

GREATER TUBATSE LOCAL MUNICIPALITY



South Africa's first democratic platinum city

**ANNUAL FINANCIAL
STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2011**

Greater Tubatse Municipality
(Registration number Lim 475)

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

General Information

Legal form of entity	Local Municipality
Mayoral committee	
Executive Mayor	Cllr. R.S. Mamekoa
Grading of local authority	Low Capacity Municipality
Chief Finance Officer (CFO)	LM Mokwena
Registered office	Greater Tubatse Municipality
Business address	1 Kastania Street Burgersfort 1150
Postal address	P. O. Box 206 Burgersfort 1150
Auditors	The Office of the Auditor General The Office of the Auditor General

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Index

The reports and statements set out below comprise the Annual Financial Statements presented to the Provincial Legislature:

Index	Page
Accounting Officer's Responsibilities and Approval	7
Accounting Officer's Report	8
Statement of Financial Position	9
Statement of Financial Performance	10
Statement of Changes in Net Assets	11
Cash Flow Statement	12
Accounting Policies	13 - 26
Notes to the Annual Financial Statements	27 - 46
Appendixes:	
Appendix A: Schedule of External loans	48
Appendix C: Segmental analysis of Property, Plant and Equipment	49
Appendix D: Segmental Statement of Financial Performance	50
Appendix E(1): Actual versus Budget (Revenue and Expenditure)	51
Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)	53
Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act	54

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Index

Abbreviations

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

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2011 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government grants together with own revenue for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Greater Tubatse Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's internal auditors and their report is presented to audit committee appointed by the municipality to review.

The annual financial statements set out on pages 5 to 41, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:



Accounting Officer
Designation

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Subsequent events

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

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	<u>30.20</u> 4	8 936	-
Trade and other receivables from exchange transactions	<u>31.20</u> 5	314 566 036	311 579 045
Consumer debtors	<u>31.20</u> 6	39 819 867	31 386 742
Cash and cash equivalents	<u>32.20</u> 7	310 060	4 447 145
		354 704 899	347 412 932
Non-Current Assets			
Investment property	<u>21.20</u> 2	6 795 000	-
Property, plant and equipment	<u>20.20</u> 3	708 316 976	299 465 570
		715 111 976	299 465 570
Total Assets		1 069 816 875	646 878 502
Liabilities			
Current Liabilities			
Other financial liabilities	<u>41.27-28</u> 8	831 120	1 028 055
Finance lease obligation	<u>25.29</u> 9	39 008 909	4 895 008
Trade and other payables from exchange transactions	<u>51.20</u> 12	23 775 249	19 836 951
VAT payable	<u>51.20</u> 13	2 949 400	2 779 582
Consumer deposits	<u>51.20</u> 14	941 604	884 971
Unspent conditional grants and receipts	<u>43.20</u> 10	-	3 326 250
Provisions	<u>52.20</u> 11	966 310	821 503
Bank overdraft	<u>32.20</u> 7	5 605 162	6 902 351
		74 077 754	40 474 671
Non-Current Liabilities			
Other financial liabilities	<u>41.27-28</u> 8	17 657 801	18 331 427
Total Liabilities		91 735 555	58 806 098
Net Assets		978 081 320	588 072 404
Net Assets			
Accumulated surplus	<u>40.24</u>	978 081 320	588 072 404

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	16	39 018 246	35 270 955
Service charges	17	6 986 648	5 703 543
Property rates - penalties imposed and collection charges		2 377 272	1 566 697
Rental of facilities and equipment		334 748	302 300
Fines		584 238	1 697 117
Licences and permits		5 972 720	6 378 204
Government grants & subsidies	18	134 974 708	118 885 082
Fees earned		765 727	407 591
Commissions received		2 906 762	1 257 221
Other income	19	5 188 730	668 335
Government grants		1 191 400	135 439
Interest received - investment	24	2 308 446	1 680 160
Total Revenue		202 609 645	173 952 644
Expenditure			
Personnel	21	(68 910 939)	(60 282 355)
Remuneration of councillors	22	(13 186 583)	(13 071 966)
Depreciation and amortisation	25	(26 832 297)	(7 131 139)
Finance costs	26	(11 550 558)	(1 712 776)
Debt impairment	23	(7 214 447)	(2 157 507)
Collection costs		(2 634 663)	(2 877 913)
Repairs and maintenance		(4 695 713)	(4 686 339)
Contracted services	28	(8 874 593)	(12 149 503)
Grants and subsidies paid	29	(2 332 884)	(3 926 992)
General Expenses	20	(37 993 203)	(34 925 096)
Total Expenditure		(184 225 880)	(142 921 586)
Gain on disposal of assets and liabilities		-	82 932
Surplus for the year		18 383 765	31 113 990

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	556 958 414	556 958 414
Changes in net assets		
Surplus for the year	31 113 990	31 113 990
Total changes	31 113 990	31 113 990
Opening balance as previously reported	588 072 408	588 072 408
Adjustments		
Prior year adjustments	371 625 147	371 625 147
Balance at 01 July 2010 as restated	959 697 555	959 697 555
Changes in net assets		
Surplus for the year	18 383 765	18 383 765
Total changes	18 383 765	18 383 765
Balance at 30 June 2011	978 081 320	978 081 320
Note(s)		

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		46 004 894	42 910 949
Grants		136 166 108	118 885 082
Interest income		2 308 446	1 680 160
Other receipts		15 223 436	13 055 568
		<u>199 702 884</u>	<u>176 531 759</u>
Payments			
Employee costs		(80 203 021)	(63 931 082)
Suppliers		(56 473 755)	(70 021 672)
Finance costs		(2 092 872)	74 866
Other payments		(16 154 727)	(9 258 968)
Other cash item	32	-	(314 444)
		<u>(154 924 375)</u>	<u>(143 451 300)</u>
Undefined difference compared to the cash generated from operations note		(1)	-
Net cash flows from operating activities	30	<u>44 778 508</u>	<u>33 080 459</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(71 404 059)	(38 298 642)
Proceeds from sale of property, plant and equipment	3	-	(693 605)
Finance costs		-	(1 202 460)
Net cash flows from investing activities		<u>(71 404 059)</u>	<u>(40 194 707)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(870 561)	523 820
Finance lease payments		24 656 215	1 082 142
Net cash flows from financing activities		<u>23 785 654</u>	<u>1 605 962</u>
Net increase/(decrease) in cash and cash equivalents		<u>(2 839 897)</u>	<u>(5 508 286)</u>
Cash and cash equivalents at the beginning of the year		(2 455 206)	3 053 080
Cash and cash equivalents at the end of the year	7	<u>(5 295 103)</u>	<u>(2 455 206)</u>

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Annual Financial Statements

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

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, except for the changes set out in note Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] 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. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

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

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.2 Investment property (continued)

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

1.3 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 are initially measured at cost.

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

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

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or 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 except for other properties which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property, plant and equipment is revalued, 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 revaluation equals its revalued amount.

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the 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 revalued 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 revalued 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.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation 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 in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Average useful life
Land	20-25 years
Buildings	3-10 years
Plant and machinery	3-5 years
Furniture and fixtures	5-7 years
Motor vehicles	3-5 years
Office equipment	2-3 years
IT equipment	2-3 years
Computer software	2 years
Infrastructure	2-100 years
Community	10-25 years

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

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

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

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

The gain or loss arising from the de recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the 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.

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.3 Property, plant and equipment (continued)

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment have accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality transfer(s) a function in 2010 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Financial instruments

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.4 Financial instruments (continued)

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

Derivatives

Derivative financial instruments, which are not designated as hedging instruments, consisting of foreign exchange contracts and interest rate swaps, are initially measured at fair value on the contract date, and are re-measured to fair value at subsequent reporting dates.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in surplus or deficit.

Changes in the fair value of derivative financial instruments are recognised in surplus or deficit as they arise.

Derivatives are classified as financial assets at fair value through surplus or deficit - held for trading.

Held to maturity

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

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

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

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.5 Leases

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

Finance leases - lessor

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.5 Leases (continued)

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

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

Finance leases - lessee

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

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

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

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

1.6 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.7 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Greater Tubatse Municipality

(Registration number Lim 475)

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Construction contracts and receivables (continued)

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.8 Impairment of cash-generating assets

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

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

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

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

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:

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

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

Identification

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

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

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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