONTRIBUTIONS, DONATED &amp; CONTRIBUTED PROPERTY, PLANT &amp; EQUIPMENT</b>		
<b>21 Loc, Anglo Platinum &amp; National Lottery</b>		
Balance unspent at beginning of year	26 296 000	-
Current year receipts	16 506 181	29 824 444
Conditions met – transferred to revenue	(36 649 037)	(3 528 444)
<b>Unspent amount transferred to liabilities</b> (see note 7)	<b>6 153 144</b>	<b>26 296 000</b>
The grant was utilised to install water infrastructure.		
<b>Total Unspent grants, Subsidies &amp; Public Contributions</b>	<b>174 566 948</b>	<b>166 832 456</b>
See note 7 for reconciliation		
<b>22 INVESTMENT REVENUE</b>		
<b>EXTERNAL INVESTMENTS</b>		
Current account	7 902 589	3 023 736
External investments	15 933 780	5 078 795
Investment in PHA	717 724	629 582
	<b>24 554 093</b>	<b>8 732 113</b>
<b>23 OTHER REVENUE</b>		
Building plan fees	3 084 898	3 190 319
Consumer Connection fees		6 300 114
Sale of erven	1 264 912	21 430 899
Surcharge excess	27 653 014	20 605 785
Royalties Silicon	316 101	2 192 792
Services contributions	0	2 217 622
Reconnection and notice fees	0	5 471 096
Refund Seta levy	2 091 788	1 196 154
Laboratory tests	0	3 508 172
Retention forfeited	6 540 551	0
Insurance claims	3 908 950	0
Admission fees	748 108	0
Gain on change in accounting basis for VAT	41 263 400	0
Sundry income	8 967 903	6 456 796
	<b>95 839 625</b>	<b>72 569 750</b>
<b>24 EMPLOYEE RELATED COSTS</b>		
Employee related cost - Salaries and wages	237 100 389	221 617 548
Employee related cost - Social contributions	58 648 612	56 140 565
Motor car allowances	26 015 547	22 269 567
Housing benefits and other allowances	9 356 697	8 458 689
Overtime benefits	50 881 279	43 026 019
Leave bonus provision	317 217	0
Leave reserve provision	13 718 862	5 372 469
Long term service awards	2 994 417	5 286 963
	<b>399 033 020</b>	<b>362 171 819</b>
There were no advances paid to employees.		



	2012 R	2011 R
<b>Municipal Manager</b>		
Annual remuneration	856 947	496 734
Allowances	206 475	139 188
Council Contributions	189 324	122 074
	<u>1 252 746</u>	<u>757 996</u>
<b>Chief Financial Officer</b>		
Annual remuneration	812 400	807 095
Allowances	72 000	72 000
Council Contributions	197 933	181 809
	<u>1 082 333</u>	<u>1 060 904</u>
<b>Director Planning &amp; Economic Development</b>		
Annual remuneration	503 989	402 265
Allowances	161 383	84 000
Council Contributions	129 114	71 261
	<u>794 486</u>	<u>557 526</u>
<b>Director Engineering Services</b>		
Annual remuneration	547 437	200 045
Allowances	168 000	63 280
Council Contributions	137 997	58 561
	<u>853 434</u>	<u>321 886</u>
<b>24 EMPLOYEE RELATED COSTS (CONT)</b>		
<b>Director Community Development</b>		
Annual remuneration	539 285	508 375
Allowances	216 000	216 000
Council Contributions	160 192	148 569
	<u>915 477</u>	<u>872 944</u>
<b>Director Corporate &amp; Shared Services</b>		
Annual remuneration	768 677	272 940
Allowances	144 000	54 240
Council Contributions	1 557	644
	<u>914 234</u>	<u>327 824</u>
<b>Director Strategic Planning, Monitoring &amp; Evaluation</b>		
Annual remuneration	638 229	576 428
Allowances	197 951	168 000
Council Contributions	168 343	149 614
	<u>1 004 522</u>	<u>894 042</u>
No performance bonuses were paid out in terms of Section 57 of the Municipal Systems Act		
<b>25 REMUNERATION OF COUNCILLORS</b>		
Executive Mayor	775 588	745 004
Speaker	613 576	599 569
Chief Whip	580 891	485 433
Mayoral Committee members	4 299 698	3 816 886
Councillors	14 344 978	14 131 997
	<u>20 614 731</u>	<u>19 778 889</u>
<b>In-kind Benefits</b>		
The Executive Mayor, Speaker and certain Mayoral Committee Members are full time. Each is provided with an office and secretarial support. The Executive Mayor has use of a Council owned vehicle.		
<b>26 FINANCE COST</b>		
Local Registered Stock loans	3 977	88 199
Finance leases	452 419	759 800
Annuity loans	28 970 407	12 224 742
	<u>29 426 803</u>	<u>13 072 740</u>

POLOKWANE MUNICIPALITY  
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	2012 R	2011 R
<b>27 BULK PURCHASES</b>		
Electricity	402 771 978	313 590 343
Water	116 024 560	104 811 851
	<u>518 796 538</u>	<u>418 402 194</u>
<b>28 GRANT AND SUBSIDIES PAID</b>		
Animal care : SPCA	240 000	240 000
Grant - PHA	5 881 695	0
	<u>6 121 695</u>	<u>240 000</u>
<b>29 GENERAL EXPENSES</b>		
Free basic services	18 741 578	16 139 113
Printing and stationery	4 314 991	4 049 696
Rental equipment	8 256 307	5 908 477
Stores and material	2 129 874	2 844 529
Meter reading	6 120 087	4 200 976
Research and development	4 699 027	1 679 953
Training	2 556 127	2 491 358
Postage and telegram	2 010 830	1 966 669
Legal expenses	6 213 959	2 159 657
Subsistence and travelling	5 850 283	4 088 123
Security services	21 094 620	17 780 759
Telephone costs	4 913 447	5 087 758
Garden services	7 118 182	4 955 221
Awareness campaigns	95 829	67 685
Insurance	8 451 211	7 345 025
Levy Seta training	3 478 526	2 966 776
Street cleaning	8 542 191	7 795 615
Special Events	9 923 506	0
Provision for rehabilitation of landfill sites	304 668	276 971
Fuel and oil	7 921 679	5 896 419
Bank charges	2 746 322	3 213 987
Stock losses	249 212	1 000 494
Loss on disposal of assets	0	131 631
Festivals	783 131	0
2010 Stadium Operating expenses	41 892 866	53 458 437
Subscription fees	3 478 235	2 687 032
Medical aid contributions continued members	24 573 363	22 631 323
Valuation roll	424 173	1 988 333
Waste disposal	16 570 618	6 853 970
Other	57 864 085	50 046 822
	<u>281 118 928</u>	<u>239 712 809</u>

**30 CORRECTION OF ERROR**

During the year ended 30 June 2012 and previous years, trade and other receivables, VAT and Property, Plant and Equipment, Investment Property and Biological Assets were incorrectly recognised.

The comparative amount has been restated as follows:

<b>Non Current Assets</b>	
Adjustment on Property, Plant & Equipment	433,350,638
Adjustment on Investment Property	12,849,167
Adjustment on Biological Assets	4,255,968
	<u>450,455,773</u>
Net effect on statement on Accumulated surplus opening balance	<u>27,444,218</u>
Total Net effect on Revaluation Reserve	<u>423,011,555</u>
<b>Current Assets</b>	
Adjustment on Trade and other receivables from exchange transactions	14,171,460
Adjustment on other receivables from exchange transactions	1,572,579
Adjustment on VAT Receivable	3,696,536
	<u>19,440,575</u>
Net effect on statement on Accumulated surplus opening balance	<u>19,440,575</u>
Total Net effect on Statement of Financial Position	<u>46 884 793</u>
Total Net effect on statement on Accumulated surplus opening balance	<u>46 884 793</u>
Total Net effect on Revaluation Reserve	<u>423 011 555</u>

		2012	2011
		R	R
31	<b>CASH GENERATED FROM/(UTILISED IN) OPERATIONS</b>		
	Net surplus for the year	175 030 294	80 683 783
	Adjustment for:		
	Current year adjustment	5 174 083	0
	Correction of prior year error	0	0
	Depreciation charges	231 254 348	176 460 819
	Asset impairment	1 202 194	0
	Contribution to Reserve	0	0
	Interest received	(42 232 584)	(8 732 113)
	Interest paid	29 426 803	13 072 740
	<b>Operating surplus before working capital changes</b>	<b>399 855 137</b>	<b>261 485 229</b>
	(Increase)/decrease in inventories	(6 275 632)	(1 250 191)
	(Increase)/decrease in debtors	(55 779 352)	(39 852 058)
	(Increase)/decrease in other debtors	(8 872 393)	2 417 219
	Increase/(decrease) in conditional grants	7 734 491	87 810 916
	Increase/(decrease) in creditors	38 110 462	(48 645 490)
	Increase/(decrease) in provisions	18 941 325	16 636 338
	(Increase)/decrease in VAT	(50 611 747)	31 150 799
	<b>Cash generated by operations</b>	<b>343 102 292</b>	<b>309 752 763</b>
32	<b>ADDITIONAL DISCLOSURES IN TERMS OF SECTION 125 OF MUNICIPAL FINANCE MANAGEMENT ACT, 2003</b>		
32.1	<b>Contribution to SALGA</b>		
	Council membership fees payable	2 073 614	1 877 425
	Amount paid current year	(2 073 614)	(1 877 425)
	<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
32.2	<b>Audit Fees</b>		
	Current year audit fee	2 302 725	3 101 941
	Amount paid current year	(2 302 725)	(3 101 941)
	<b>Balance unpaid (included in creditors)</b>	<b>-</b>	<b>-</b>
32.3	<b>VAT</b>		
	VAT was payable on the invoice basis for 11 months of the year. Since June 2012 VAT was payable on cash basis. VAT input receivables and VAT output payable are shown in note 14. All VAT returns have been submitted by the due date throughout the year.		
32.4	<b>Pay as You Earn (PAYE)</b>		
	Current payroll deductions	52 594 193	47 486 008
	Amount paid current year	(52 594 193)	(47 486 008)
	<b>Balance unpaid</b>	<b>-</b>	<b>-</b>
32.5	<b>Unemployment Insurance Fund (UIF)</b>		
	Current payroll deductions	4 011 698	3 883 679
	Amount paid current year	(4 011 698)	(3 883 679)
	<b>Balance unpaid</b>	<b>-</b>	<b>-</b>
32.6	<b>Medical Aid</b>		
	Current payroll deductions	24 368 502	24 467 420
	Amount paid current year	(24 368 502)	(24 467 420)
	<b>Balance unpaid</b>	<b>-</b>	<b>-</b>
32.7	<b>Pension Fund</b>		
	Current payroll deductions	59 021 625	56 534 057
	Amount paid current year	(59 021 625)	(56 534 057)
	<b>Balance unpaid</b>	<b>-</b>	<b>-</b>

	2012 R	2011 R
<b>32.8 Councillor's arrear consumer accounts</b>		
The following Councillors had arrear accounts outstanding for more than 90 days as at: -	<b>Total</b>	<b>Outstanding less than 90 days</b>
	<b>R</b>	<b>R</b>
<b>as at 30 June 2012</b>		<b>Outstanding more than 90 days</b>
		<b>R</b>
Nkadimeng SE	6 131	166
Mothiba LM	18 040	1 221
Ralefjena	71 838	46 471
Mokgokong NJ	3 127	444
<b>Total Councillor Arrear Consumer Accounts</b>	<b>99 135</b>	<b>48 301</b>

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

	<b>Highest Amount Outstanding</b>	<b>Ageing Days</b>
	<b>R</b>	
<b>as at 30 June 2012</b>		
Ralefjena	71 838	60
Mothiba LM	18040	120+
Nkadimeng SE	6131	120+
Mokgokong NJ	3127	120+

**33 COMMITMENTS**

**33.1 (a) Commitments in respect of capital expenditure:**

Approved and contracted for	<b>284 218 000</b>	<b>302 802 000</b>
The expenditure will be financed from:		
- Capital Replacement Reserve	156 677 810	166 185 733
- Government and other Grants	127 540 190	136 616 267
	<b>284 218 000</b>	<b>302 802 000</b>

**33.1 (b) Operating leases**

The Municipality did not have operating leases in the current or previous year

**33.2 CONTINGENT LIABILITIES**

	24 630 520	2 039 900
	<b>24 630 520</b>	<b>2 039 900</b>

See Annexure H for full detail on Contingent Liabilities

The above legal matters are ongoing and have not yet been finalized.

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**UNAUTHORISED, IRREGULAR, FRUITLESS  
AND WASTEFUL EXPENDITURE**  
**34 DISALLOWED**

	2012	2011
<b>34.1 Unauthorized expenditure</b>		
Reconciliation of unauthorized expenditure		
Opening balance	272,067,938	182,218,767
Unauthorized expenditure current year	140,440,390	89,849,171
Approved by Council or condoned	(376,469,686)	-
Transfer to receivables for recovery	-	-
Unauthorized expenditure awaiting authorization	<b>36,038,642</b>	<b>272,067,938</b>

**34.2 Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure		
Opening balance -	909,100	909,100
Fruitless and wasteful expenditure current year:	692,192	
Interest paid to Lepelle Northern Water	733,561	
Commitment fee paid to DBSA	357,979	
Condoned or written off by Council	(2,000,640)	-
To be recovered – contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	<b>692,192</b>	<b>909,100</b>

Interest to the amount of R733 560.90 was paid  
To Lepelle Northern Water for late payment of  
account (Disputed account)

Commitment fee to the amount of R357 979.19  
was paid to DBSA for not taken up loan in time.

**34.3 Irregular expenditure**

Reconciliation of irregular expenditure		
Opening balance	67,786,306	325,184
Non compliance with SCM policy/tender and quotation procedures		10,902,313
Non compliance with SCM policy/awards to persons employed by the state		2,996,025
Non compliance with SCM policy/awards to persons employed by the Municipality		104,347
Prior year irregular expenditure identified in the current year		53,458,437
Non compliance with SCM policy:current year	137,019,697	
Overtime paid in contravention of the Basic Conditions of Employment	17,912,965	
Condoned or written off by Council	(18,135,041)	-
Transfer to receivables for recovery – not condoned	-	-
Irregular expenditure awaiting condonement	<b>204,583,926</b>	<b>67,786,306</b>

**35 PROVISIONS**

<b>35.1 Provision for rehabilitation of landfill sites</b>		
Carrying amount at beginning of year	3,046,683	2,769,712
Additions during the year	304,668	276,971
Reductions during the year	0	0
Carrying amount at end of year	<b>3,351,351</b>	<b>3,046,683</b>

The Weltevreden Landfill Site is a permitted facility in terms of Section 20 of the Environmental Conservation Act (Act 73 of 1989) and is located on portion 4 of the farm Weltevreden 746 LS - District Polokwane. The expected life span of the site is a further 12 years

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**35.2 Post-Employment Health Care Benefits**

Fair value of plan assets	-	-
Accrued liability	154,437,733	138,685,784
<b>Unfunded Accrued Liability</b>	<b>154,437,733</b>	<b>138,685,784</b>
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Miscellaneous item	-	-
Net Liability in Balance Sheet	<u>154,437,733</u>	<u>138,685,784</u>

*Reconciling and projecting the unfunded accrued liability*

**Unfunded Accrued Liability**

Opening balance	138,685,785	124,945,775
Current-service cost	7,441,274	6,813,415
Interest cost	12,702,854	11,372,251
Expected return on plan assets	-	-
<b>Actuarial (Gain)/Loss</b>	<b>-</b>	<b>-</b>
Past-service cost	-	-
Effect of curtailment/settlement	-	-
<b>Actual employer benefit payments</b>	<b>(4,392,180)</b>	<b>(4,445,656)</b>
Employer prefunding contributions	-	-
<b>Closing Balance</b>	<b>154,437,733</b>	<b>138,685,785</b>

*Net liability to reflect in the balance sheet*

Opening balance	138,685,785	124,945,775
Current-service cost	7,441,274	6,813,415
Interest	12,703,854	11,372,251
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial (Gain)/loss recognised in P&L	-	-
Past-service cost recognised	-	-
Effect of curtailment/settlement	-	-
<b>Net Periodic Cost Recognised in P&amp;L</b>	<b>158,830,913</b>	<b>143,131,441</b>
Actual employer benefits payments	(4,392,180)	(4,445,656)
Transitional liability recognised	-	-
Employer prefunding contributions	-	-
Transitional liability recognised P&L	-	-
Actuarial (Gain)/loss recognised outside P&L	-	-
<b>Closing Balance</b>	<b>154,438,733</b>	<b>138,685,785</b>

The following assumptions has been used for current and prior year

Discount rate	9.14%	9.14%
Health care cost inflation rate	9.65%	9.65%

**35.3 Long Service Awards**

Fair value of plan assets	-	-
Accrued liability	13,154,854	10,891,471
<b>Unfunded Accrued Liability</b>	<b>13,154,854</b>	<b>10,891,471</b>
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Miscellaneous item	-	-
Net Liability in Balance Sheet	<u>13,154,854</u>	<u>10,891,471</u>

*Reconciling and projecting the unfunded accrued liability*

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**Unfunded Accrued Liability**

Opening balance	10,891,471	8,873,872
Current-service cost	1,980,190	1,822,778
Interest cost	648,710	604,072
Expected return on plan assets	-	-
<b>Actuarial (Gain)/Loss</b>	-	-
Past-service cost	-	-
Effect of curtailment/settlement	-	-
<b>Actual employer benefit payments</b>	(365,517)	(409,251)
Employer prefunding contributions	-	-
<b>Closing Balance</b>	<b>13,154,854</b>	<b>10,891,471</b>

*Net liability to reflect in the balance sheet*

Opening balance	10,891,471	8,873,872
Current-service cost	1,980,190	1,822,778
Interest	648,710	604,072
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial (Gain)/loss recognised in P&L	-	-
Past-service cost recognised	-	-
Effect of curtailment/settlement	-	-
<b>Net Periodic Cost Recognised in P&amp;L</b>	<b>13,520,371</b>	<b>11,300,722</b>
Actual employer benefits payments	(365,517)	(409,251)
Transitional liability recognised	-	-
Employer prefunding contributions	-	-
Transitional liability recognised outside P&L	-	-
Actuarial (Gain)/loss recognised outside P&L	-	-
<b>Closing Balance</b>	<b>13,154,854</b>	<b>10,891,471</b>

Employees qualify for the following long service awards:

- After 10 years of continuous service an amount of R603.00 (adjusted annually) per each year of service.
- After 20 years of continuous service a watch to the value of R5 455 (adjusted annually)
- Additional 10, 20 and 30 leave days for 10, 15 and each 5 years after 15 years of service respectively

**35.4 Ex-gratia benefits**

Fair value of plan assets	-	-
Accrued liability	6,807,811	6,186,486
<b>Unfunded Accrued Liability</b>	<b>6,807,811</b>	<b>6,186,486</b>
Unrecognised actuarial gains/(losses)	-	-
Unrecognised past service cost	-	-
Miscellaneous item	-	-
<b>Net Liability in Balance Sheet</b>	<b>6,807,811</b>	<b>6,186,486</b>

*Reconciling and projecting the unfunded accrued liability*

**Unfunded Accrued Liability**

Opening balance	6,186,486	5,584,727
Current-service cost	467,382	428,348
Interest cost	478,055	512,861
Expected return on plan assets	-	-
<b>Actuarial (Gain)/Loss</b>	-	-
Past-service cost	-	-
Effect of curtailment/settlement	-	-
<b>Actual employer benefit payments</b>	(324,112)	(339,450)
Employer prefunding contributions	-	-
<b>Closing Balance</b>	<b>6,807,811</b>	<b>6,186,486</b>

*Net liability to reflect in the balance sheet*

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

Opening balance	6,186,486	5,584,727
Current-service cost	467,382	428,348
Interest	478,055	512,861
Expected return on plan assets	-	-
Transitional liability recognised	-	-
Actuarial (Gain)/loss recognised in P&L	-	-
Past-service cost recognised	-	-
Effect of curtailment/settlement	-	-
<b>Net Periodic Cost Recognised in P&amp;L</b>	<b>7,131,923</b>	<b>6,525,936</b>
Expected employer benefits payments	(324,112)	(339,450)
Transitional liability recognised	-	-
Employer prefunding contributions	-	-
Transitional liability recognised outside P&L	-	-
Actuarial (Gain)/loss recognised outside P&L	-	-
<b>Closing Balance</b>	<b>6,807,811</b>	<b>6,186,486</b>
<b>Total Provisions</b>	<b>177,751,749</b>	<b>158,810,424</b>

### 36 RISK MANAGEMENT

#### 36.1 Maximum credit risk exposure

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

customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

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

Investment in Banks	223,808,054	219,993,222
Trade and other receivables	263,452,951	193,502,139
	<b>487,261,005</b>	<b>413,495,361</b>

These balances represent the maximum exposure to credit risk.

#### 36.2 Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The table below analyses the municipality's 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.

Borrowings	298,587,916	254,480,801
Trade and other payables	218,419,045	180,308,585
	<b>517,006,961</b>	<b>434,789,386</b>



**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**RATIFICATION OF DEVIATIONS FROM  
 BREACHES IN PROCUREMENT**

**37 PROCESSES**

Prescribed procurement processes were not followed but was approved by the Municipal Manager in terms of delegated powers and in accordance with Supply Chain Management Regulations and Policy. Valid reasons for deviations were recorded in all instances.

10,497,195 13,868,634

**38 FINANCE LEASE COMMITMENTS**

The municipality future lease commitments on printing equipment and their present values are as follows:

	Minimum lease payments	Finance costs	Present value
<b>2012</b>			
Current			
Due within one year	2,690,373	93,369	2,597,004
Due between one and five years	-	-	-
	<u>2,690,373</u>	<u>93,369</u>	<u>2,597,004</u>
<b>2011</b>			
Due within one year	4,421,714	452,419	3,969,296
Due between one and five years	2,690,373	93,369	2,597,004
	<u>7,112,087</u>	<u>545,788</u>	<u>6,566,299</u>

The implicit interest rate embedded on a lease is 9.5%. The lease expires in February 2013 (Ittec Meso) and the other one is Konica Minolta which expire in 28 February 2012

**39 RELATED PARTIES**

**Relationships**

Members of key management

No other payments are paid outside contractual employment payments from employment. Refer to note 22 for remuneration.

Other related party relationships

*Polokwane Housing Assosiation. Refer to note 10*

**Related party transactions**

Compensation to councillors and other key management

Payments to councillors are for allowances as gazetted. No other payments are made to councillors. Refer to note 23 for remuneration of councillors.

Post employment benefit plan for employees of municipality and/or other related parties

*Refer to note 35.2*

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

**Related party balances**

**Loan accounts - Owed by related parties**

Thabatshweu Housing Association	14,061,713	11,251,748
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**Debtors accounts for rates - Owed by related parties**

Thabatshweu Housing Association	3,206,471	2,666,073
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**40 DISTRIBUTION LOSSES**

The Municipality has incurred the following distribution losses as result of supply of electricity and water

Water distribution losses In KL	7 982 232 (21.21%)	5 331 204 (21.71%)
Electricity distribution losses kWh	73 822 461 (9.79%)	91 669 634 (12.34%)

**Monetary value**

Water distribution losses	R 33,844,650	
Electricity distribution losses	R 51,901,834	
	R 85,746,484	

**41 COMPARISON WITH THE BUDGET**

The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexure G

**42 CHANGE IN ACCOUNTING POLICY**

There were no change in account policy that required changes to the prior year reporting amounts.

**43 GAIN / (LOSS) ON SALE OF ASSETS**

Property, plant and equipment		
Intangible assets		
Investment property		
Biological assets		
Other financial assets		
<b>Total Gain / (Loss) on Sale of Assets</b>	-	-

There were no disposals of assets during the current and previous financial years

**44 IMPAIRMENT LOSS**

**Property, plant and equipment**

During the physical verification of all movable assets, a condition assessment of each asset was done. It was established that a total of 957 assets were in worse condition than expected. The recoverable service amount was determined by estimating what the entity could sell the asset for to a third party in an arms' length transaction.

<b>Total Impairment loss</b>	1,202,193.92	-
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**45 EMPLOYEE BENEFIT OBLIGATIONS**

**Defined contribution and benefit plan**

The Council provides retirement benefits to employees by contributing to pension and provident Funds Membership of either pension or provident fund is compulsory for all permanent employees.

The municipality and its employees contribute to 5 different Pension Funds, of which 3 (The Municipal Employees Pension Fund, Municipal Gratuity Fund and Samwu National Provident Fund ) cater for the majority of the staff. The Joint Municipal Pension Fund, Municipal Employees Pension Fund, Municipal Gratuity Fund ,Samwu National Provident Fund and National Fund for Municipal Workers are defined benefit funds.

At the time of submission of this annual financial statement were the actuarial valuation reports of the various pension funds not available.

**The employees of the Council as well as the Council as employer, contribute to municipal pension, retirement and various provident funds as listed below:**

	2012	2011
The Joint Municipal Pension Fund	2,649,786	2,460,486
Municipal Employees Pension Fund	25,805,272	24,209,516
Municipal Employees Gratuity Fund	12,491,302	11,564,893
Samwu National Provident Fund	8,712,658	4,583,768
National Fund For Municipal Workers	5,114,006	0
	<b>54,773,024</b>	<b>42,818,664</b>

**Post-Retirement medical aid contributions**

The municipality operates on 5 accredited medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and Samwumed. Pensioners may continue on the option they belonged to on the day of their retirement.

The last post-employment health care benefits actuarial valuation in terms of IAS19 was done by ARCH Actuarial Consulting for the period ending 30 June 2012.

For the 2011/2012 financial period were no actuarial valuation done and is staff benefit provision based on the last valuation that was undertook by ARCH Actuarial Consulting during the 2009/2010 financial period. A new valuation will be undertaken in the future in terms of IAS 19 or GRAP 25 when effective.

According to the last valuation did the accrued liability amount to R 124.94 million as at 30 June 2010. The estimated projection for 2011/2012 amounted to R 154.44 million that needs be recovered over three year period.

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

A reconciliation of Polokwane accrued liability for the year ending 30 June 2012 is set out below:

Year ended 30 June 2012	2012	2011
Opening balance	138,685,875	124,945,775
Service cost	7,441,274	6,813,415
Interest cost	12,702,854	11,372,251
Expected benefit payment	(4,392,179)	(4,445,656)
Expected closing balance	154,437,733	138,685,875
Actuarial (gain)/loss -		
<b>Actual closing balance</b>	<b>154,437,733</b>	<b>138,685,785</b>

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

**Carrying value**

Present value of the defined benefit obligation- Wholly unfunded	(154,437,733)	(138,685,785)
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**Movements for the year**

Opening balance	(138,685,785)	(124,945,775)
Contributions - Current year	(15,751,948)	(13,740,010)
<b>Closing balance</b>	<b>(154,437,733)</b>	<b>(138,685,785)</b>

**Key assumptions used**

The projected unit credit method is used as the standard valuation methodology for the valuation done during the 2009/2010 financial period. Plan assets were valued at current market value as required by IAS19.

Assumptions used on last valuation on 30 June 2010.

Discount rates used	9.22%	9.22%
Medical inflation - lower than discount rate	7.25%	7.25%
Net effective discount rate	1.83%	1.83%

Other assumptions; Post retirement mortality PA (90-1) Retirement age 65 years

**Sensitivity analysis**

The impact of a 1% change in the medical aid inflation rate is reflected in the table underneath.

**Sensitivity to medical inflation**

Base	125,178,769	125,178,769
-1%	109,804,000	109,804,000
1%	143,885,000	143,885,000
	<b>378,867,769</b>	<b>378,867,769</b>

The employees of the Council as well as the Council as employer, contribute to municipal medical aids as listed below

	2012	2011
Bonitas	7,455,198	651,971,967
Hosmed	3,789,138	3,628,954
Key Health	9,370,997	8,873,986
LA Health	2,218,060	1,821,121
Samwumed	1,535,109	940,720

**POLOKWANE MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS ENDED 30 JUNE 2012**

<b>Total</b>	24,368,502	667,236,749
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**46 EVENTS AFTER THE REPORTING PERIOD**

The Municipality appointed a Municipal Manager effectively from the 1 July 2012  
The post was vacant for two months during the financial year.

**47 GOING CONCERN**

In terms of the accounting standard GRAP 1 paragraphs 27 to 30 the annual financial statements are prepared on a going concern basis. The assumption is based on the fact that the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

However based on the current solvency and liquidity ratio's tests performed, the municipality's ability to operate as a going concern is under threat.

**APPENDIX A  
SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2012**

External Loans	Loan No.	Redeemable	Balance at 30 June 2011		Received during the period		Redeemed or written off during the period		Balance at 30 June 2012	
			R	R	R	R	R	R	R	R
<b>LONG TERM LOANS</b>										
Stock Loan@10%	508	2011/12	15 400	15 400					0	
Stock Loan@10%	509	2011/12	41 667	41 667					0	
Stock Loan@10%	513	2011/12	8 333	8 333					0	
Stock Loan@10%	510	2013/14	53 333						53 333	
Stock Loan@10%	511	2013/14	30 000						30 000	
Stock Loan@10%	512	2013/14	30 000						30 000	
Stock Loan@10%	514	2014/15	100 000						100 000	
Stock Loan@10%	515	2014/15	10 000						10 000	
Stock Loan@10%	516	2014/15	22 000						22 000	
Stock Loan@10%	517	2014/15	83 333						83 333	
Stock Loan@10%	523	2014/15	14 667						14 667	
Stock Loan@10%	518	2015/16	7 799						7 799	
Stock Loan@10%	519	2015/16	8 633						8 633	
Stock Loan@10%	520	2015/16	40 000						40 000	
Stock Loan@10%	522	2015/16	6 829						6 829	
Stock Loan@10%	524	2015/16	90 000						90 000	
Stock Loan@10%	525	2015/16	200 000					200 000	0	
Stock Loan@10%	527	2016/17	20 000						20 000	
			<b>781 995</b>	<b>0</b>				<b>265 400</b>	<b>516 595</b>	
<b>ANNUITY LOAN</b>										
ANNUITY LOAN @ 11.52%	61000907	2019/20	47 125 797					3 196 763		43 929 034
ANNUITY LOAN @ 8.875%	61006782	2020/21	233 151 298			86 848 702		30 049 806		289 950 194
			<b>280 277 095</b>			<b>86 848 702</b>		<b>33 246 569</b>		<b>333 879 228</b>
<b>Total External Loans</b>			<b>281 059 090</b>	<b>0</b>		<b>86,848,702</b>		<b>33 511,969</b>		<b>334 395 923</b>

**APPENDIX B  
ANALYSIS OF PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2012**

	HISTORICAL COST				ACCUMULATED DEPRECIATION				Carrying Value	
	Opening Balance	Additions/Transfers	Under Construction	Disposals	Opening Balance	Additions/Transfers	Disposals	Closing Balance		
	R	R	R	R	R	R	R	R	R	
<b>LAND</b>										
Land	251,221,724	426,548,625	0	0	677,770,349				677,770,349	
	251,221,724	426,548,625			677,770,349				677,770,349	
<b>BUILDINGS</b>										
Dwellings	1,644,839,035	173,897,447	37,736,300	0	1,856,472,782				1,633,676,078	
Non Residential	28,009,772	4,290,547			32,300,319				26,934,774	
	1,616,829,263	169,606,900	37,736,300		1,824,172,463				1,606,741,304	
<b>INFRASTRUCTURE</b>										
Electricity reticulation	2,951,980,627	350,610,993	172,037,109	-17,298,803	3,457,329,926				3,109,088,600	
Roads, pavements, bridges & stormwater	769,132,339	83,634,593	22,855,151		875,622,083				790,530,731	
Water reservoirs & reticulation	1,310,190,720	158,535,035	89,986,796	-17,298,803	1,541,413,749				1,349,723,584	
	554,530,983	85,139,656	57,563,366		697,224,026				642,753,675	
Sewerage purification & reticulation	307,257,362	21,712,493	1,641,776		330,611,621				306,297,159	
Solid Waste	8,511,915	523,153			9,035,068				7,999,640	
Cemeteries	2,357,318	1,066,062			3,423,380				2,815,812	
	149,332,699	94,376,465	0	-1,202,195	241,909,931				156,314,267	
<b>MOVABLE &amp; OTHER ASSETS</b>										
Machinery & equipment	86,317,841	31,715,044		-708,980	116,726,866				77,366,938	
Furniture & Equipment	14,590,728	12,518,871		-115,088	26,994,511				15,325,585	
Computer Equipment	5,215,163	13,395,368		-378,127	18,232,404				11,268,101	
Transport Vehicles	43,208,967	36,747,183			79,956,150				52,353,642	
	6,679,102	1,709,475	0	0	8,388,577				3,338,701	
<b>HERITAGE ASSETS</b>										
Heritage assets	6,679,102	1,709,475			8,388,577				3,338,701	
	10,353,325	4,255,968	0	0	14,609,293				7,304,647	
<b>BIOLOGICAL ASSETS</b>										
Biological Assets	10,353,325	4,255,968	0	0	14,609,293				7,304,647	
	41,185,282	8,463,021	6,709,971	0	56,955,313				34,427,631	
<b>INTANGIBLE ASSETS</b>										
Intangible Assets	41,185,282	8,463,021	6,709,971	0	56,955,313				34,427,631	
	125,510,500	12,849,167	0	0	138,359,667				138,359,667	
<b>INVESTMENT PROPERTY</b>										
Investment property	125,510,500	12,849,167			138,359,667				138,359,667	
<b>FINANCE LEASES</b>										
Finance leases	11,594,362	0	0	0	11,594,362				2,332,991	
	11,594,362	0	0	0	11,594,362				2,332,991	
<b>TOTAL</b>	<b>5,192,696,656</b>	<b>1,072,711,161</b>	<b>216,493,381</b>	<b>-18,500,998</b>	<b>6,463,390,200</b>	<b>489,732,057</b>	<b>224,369,773</b>	<b>-4,316,560</b>	<b>709,785,270</b>	<b>5,753,604,930</b>

**APPENDIX C  
SEGMENTAL ANALYSIS OF PROPERTY, PLANT & EQUIPMENT AS AT 30 JUNE 2012**

	HISTORICAL COST				ACCUMULATED DEPRECIATION				Carrying Value
	Opening Balance	Additions/ Transfers/WIP	Disposals	Closing Balance	Opening Balance	Additions/ Transfers/WIP	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R
<b>EXECUTIVE COUNCIL</b>									
Executive Council	786 854	1 254 468	-	2 041 322	422 186	78 801	-	500 787	1 540 536
<b>BUDGET &amp; TREASURY</b>									
Budget & Treasury	766 854	1 254 468	-	2 041 322	422 186	78 801	-	500 787	1 540 536
<b>OFFICE</b>									
Finance	6 820 477	13 441 133	-	20 261 610	2 447 991	3 673 228	-	6 121 129	14 140 481
<b>CORPORATE SERVICES</b>									
Human Resources	312 541 111	99 428 863	-	411 969 974	34 985 178	11 248 682	-	46 233 861	365 734 703
IT Services	682 243	5 407 345	-	6 289 588	409 845	327 566	-	737 411	5 552 166
Property Services	25 695 100	(12 445 930)	-	13 249 170	7 720 169	(2 456 673)	-	5 263 316	7 995 664
Other Admin	255 108 521	53 551 515	-	308 660 036	16 624 558	4 469 312	-	21 093 871	287 566 165
<b>COMMUNITY &amp; SOCIAL SERVICES</b>									
Community halls & facilities	128 811 015	30 186 287	-	158 997 302	27 952 589	8 839 682	-	36 832 281	122 145 021
Cemeteries & crematoriums	34 750 947	8 566 085	-	43 317 042	8 531 896	3 970 513	-	12 502 409	30 814 633
Other Social Services	69 311 856	16 444 354	-	85 756 210	16 381 225	4 115 768	-	20 496 993	65 259 218
<b>SPORT &amp; RECREATION</b>									
Sport & recreation	4 952 623	365 459	-	5 318 082	351 036	221 806	-	572 842	4 745 239
<b>PUBLIC SAFETY</b>									
Police	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Fire	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>HOUSING</b>									
Housing	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>HEALTH</b>									
Clinics	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>PLANNING &amp; DEVELOPMENT</b>									
Economic development	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Town Planning	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Licensing & Regulation	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>ROAD TRANSPORT</b>									
Roads	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Vehicle licensing & testing	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>ENVIRONMENTAL PROTECTION</b>									
Pollution Control	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Game Reserve	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>ELECTRICITY</b>									
Electricity distribution	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>WATER</b>									
Water distribution	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Water storage	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>WASTE WATER MANAGEMENT</b>									
Sewerage	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Storm water	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
Public toilets	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>WASTE MANAGEMENT</b>									
Solid waste	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>OTHER</b>									
Other	14 937 958	1 605 830	-	16 543 788	1 036 893	205 928	-	1 242 821	5 200 967
<b>TOTAL</b>	<b>5 192 696 656</b>	<b>1 287 992 347</b>	<b>(17 298 803)</b>	<b>6 463 390 200</b>	<b>484 305 031</b>	<b>228 798 798</b>	<b>(4 316 560)</b>	<b>708 785 270</b>	<b>5 753 604 930</b>





**APPENDIX D  
DETAILED SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2012**

2011 Actual Income	2011 Actual Expenditure	2011 Actual Surplus/ (Deficit)		2012 Actual Income	2012 Actual Expenditure	2012 Actual Surplus/ (Deficit)
R	R	R		R	R	R
	119,527,165	(119,527,165)	Water provision		129,946,736	(129,946,736)
	13,182,726	(13,182,726)	Water Purification		15,150,253	(15,150,253)
441,151,677	397,928,582	43,223,095	Electricity	559,546,874	487,047,300	72,499,574
	7,883,993	(7,883,995)	Workshop			
441,151,677	379,278,406	61,873,27	Distribution	559,455,107	482,244,633	77,210,474
	10,766,181	(10,766,181)	Street Lighting	91,767	4,802,667	(4,710,899)
24,000	223,219	(199,219)	Other	24,000	67,211	(43,211)
24,000	223,219	(199,219)	Airport	24,000	67,211	(43,211)
<b>1,454,885,953</b>	<b>1,374,202,171</b>	<b>80,683,783</b>	<b>Total</b>	<b>1,798,489,499</b>	<b>1,623,459,205</b>	<b>175,030,294</b>

**APPENDIX E (1)  
ACTUAL OPERATING VERSUS BUDGET FOR THE YEAR ENDED 30 JUNE 2012**

	2012 Actual R	2012 Budget R	2012 Variance R	2012 Variance %	Explanations of significant variances greater than 10% versus budget
<b>REVENUE</b>					
Property rates	229 422 699	228 355 000	1 067 699	0.47	More collected than anticipated
Service charges	781 281 433	737 021 935	44 259 498	6.01	More collected than anticipated
Rental of facilities and equipment	5 509 961	4 215 760	1 294 201	30.70	More collected than anticipated
Interest earned – external investments	24 554 093	8 000 000	16 554 093	206.93	More collected than anticipated
Interest earned – outstanding debtors	17 678 491	20 067 000	(2 388 509)	(11.90)	Under collected
Fines	4 496 562	5 135 700	( 639 138)	(12.45)	Under collected
Licensing & permits	8 234 418	8 646 500	( 412 082)	(4.77)	Under collected
Revenue for agency services	13 827 360	13 000 000	827 360	6.36	More collected than anticipated
Government grants & subsidies – operating	367 484 803	377 263 000	(9 778 197)	(2.59)	All grants were not spent in full
Government grants & subsidies – capital	213 510 998	446 314 000	(232 803 002)	(52.16)	All grants were not spent in full
Public contributions, donated and contributed	36 649 036	40 000 000	(3 350 964)	(8.38)	All grants were not spent in full
Other revenue	95 839 625	54 050 105	41 789 520	77.32	Under collected
<b>Total Revenue</b>	<b>1 798 489 499</b>	<b>1 942 069 000</b>	<b>(143 579 501)</b>	<b>(7.39)</b>	
<b>EXPENDITURE</b>					
Employee related costs	399 033 020	402 624 960	(3 591 940)	(0.89)	All vacancies were not filled
Remuneration of councillors	20 614 731	20 434 865	179 866	0.88	On target
Bad debts	38 191 983	15 000 000	23 191 983	154.61	Provision insufficient
Collection costs	817 561	2 000 000	(1 182 439)	(59.12)	Under collection of anticipated revenue
Depreciation	231 254 348	119 455 000	111 799 348	93.59	Under budgeted due to completion of 2010 infrastructure projects including stadium
Repairs & maintenance	96 881 394	111 902 137	(15 020 743)	(13.42)	Under spending of available funds
Finance costs	29 426 803	32 214 100	(2 787 297)	(8.65)	Over budgeted on external loan taken up
Bulk purchases	518 796 538	522 017 000	(3 220 462)	(0.62)	Over budgeted
Grants & subsidies paid	6 121 695	6 282 000	( 160 306)	(2.55)	Spending less than anticipated
General expenses	282 321 121	277 051 938	5 269 183	1.90	Due to several actuarial valuations, contributions had to be made to provisions which were not budgeted for.
<b>Total Expenditure</b>	<b>1 623 459 205</b>	<b>1 508 982 000</b>	<b>114 477 205</b>	<b>7.59</b>	
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>	<b>175 030 294</b>	<b>433 087 000</b>	<b>(258 056 706)</b>		

**APPENDIX E (2)  
ACTUAL CAPITAL VERSUS BUDGET (ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT)  
FOR THE YEAR ENDED 30 JUNE 2012**

	2012 Actual R	2012 Budget R	2012 Variance R	2012 Variance %	Explanations of significant variances greater than 5% versus budget
<b>EXECUTIVE &amp; COUNCIL</b> Executive & Council					
<b>BUDGET &amp; TREASURY OFFICE</b> Finance	6,021,649 6,021,649	6,125,028 6,125,028	(103,379) (103,379)	(1.69) (1.69)	Underspending/ contract less than budget amount
<b>CORPORATE SERVICES</b> Information Technology Property Services Other & Admin	22,393,963 13,468,589 2,436,996 6,488,378	27,104,518 14,484,811 4,003,832 8,615,875	(4,710,555) (1,016,222) (1,566,836) (2,127,497)	(17.38) (7.02) (39.13) (24.69)	Under spending/ contract less than budget amount Under spending/ contract less than budget amount Under spending/ contract less than budget amount Under spending/ contract less than budget amount
<b>PLANNING &amp; DEVELOPMENT</b> Planning & Development	21,515,802 21,515,802	84,877,482 84,877,482	(63,361,680) (63,361,680)	(74.65) (74.65)	Under spending/ contract less than budget amount
<b>ROAD TRANSPORT</b> Roads & Storm water	114,099,068 114,099,068	172,856,984 172,856,984	(58,757,916) (58,757,916)	(33.99) (33.99)	Under spending/ contract less than budget amount
<b>COMMUNITY &amp; SOCIAL</b> Community Halls & Facilities Cemeteries & Crematoriums	726,483 82,135 644,348	3,881,984 3,000,000 881,984	(3,155,501) (2,917,865) (237,636)	(81.29) (97.26) (26.94)	Under spending/ contract less than budget amount Under spending/ contract less than budget amount Under spending/ contract less than budget amount
<b>PUBLIC SAFETY</b> Police Fire		2,150,000 1,000,000 1,150,000	(2,150,000) (1,000,000) (1,150,000)	(100.00) (100.00) (100.00)	Under spending/ contract less than budget amount Under spending/ contract less than budget amount Under spending/ contract less than budget amount
<b>SPORT &amp; RECREATION</b> Sport & Recreation	4,369,114 4,369,114	8,904,177 8,904,177	(4,535,063) (4,535,063)	(50.93) (50.93)	Under spending/ contract less than budget amount
<b>WASTE WATER MANAGEMENT</b> Sewerage	19,168,812 19,168,812	43,978,745 43,978,745	(24,809,933) (24,809,933)	(56.41) (56.41)	Under spending/ contract less than budget amount
<b>WASTE MANAGEMENT</b> Solid Waste	346,065 346,065	895,000 895,000	(548,935) (548,935)	(61.33) (61.33)	Under spending/ contract less than budget amount
<b>HOUSING</b> Housing	29,218 29,218	30,000 30,000	(782) (782)	(2.61) (2.61)	Under spending/ contract less than budget amount
<b>WATER</b> Water Distribution	107,181,487 107,181,487	205,694,281 205,694,281	(98,512,794) (98,512,794)	(47.89) (47.89)	Under spending/ contract less than budget amount
<b>ELECTRICITY</b> Electricity Distribution	58,651,744 58,651,744	84,067,801 84,067,801	(25,416,057) (25,416,057)	(30.23) (30.23)	Under spending/ contract less than budget amount
<b>TOTAL</b>	354,503,405	640,566,000	(286,062,596)	(44.66)	

APPENDIX F  
DISCLOSURE OF GRANTS AND SUBSIDIES FOR THE YEAR ENDED 30 JUNE 2012

DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Names of Grants	Quarterly receipts												Quarterly Expenditure for the Year												Delayed withheld	Gazette amount Municipal year	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non- compliance
	Sep			Dec			March			June			Total			Total			Total									
	Sep	Dec	March	June	Total	Sep	Dec	March	June	Total	Sep	Dec	March	June	Total	Sep	Dec	March	June	Total	Yes/No							
Equitable Share	146 127 000	119 902 000	87 676 000		350 705 000	87 676 250	87 676 250	87 676 250	87 676 250	350 705 000	87 676 250	87 676 250	87 676 250	87 676 250	350 705 000	No	No	No	No	No	350 705 000	Yes	Not Applicable					
Extended public works Programme	10 500 000	34 000 000	2 745 000		2 745 000	272 272	687 826	1 248 081	1 248 081	4 350 000	272 272	687 826	1 248 081	1 248 081	4 350 000	No	No	No	No	No	10 244 000	Yes	Not Applicable					
Public transport infrastructure and systems grant	10 500 000	34 000 000	10 847 000	(11 927 389)	43 819 631	272 272	687 826	1 188 562	13 623 194	43 819 631	272 272	687 826	1 188 562	13 623 194	No	No	No	No	No	55 347 000	Yes	Not Applicable						
Integrated national electrification programme grant	7 566 000	4 434 000	10 800 000	(14 680 270)	8 119 730	3 348 196	4 355 140	3 445 167	4 895 521	8 119 730	3 348 196	4 355 140	3 445 167	4 895 521	No	No	No	No	No	22 806 000	Yes	Not Applicable						
Electricity demand side management grant	120 000 000	1 522 000	10 479 000	(2 767 671)	9 232 323	18 245	574 418	170 755	169 545	9 232 323	18 245	574 418	170 755	169 545	No	No	No	No	No	12 809 000	Yes	Not Applicable						
Municipal infrastructure grant	9 200 000	5 560 000	82 807 000	(28 927 683)	153 679 317	17 617 379	34 388 520	29 350 219	79 444 424	153 679 317	17 617 379	34 388 520	29 350 219	79 444 424	No	No	No	No	No	182 807 000	Yes	Not Applicable						
Neighbourhood development partnership grant	1 250 000	5 560 000	2 300 000	(3 000 000)	17 000 000	1 308 699	2 020 650	974 578	15 301 185	17 000 000	1 308 699	2 020 650	974 578	15 301 185	No	No	No	No	No	17 000 000	Yes	Not Applicable						
Local government financial management grant	4 312 000	4 312 000	3 006 000		13 111 000	4 312 000	242 188	747 637	130 177	13 111 000	4 312 000	242 188	747 637	130 177	No	No	No	No	No	1 250 000	Yes	Not Applicable						
Water services operating grant	790 000	6 407 000	4 487 000		6 407 000	4 312 000	4 312 000	4 487 000	4 487 000	6 407 000	4 312 000	4 312 000	4 487 000	4 487 000	No	No	No	No	No	13 111 000	Yes	Not Applicable						
Water services refurbishment grant	790 000	6 407 000	4 487 000		6 407 000	4 312 000	4 312 000	4 487 000	4 487 000	6 407 000	4 312 000	4 312 000	4 487 000	4 487 000	No	No	No	No	No	6 407 000	Yes	Not Applicable						
Municipal systems improvement grant	289 745 000	173 077 000	184 938 000	(80 902 889)	606 857 001	114 822 851	135 987 190	128 021 188	231 605 699	606 857 001	114 822 851	135 987 190	128 021 188	231 605 699	No	No	No	No	No	672 281 000	Yes	Not Applicable						

ANNEXURE G  
POLOKWANE MUNICIPALITY  
STATEMENT OF COMPARISONS OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2012

Description	2011/2012								
	1	2	3	4	5	6	7	8	9
	Original Budget	Budget Adjustments (i.e. s28 and s31 of MFMA)	Virement (i.e Council approved policy)	Final Budget	Actual Outcome	Unauthorised Expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget
<b>Financial Performance</b>									
Property Rates	228 355 000	228 355 000		228 355 000	229 422 689		(1 067 689)	15.34	15.55
Service Charges	766 139 000	766 139 000		766 139 000	781 281 433		(15 142 433)	52.23	52.95
Investment Revenue	8 000 000	8 000 000		8 000 000	24 554 093		(16 554 093)	1.64	1.66
Transfers recognised - operational	397 067 000	417 263 000		417 263 000	580 995 801		(163 732 801)	38.84	38.37
Other own Revenue	75 998 000	75 998 000		75 998 000	182 235 472		(106 237 472)	12.18	12.35
<b>Total Revenue (Excluding capital transfers and contributions)</b>	<b>1 475 579 000</b>	<b>1 495 755 000</b>		<b>1 495 755 000</b>	<b>1 759 485 459</b>		<b>(302 734 459)</b>	<b>120</b>	<b>122</b>
Employee Costs	401 386 000	401 386 000		401 386 000	399 030 020		2 352 980	26.65	27.04
Remuneration of Councillors	20 435 000	20 435 000		20 435 000	20 614 731		(179 731)	1.38	1.40
Debt Impairment	15 000 000	15 000 000		15 000 000	38 191 993		(23 191 993)	2.56	2.59
Depreciation and asset impairment	119 455 000	119 455 000		119 455 000	231 254 348		(111 799 348)	15.46	15.67
Finance Charges	33 714 000	33 714 000		33 714 000	28 626 803		5 087 197	1.97	1.99
Materials and Bulk purchases	722 210 000	744 030 000		744 030 000	615 677 953		128 352 047	41.16	41.72
Transfers and Grants	400 000	6 282 000		6 282 000	6 121 695		160 306	0.41	0.41
Other Expenditure	152 580 000	168 580 000		168 580 000	281 935 488		(113 355 488)	18.85	19.11
<b>Total Expenditure</b>	<b>1 475 280 000</b>	<b>1 508 982 000</b>		<b>1 508 982 000</b>	<b>1 622 257 011</b>		<b>(113 275 011)</b>	<b>108</b>	<b>110</b>
Loss: Impairment of Assets					1 207 194		(1 207 194)		
<b>Surplus/(Deficit)</b>	<b>299 000</b>	<b>(13 227 000)</b>		<b>(13 227 000)</b>	<b>175 030 294</b>		<b>(188 257 294)</b>	<b>12</b>	<b>12</b>
Transfer Recognised - capital	289 198 000	446 314 000		446 314 000	216 313 179		230 000 821	14.48	14.65
Contributions Recognised - capital & contributions assets	289 198 000	446 314 000		446 314 000	216 313 179		230 000 821	14.48	14.65
<b>Surplus/(Deficit) after capital transfer and contributions</b>	<b>(288 899 000)</b>	<b>(459 541 000)</b>		<b>(459 541 000)</b>	<b>(41 282 895)</b>		<b>(418 258 115)</b>	<b>(3)</b>	<b>(3)</b>
Share of Surplus/Deficit of associate									
<b>Surplus/Deficit for the year</b>	<b>(288 899 000)</b>	<b>(459 541 000)</b>		<b>(459 541 000)</b>	<b>(41 282 895)</b>		<b>(418 258 115)</b>		
<b>Capital expenditure and funds resources</b>									
Capital Expenditure									
Transfers recognised - Capital	289 198 000	446 314 000		446 314 000	216 313 179		230 000 821	33.77	55.58
Public Contributions and Donations									
Borrowing		86 849 000		86 849 000	86 849 000		-	13.56	22.31
Internally generated funds	100 000 000	107 403 000		107 403 000	51 341 225		56 061 775	6.01	13.19
<b>Total sources of capital</b>	<b>389 198 000</b>	<b>640 566 000</b>		<b>640 566 000</b>	<b>354 503 404</b>		<b>286 062 596</b>	<b>55</b>	<b>81</b>
<b>Cash Flows</b>									
Cash/cash equivalents at the beginning of the year	35 214 000	5 241 000		5 241 000	5 241 310		-		
Net Cash from (Used) operating	423 852 000	567 542 000		567 542 000	355 906 070				
Net Cash from (Used) Investing	(19 188 000)	67 811 000		67 811 000	53 643 206				
Net Cash from Used Financing	(393 198 000)	(640 566 000)		(640 566 000)	(403 719 059)				
<b>Cash/cash equivalents at the year end</b>	<b>50 780 000</b>	<b>26 000</b>		<b>26 000</b>	<b>11 273 530</b>				

Reconciliation of Budget surplus/deficit with the surplus/deficit in the statement of financial performance

Note

Net surplus/deficit per the statement of Financial performance

175,030,294

Adjusted for:

Revenue variances  
Fair value adjustments: income  
Surplus on the sale of assets  
Add: Revenue variances

	0
	0
	302,734,499
<b>1</b>	<b>302,734,499</b>

Adjustment for:

Expenditure variances  
Impairments recognised  
Loss on sale of asset  
Less: Expenditure variances  
Debt Impairment - Actual  
Debt Impairment - Budget

	114,477,205
	1,202,194
	0
	113,275,011
<b>2</b>	<b>113,275,011</b>

Net surplus/deficit per approved budget

-188,257,284

Note 1

Revenue  
Property rates  
Property rates - Penalties and collection charges  
Service Charges  
Rental Received  
Interest Earned - External Investments  
Interest Earned - Outstanding debtors  
Government Grants and Subsidies  
Other Income  
Total Revenue

	Actual	Budget	Variance
Revenue	229,422,699	228,355,000	1,067,699
Property rates	781,281,433	766,139,000	15,142,433
Property rates - Penalties and collection charges	-	-	-
Service Charges	24,554,093	8,000,000	16,554,093
Rental Received	580,986,801	417,263,000	163,723,801
Interest Earned - External Investments	182,235,472	75,998,000	106,237,472
Interest Earned - Outstanding debtors	1,798,489,498	1,495,765,000	302,734,498
Government Grants and Subsidies	-	-	-
Other Income	-	-	-
Total Revenue	1,798,489,498	1,495,765,000	302,734,498

Note 2

Expenditure  
Employee Costs  
Remuneration of Councilors  
Debt Impairment  
Depreciation and asset impairment  
Finance Charges  
Materials and Bulk purchases  
Transfers and Grants  
Other Expenditure  
Total Expenditure

Expenditure	399,033,020	398,284,860	748,060
Employee Costs	20,614,731	20,434,865	179,866
Remuneration of Councilors	36,191,993	15,000,000	23,191,993
Debt Impairment	231,294,346	119,455,000	111,799,348
Depreciation and asset impairment	29,426,803	32,214,100	(2,787,297)
Finance Charges	645,677,933	633,913,850	(18,235,917)
Materials and Bulk purchases	6,121,695	6,282,000	(160,306)
Transfers and Grants	281,936,488	283,397,225	(1,460,737)
Other Expenditure	1,622,257,011	1,508,982,000	113,275,011
Total Expenditure	1,622,257,011	1,508,982,000	113,275,011

ANNEXURE H  
POLOKWANE MUNICIPALITY  
CONTINGENT LIABILITIES FOR THE YEAR ENDED 30 JUNE 2012

Date	Type of case	Summary of case	Name of parties	Authority that dealt with the case e.g. High Court	Amount involved	Outcome	Total cost to the Municipality	Law firm used	Date finalized
02/03/2011	Civil	Incorrect meter reading / claim for deposit	Angelos Mathews Skordt v Polokwane	Pik Mag Court	R88,000	Notice to defend	R103,577.62	A.M Carrim Attorneys	Not yet finalised
18/004/2011	Labour	Non-payment of performance bonus	Ndanduleni Vivian Makharit v Polokwane	Labour-Court	R156,906.37	Awaits pre-trial conference		Mogaswa Att	In progress
22/03/2012	Civil	Damages	Nwamatela v Mahafie & Polokwane	Pik Mag Court	R100,000	Notice to defend		Jeff Mathabatha Att	In progress
22/02/2012	Civil	Damages	Dr. O.R. Tshikosi v Polokwane & Others	Pik Mag Court	R300,000.00	Application to defend	R2,879.00	De Bruin Oberholzer Att	In progress
21/02/2012	Civil	Damages (Pothole)	K.J Ngqosheng v Polokwane	Pik Mag Court	R8,981.83	Still await letter from plaintiffs Attorney		De Bruin Oberholzer Att	In progress
17/02/2010	Civil	Damages	Blue Camelion Investment v Polokwane	North Gauteng High Court	R1,408,879.80	Notice of withdrawal		Jeff Mathabatha Att.	Withdrawn 12 Jan 2012
04/04/2011	Civil	Non-payment for services rendered	E.C Deacon t/a P&L Polokwane	Pik Mag Court	R41,316.56	Plea filed		Mohale Inc. Att.	Not yet finalised
04/04/2011	Civil	Non-payment for services rendered	E.C Deacon t/a K T Services	Pik Mag Court	R82,526.59	Plea filed		Mohale Inc. Att.	Not yet finalised
25/05/2011	Civil	Rejection of Site Development Plan	Amazon Hotels v Polokwane	North Gauteng High Court	R2,500,000	Applicant proposed to settle out of court		Mogaswa Att	Attorney of record proposed the applicant must withdraw & be liable for the costs
22/02/2012	Civil	Non-payment of Municipal services	W.M Mathews N.o v Polokwane	Pik Mag Court	R45,079.35	Plea filed		Mogaswa Att	In progress
10/08/2010	Civil	Non-award of tender	Oscor Electrical contractors v Polokwane	North Gauteng High Court	R1,000,000	Set down for hearing on 19/10/12		Jeff Mathabatha Att.	In progress
15/07/2010	Civil	Motor vehicle collision	E Phooko v Polokwane	Pik Mag court	R45,359.51	Set for hearing on 20 Sept 2012		Jeff Mathabatha Att.	In progress
22/09/2011	Civil	Damages (pain & suffering)	A D Friedendal v Polokwane	Pik Mag Court	R113,289.42	Appearance to defend entered		Jeff Mathabatha Inc	In progress
22/02/2012	Civil	Breach of contract	Born to Protect v Polokwane	Northern Gauteng High Court	R414,321.60	Served & filed plea		Mogaswa Att	In progress
22/05/2012	Civil	Disclosure of information	Baagishane Projects	Matter still being negotiated				Mogaswa Att	



## CONTINGENT LIABILITIES FOR THE YEAR ENDED 30 JUNE 2012

	Civil	Compliance with legislation	Blue Sands Trading 471 v Polokwane Polokwane v H.R.A Lubbe	Northern Gauteng High Court	Order in terms of Rule 35(3) granted	Legal advice provided		Coetzer & Partners Att	In progress
03/05/2010	Civil	Legal advice	Polokwane v H.R.A Lubbe	n/a	N/A			Mogaswa Att	Finalised
26/07/2011	Labour	Crimes Injuria	E D Gudini v Polokwane & others	Pik Mag Court	R100,000.00	Matter tried	R33,396.53	Kgatta Inc	Finalised
11/04/2007	Civil	Non-payment for services rendered	L.E Fourie/ Chobe Plant hire & crushers v Polokwane & 2 others	Northern Gauteng High court	R135,982.99	Awaiting trial	R29,913.96	Hugo & Ngenya Inc.	In progress
04/06/2007	Civil	Damages	M.C Makgaba v Polokwane	Mankweng Mag Court	R30,890.04	Special plea upheld	R8,014.50	Kgatta Inc.	Finalised
08/03/2005	Civil	Services rendered	Mohlaba & Moshona inc v Polokwane	Jhb Mag Court	R11,985.90	Settlement proposed		Internal intervention	In progress
21/08/2007	Civil		Mopani Medical Aid						
11/04/2007	Civil								
04/04/2005	Civil	Tender dispute	Oscon Domestic Installation v Polokwane	Northern Gauteng High court	R509,644.46	Appeal	R58,200.00	K P Seabi & Associates	Still in progress
16/03/2011	Civil	Motor Vehicle Collision	J N Maleka v Polokwane & P Phooko	Pik Mag Court	R96,000.00	Rescission application filed		Jeff Mathabatha Att.	In progress
02/11/2005	Civil	Interdict	Uniting Reformed Church Of S.A v Polokwane	North Gauteng High Court	Declaratory order	Interdict granted	Unopposed		11/05/2011
06/10/2010	Labour	Outstanding arbitral	SAMWU obo J P Boshomane						
14/12/2012	Civil	Re allocation of star	Makofane Diana Moleeng v Polokwane						In progress
13/10/2010	Civil	Damages	J Thanisha v Polokwane	North Gauteng High Court	R2,500,000.00	Appearance to defend entered		Jeff Mathabatha Att.	In progress
15/12/2010	Civil	Services rendered	Indigo Kulani Architects (Pty) Ltd v Polokwane	North Gauteng High Court	R406,850.00	Declaration filed		A M Carrim Att.	In progress
26/08/2010	Civil	Interdict	Polokwane v Nkonzo Pubb & Grill	Pik Mag Court		Application filed, interdict granted		Jeff Mathabatha Att	18/10/2010
30/12/2010	Civil	Grievance	Masstores (Pty) Ltd/ Game v Polokwane & P Plenaar			Investigations finalised			Unknown
26/06/2011	Civil	Damages	M J Makwela v Polokwane	Pik Mag Court	R6,500.00	Appearance to defend entered		Jeff Mathabatha Att.	In progress

ANNEXURE H  
 POLOKWANE MUNICIPALITY  
 CONTINGENT LIABILITIES FOR THE YEAR ENDED 30 JUNE 2012

24/04/2012	Civil	Motor vehicle collision	M M Komape v T A Mapinini & Polokwane Municipality	Pik Mag Court	R39,502.86	Appearance to defend entered	Jeff Mathabatha Att	In progress
20/02/2012	Civil	Non-payment for services	Dipela Trading v Polokwane	Pik Mag Court	R81,605.60	Settlement proposed	Jeff Mathabatha Att.	In progress
19/04/2011	Civil	Refund on deposit	MF Sepuru Erf 4568/5 Bendor	n/a	n/a	Letter to attorneys		Unknown
02/09/2011	Civil	Interdict	N M E Kgata N.O & another v Polokwane	Pik Mag Court	n/a	Unopposed		Unknown
30/05/2012	Civil	Interdict	T S Moloto v E Lediga & Polokwane	Pik Mag Court	R11,907.40	Appearance to defend entered	A M Cariim Att.	In progress
01/2011	Civil	Crimes injuria	Polokwane obo Executive Mayor. F Greaver. v Media 24	North Gauteng High Court	R14,391,000.00	Settlement proposal	Mogaaswa Att	In progress