ACCOUNTING POLICIES OF THE CITY OF TSHWANE METROPOLITAN MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2010

1. Basis of preparation of annual financial statements

The annual consolidated financial statements were prepared on an accrual basis of accounting and in accordance with historical cost convention unless otherwise stated.

These financial statements were prepared in accordance with the standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board in accordance with section 122(3) of the Municipal Finance Management Act, 2003 (Act 56 of 2003). The reporting framework as prescribed by the Accounting Standards Board in Directive 5 of March 2009 and which are deemed by the Municipality to be applicable to it are summarised as follows:

Standards of GRAP

GRAP Framework	Framework for the preparation and presentation of financial statements
GRAP 1	Presentation of financial statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 4	The Effects of changes in foreign exchange rates
GRAP 5	Borrowing costs
GRAP 6	Consolidated and separate financial statements
GRAP 7	Investment in associates
GRAP 8	Interests in joint ventures
GRAP 9	Revenue from exchange transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment property
GRAP 17	Property, plant and equipment
GRAP 19	Provisions, contingent liabilities and contingent assets
GRAP 100	Non-current assets held for sale and discontinued operations
GRAP 101	Agriculture
GRAP 102	Intangible assets
IFRS 7	Financial instruments: Disclosure
IAS 19	Employee benefits
IAS 32	Financial instruments: Presentation
IAS 36	Impairment of assets
IAS 39	Financial instruments: Recognition and measurement
GAMAP 9.29-.35 and .39-.54	Revenue (refer to GRAP 9.45)
IGRAP 1	Applying the probability test on initial recognition of exchange revenue
IFRIC 4	Determining whether an agreement contains a lease
IFRIC 9	Reassessment of embedded derivatives
IFRIC 14	IAS 19: The Limit on a defined benefit asset, minimum funding requirements and their interaction
Directive 1	Repeal of existing transitional provisions in, and consequential amendments to, Standards of GRAP
Directive 3	Transitional provisions for the adoption of Standards of GRAP by high-capacity municipalities
ASB Guide 1	Guideline on accounting for public private partnerships
IPSAS 20	Related party disclosures

IPSAS 21	Impairment of non-cash generating assets

Accounting policies for material transactions, events or conditions not covered by the above GRAP standards were developed in accordance with the hierarchy set out in paragraph 12 of GRAP 3. The details of any changes in accounting policies are explained in the relevant policy. Assets, liabilities, revenue and expenses were not offset except when offsetting was required or permitted by a GRAP standard.

The accounting policies that were consistently applied are summarised below.

2. Consolidation

Basis of consolidation

Investments in associates, subsidiaries and joint ventures were carried at cost in the annual financial statements of the Municipality. Separate consolidated financial statements are prepared to account for the Municipality's share of the net assets and post-acquisition results of these investments.

3. Presentation currency

The annual financial statements are presented in South African Rand, which is the functional currency of the Municipality, and amounts have been rounded to the nearest Rand.

4. Going concern assumption

The annual financial statements were prepared on a going concern basis, ie the assumption that the Municipality will continue to operate as a going concern for at least the next 12 months.

5. Property, plant and equipment

Property, plant and equipment are stated at:

- historical cost less accumulated depreciation and any write-downs, or
- where assets are acquired by grant or donation, the cost is considered to be the fair value of the asset at date of acquisition.

Historical cost included expenditure that is directly attributable to the acquisition of the items.

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

Asset category	**Average useful life (years)**
Infrastructure	
• Roads and paving	30
• Pedestrian malls	30
• Electricity	20-30
• Water	15-20
• Sewerage	15-20
• Housing	30
Community	

• Buildings	30
• Recreational facilities	20-30
• Security	5
Other	
• Buildings	30
• Specialist vehicles	8-20
• Other vehicles	8
• Office equipment	5-8
• Furniture and fittings	7-10
• Watercraft	5
• Bins and containers	5
• Specialised plant and equipment	10-15
• Other plant and equipment	2-5
• Landfill sites and quarries	1-50
• Books	25
• Leased assets	3-5

Subsequent expenditure

Subsequent costs are included in the assets' carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential over the total life of the asset in excess of the most recently assessed standard of performance of the existing asset will flow to the Municipality. All other repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary or a monetary asset or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item cannot be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

The difference between the depreciation based on the revalued carrying amount of the asset is charged to the Statement of Financial Performance and the depreciation based on the asset's original cost is transferred from other reserves to the accumulated surplus/(deficit).

Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful life of the asset to its residual value from the day that the asset is ready for use.

Residual value is what the asset would currently receive if in the condition it would be at the end of its useful life. The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. The actual useful lives of the assets, residual values and depreciation method are assessed annually and might vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programme are taken into account.

Impairment of property, plant and equipment

The Municipality tests for impairment where there is an indication that an asset might be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount) it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Disposal of property, plant and equipment

The gain or loss on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value of the asset on the date of disposal and is recognised in the Statement of Financial Performance.

Heritage assets

Heritage assets are assets held for their cultural, environmental or historical significance. Heritage assets are initially recognised at cost, and where heritage assets are received as donation or acquired at nominal value, the cost is recorded as nil. Heritage assets are not depreciated as they are regarded as having an infinite useful life. Improvements to heritage assets are considered as sub assets and the useful life of the improvements is determined with reference to the depreciation charge of the relevant property, plant and equipment category.

Land

Land is not depreciated, as it is deemed to have an indefinite useful life.

Incomplete construction work (assets under construction)

Incomplete construction work is stated at historical cost. Depreciation only commenced when the asset is ready for use.

6. Investment property

Investment property is property held to earn rental revenue or for capital appreciation or both. Investment property is recognised as an asset when it is probable that the future economic benefit or service potential that is associated with the investment property will flow to the group, and the cost or fair value of the investment property can be measured reliably.

Investment property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated at cost, using the straight-line method over the useful life of the property.

7. Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefit or service potential that is attributable to the asset will flow to the group; and

- the cost or fair value of the asset can be measured reliably.

Intangible assets are carried at cost less accumulated amortisation and any impairment losses. Software is amortised on a straight-line basis over its anticipated useful life. Generally, costs associated with developing computer software programmes are recognised as an expense as incurred. However, costs that are clearly associated with an identifiable and unique product, which will be controlled by the Municipality and have a probable benefit exceeding the cost beyond one year, are recognised as intangible assets.

Expenditure which enhanced and extended the benefits of computer software programmes beyond the original life of the software is capitalised. Computer software development costs recognised as assets are amortised using the straight-line method over their useful lives. Costs associated with the maintenance of existing computer software programs are expensed as incurred.

8. Biological assets

Biological assets are measured at their fair value less point-of-sale costs. The fair value of livestock is determined based on market prices of livestock of similar age, breed and genetic merit. A gain or loss on initial recognition of biological assets or agricultural produce at fair value less estimated point-of-sale costs and from a change in fair value less estimated point-of-sale costs of a biological asset is included in surplus or deficit for the period in which it arises. A gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs is included in profit or loss for the period in which it arises.

9. Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are held to be for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. 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 (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

10. Inventories

Consumable stores, raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities.

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 sale.

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 for the sale, exchange or distribution.

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

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. Consumables are written down with regard to their age, condition and utility.

Land held for development, including land in the process of development until legal completion of the sale of the asset, is initially recorded at cost. Where, through deferred purchase credit terms, cost differed from the nominal amount which would actually be paid in settling the deferred purchase terms liability, no adjustment is made to the cost of the land, the difference being charged as a finance cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also included a portion of overhead costs, if this related to the development.

11. Internal reserves

Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment, amounts are transferred from the Statement of Financial Performance to the Capital Replacement Reserve in terms of the implementation guidelines on GRAP. These transfers from the net surplus may only made if they are backed by cash. The amount transferred to the CRR is based on the Municipality's need to finance future capital projects included in the Integrated Development Plan. The following provisions are set for the creation and utilisation of the CRR:

- The cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the Municipality.
- Interest earned on the CRR investment is recorded as part of total interest earned in the Statement of Financial Performance.
- The CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the Municipality and not for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset purchased is transferred from the CRR into a future depreciation reserve called the Capitalisation Reserve (CR). This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the CRR. The capitalisation reserve is used to offset depreciation charged on assets purchased out of the CRR to avoid double taxation of consumers.
- If a gain is made on the sale of assets previously purchased out of the CRR the gain is reflected in the Statement of Financial Performance.

Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balances of certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment, were transferred to the Capitalisation Reserve rather than the accumulated surplus/deficit, as in prior years, in terms of a directive (Circular 18) issued by National Treasury. The purpose of this reserve is to promote consumer equity by ensuring that the future depreciation charge that will be incurred over the useful lives of these items of property, plant and equipment is offset by transfers from the reserve to the accumulated surplus/deficit.

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment is disposed, the balance in the Capitalisation Reserve relating to that item is transferred to the accumulated surplus/deficit.

Government Grants Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the government grant recorded as revenue in the Statement of Financial Performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grants Reserve to the accumulated surplus/deficit. The purpose of this approach is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of items of property, plant and equipment funded by a government grant are offset by transfers from the reserve to the accumulated surplus/deficit.

When an item of property, plant and equipment financed from a government grant is disposed, the balance in the Government Grants Reserve relating to such item is transferred to the accumulated surplus/deficit.

Self-insurance Reserve

A Self-insurance Reserve was established and, subject to external insurance where deemed necessary, covered claims that might occur. Premiums are charged to the respective services, taking into account the claims history and replacement value of the insured assets.

Contributions to and from the reserve are transferred via the Statement of Changes in Net Assets to the reserve in line with the amount provided for in the operating budget.

- The total amount of insurance premiums paid to external insurers are regarded as expenses and must be shown as such in the Statement of Financial Performance. These premiums do not affect the Self-insurance Reserve.

- Claims received from external insurers are utilised in the calculation of a profit or loss on the scrapping of damaged assets and are therefore effectively recorded in the Statement of Financial Performance.
- Claims received to meet repairs of damages on assets are reflected as income in the Statement of Financial Performance.

The Self-insurance Reserve is based on recognised insurance industry principles. In determining the level of capacity required, an agreed methodology had been adopted. The calculation of the required capacity of the Self-insurance Reserve is consistently applied annually, based on the following methodology:

- Determination of the forecast surplus (free) capacity within the Self-insurance Reserve.
- The following liabilities are taken into account in determining this surplus capacity: reported known outstanding claims and statistically forecast losses for the remainder of the underwriting period (IBNR = claims incurred but not yet reported).
- Probability and quantification of a catastrophic loss.
- Comparison of the surplus (free) capacity to the declared value of the highest service delivery asset to determine the shortfall that exist based on the assumption that sufficient capacity will be built up to cover that asset through the Self-insurance Reserve over an agreed period of time.
- Spread the shortfall over a five-year period (in terms of the Long-Term Insurance Strategy).
- Adjust for inflation with the agreed relevant indices.
- Determine the annual premium contribution to reach the target capacity over a five-year period
- Appply a probability and an affordability factor to the ideal premium contribution to determine the budgeted premium contribution over a five-year period.

Self-insurance Future Depreciation Reserve

An amount equal to the carrying value of items of property, plant and equipment that had historically been utilised for the acquisition of property, plant and equipment from the Self-insurance Reserve was transferred to the Self-insurance Future Depreciation Reserve instead of the accumulated surplus/(deficit). The purpose of this reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/(deficit).

The balance of the Self-insurance Future Depreciation Reserve equals the carrying value of the items of property, plant and equipment financed from the former Self-insurance Reserve. When items of property, plant and equipment are depreciated, a transfer is made from the Self-insurance Future Depreciation Reserve to the accumulated surplus/(deficit). When an item of property, plant and equipment is disposed, the balance in the Self-insurance Future Depreciation Reserve relating to such item is transferred to the accumulated surplus/(deficit).

Compensation for Occupational Injuries and Diseases Reserve

The Municipality has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases (COID). In terms of this exemption the Municipality established a COID Reserve to offset claims from employees. Amounts are transferred to the COID Reserve from the accumulated surplus based on the statutory rate of contributions set out in the Compensation for Occupational Injuries and Diseases Act, 1993 (Act 130 of 1993) as well as additional amounts deemed necessary to ensure that the balance of the reserve is adequate to offset potential claims.

Contributions to the COID Reserve are based on 1% of the annual remuneration of employees that qualified for COID benefits. All employees earning more than R189 840 per annum are reinsured by what is called a "COID Wrap Around" policy. Claims are paid as determined by the Compensation Commissioner and are reflected in the Statement of Financial Performance. Claims are settled by transferring a corresponding amount from the COID Reserve to the accumulated surplus in the Statement of Changes in Net Assets.

Donations and Public Contributions Reserve

Revenue received from donations and public contributions may be transferred to the CRR and utilised via the CRR to finance items of property, plant and equipment.

12. Housing Development Fund

Sections 15(5) and 16 of the Housing Act, 1997 (Act 107 of 1997), which came into operation on 1 April 1998, requires that the Municipality maintain a separate housing operating account. This legislated separate operating account will be known as the Housing Development Fund. The Housing Act also requires in terms of section 14(4)(d)(iii)(aa) read with, inter alia, section 16(2), that the net proceeds of any letting, sale of property or alienation, financed previously from government housing funds, be paid into a separate operating account and be utilised by a municipality for housing development subject to the approval of the MEC for Housing. Loans from National and Provincial Government that were used to finance housing selling schemes were extinguished on 1 April 1998 and transferred to the Housing Development Fund. The following provisions are set for the creation and utilisation of the Housing Development Fund:

- The Housing Development Fund must have its own separate bank account/allocated investments and must be backed by cash.
- Any contributions to or from the fund must be shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments backing up this fund must be recorded as part of interest earned in the Statement of Financial Performance and can be transferred via the Statement of Changes in Net Assets to the Housing Development Fund.
- Any cash-backed surplus or deficit on the Housing Statement of Financial Performance must be transferred to the Housing Development Fund.

13. Provisions and contingencies

Provisions are recognised when:

- the group 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 of the obligation can be made.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are measured at the present value of the expenditures expected to be incurred to settle the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the financial statements.

- **Clearing of alien vegetation**

  In terms of the Conservation of Agricultural Resources Act, 1983 (Act 43 of 1983) the provision for the clearing of alien vegetation was established in 2005/06 as a start to address the backlogs that existed.

- **Cleaning up of illegal dumping**

  The Municipality is cleaning up illegal dumping on an ongoing basis as part of maintenance. Therefore there is no backlog cleaning that needs to take place. No provision is currently made for the cleaning up of illegal dumping.

- **Landfill sites**

  The Municipality has an obligation to rehabilitate its landfill sites in terms of its licence stipulations. A provision has been established from 2007/08. The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

- **Quarries**

  In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act 28 of 2002), section 52(2)(d), the City of Tshwane is required to rehabilitate its quarries and borrow pits after these quarries and borrowed pits have been closed. The amount of the provision is recognised at the present value of the expenditure expected to settle the obligation and is carried at amortised cost.

14. Retirement benefits

Pension, provident and retirement funds

The Municipality and its employees contribute to various pension, provident and retirement funds and its councillors contribute to the Pension Fund for Municipal Councillors. The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed by the relevant funds on a regular basis as per the requirements of the various funds.

Current contributions are charged against the operating account of the Municipality at a percentage of the basic salary paid to employees, or allowances in the case of councillors. Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense then incurred.

The Tshwane Pension Fund is a defined benefit plan. The cost of providing the benefits is determined by means of the projected unit credit method prescribed by IAS 19 and actuarial valuations were performed at each reporting date. The retirement benefit obligation presented in the Statement of Financial Position presents the sum of the present value of the obligation less the fair value of plan assets plus/minus any balance of unrecognised actuarial gains or losses, minus any balance of unrecognised past service cost.

Multi-employer funds are treated as defined contribution funds, due to the nature of these funds and the fact that the assets are not specifically set to meet the obligation in respect of individual employers in terms of paragraph 30 of IAS 19.

Medical aid: Continued members

The Municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality.

According to the rules of the medical aid funds associated with the Municipality, a member who joined the organisation under the current conditions of service retires, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The cost of providing these benefits is determined on the basis of the projected unit credit method prescribed by IAS 19. Future benefit values are projected using specific actuarial assumptions. The liability for in-service members is accrued over expected working lifetime. No plan assets existed and any actuarial gains and losses are recognised immediately.

15. 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

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Finance leases – lessee

The City of Tshwane leases certain property, plant and equipment. Leases of property, plant and equipment where the City of Tshwane substantially assumes risks and rewards of ownership are classified as finance leases. Finance lease assets and liabilities are recognised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the future minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balances of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term. The Municipality will not incur a foreign lease liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

Operating leases – lessor

When assets are leased out under an operating lease, the asset is included in the Statement of Financial Position based on the nature of the asset.

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 is recognised as an operating lease asset or liability.

Operating leases are those leases which do not fall within the scope of the above definition of finance leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

16. Financial instruments

Classification

The group classifies financial assets and financial liabilities into the following categories:

- Held-to-maturity investment
- Loans and receivables
- Available-for-sale financial assets
- Interest-bearing borrowings

Classification depends on the purpose for which the financial instruments were obtained/incurred and management determines the classification at initial recognition. With regard to reclassifications, the entity shall not reclassify a financial instrument into or out of the fair value through profit or loss category while it is held or issued.

Counter party exposure

The City of Tshwane limits its counter party exposure arising from the money market by only dealing with well-established financial institutions confirmed by the rating agency appointed by the Chief Financial Officer. The credit ratings of these institutions are reviewed quarterly and investments are spread across different types of approved investments and institutions.

Impairment of financial assets

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

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified. Impairment losses recognised in the Statement of Financial Performance on equity instruments are not reversed through the Statement of Financial Performance.

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

Financial instruments designated as available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the financial asset within 12 months of the reporting date.

Regular purchase and sales of financial assets are recognised on the trade date, that is, the date on which the City of Tshwane commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss is initially recognised at fair value and transaction costs are expensed in the Statement of Financial Performance.

Trade and other receivables

Trade receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of the receivables. 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) . The amount of the provision is 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 a provision for a bad debt account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is unelectable, it was written off against the provision for a bad debt account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Accounts receivable are carried at anticipated realisable value. An estimate is made of doubtful receivables based on a review of all outstanding amounts at year end. Bad debts are written off during the year in which they are identified. Amounts with regard to arrangements of consumer debtors are classified as long-term receivables.

Provision for doubtful debt

Provision for doubtful debt is made by means of an annual contribution of electricity and water levies, debtor's revenue from Fire Brigade Services, Ambulance Services and rentals excluding the Tshwane Market.

The annual contribution is determined by calculating the estimated non-payment by debtors for the financial year. The percentage contribution is calculated during the budget process each year and reviewed at year end.

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.

Liabilities for annual leave (accrued leave pay) are recognised as they accrued to employees. Provision is based on the potential liability (value of leave credits as at 30 June) of the Municipality.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term, highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position. Cash and cash equivalents and bank borrowings are subsequently recorded at face value.

Bank overdrafts and borrowings

Bank overdrafts and interest-bearing borrowings are initially measured at fair value, net of transaction costs incurred. It should also be added that interest-bearing borrowings are classified as non-current and current liabilities. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Statement of Financial Performance over the period of the borrowings using the effective interest rate method.

Interest-bearing borrowings are classified as non-current and current liabilities unless the Municipality has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date. The interest risk is managed by maintaining an appropriate mix between fixed and variable rate borrowings.

Derivatives

Derivative financial instruments, principally interest rate swap contracts, are used by the City of Tshwane in its management of financial risks. Derivative financial instruments are initially measured at fair value on the contract date and remeasured to fair value at subsequent reporting dates.

Payments and receipts under interest rate swap contracts are recognised in the Statement of Financial Performance on a basis consistent with the corresponding fluctuations in the interest payment on floating rate financial liabilities. The carrying amounts of interest rate swaps, which comprise net interest receivables and payables accrued, are included in assets and liabilities respectively.

Held to maturity

Held to maturity (HTM) investments are financial assets with fixed or determinable payments and fixed maturity where the entity has the positive intent and ability to hold the investment to maturity. These investments are normally encumbered and therefore must be held to maturity. The value of the investments is recorded at trade date.

HTM financial instruments originated by the Municipality and not held for trading are recognised at amortised cost using the effective interest rate method. Amortised cost is the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount and minus any write-down for impairment of uncollectability.

Hedging activities

Hedging is not applicable to the accounting treatment of financial instruments in the City of Tshwane.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The City of Tshwane's loans and receivables comprised trade receivables and other receivables, and cash and cash equivalents.

Offsetting of financial assets and liabilities

A financial asset and a financial liability are only offset and the net amount presented in the Statement of Financial Position when and only when:

(a) the City of Tshwane has a legally enforceable right to set off the recognised amount; and
(b) the City of Tshwane intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

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

Disposal and derecognition

Disposal:

On disposal of an investment the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Derecognition:

Financial assets are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Municipality had transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate method.

17. Translation of foreign currencies

Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Municipality (ie SA Rand) using the rate of exchange prevailing on the date of the transaction. Trade creditors denominated in foreign currency are reported at the Statement of Financial Position date by using the exchange rate at that date. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded during the period are recognised as revenue or as expense in the period in which they arise.

Where a transaction is covered by a forward exchange contract, the rate specified in the contract is used. The Municipality will not incur a foreign currency liability other than that allowed by the Municipal Finance Management Act, 2003 (Act 56 of 2003).

18. Revenue from exchange transactions

Revenue is derived from a variety of sources which included rates levied, grants from other tiers of government and revenue from trading activities and services provided.

Revenue is recognised when it is probable that future economic benefits or service potential will flow to the Municipality and these benefits can be measured reliably.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/goods sold, the value of which approximated the consideration received or receivable.

The percentage of completion method is utilised to recognise revenue on long-term contracts. Management exercises judgement in calculating the deferred revenue reserve which is based on the anticipated cost of repairs over the life cycle of the equipment applied to the total expected revenue arising from maintenance and repair contracts.

Measurement

Revenue is measured at the fair value of the consideration received or receivable for the supply of services in the ordinary course of activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Sale of goods

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

- The group has transferred to the purchaser the significant risks and rewards of ownership of the goods.

- The group 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 group.
- 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:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the group.
- 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 represented 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 can not be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service charges

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Estimates of consumption are made monthly when meters have not been read. The estimates of consumption are recognised as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

Services provided on a prepayment basis

Various services are provided on a prepayment basis, in which case no formal billing took place and income is accrued when received. Revenue is recognised at point of sale.

Income from agency services

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income is recognised in terms of an agency agreement.

Housing rental and instalments

Income in respect of housing rental and instalments is accrued monthly in advance. Finance income from the sale of housing by way of instalment sales agreements or finance leases is recognised on a time proportionate basis.

Collection charges

Collection charges are recognised when such amounts are incurred.

Interest, royalties and dividends

Interest earned on investments is recognised on a time proportionate basis that takes into account the effective yield on the investments. Interest earned on outstanding debtors is recognised on a time proportionate basis.

Fines

From 1 July 2008 the City of Tshwane was part of the pilot project of the new AARTO fines and act as an issuing authority. The new revenue from traffic fines isrecognised on an agency basis.

19. Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange. Revenue is the gross inflows of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. During the reporting period, revenue was measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Measurement

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Revenue from rates is recognised when the legal entitlement to this revenue arises. A site rating system is applied. In terms of this system, assessment rates are levied on the land value of property and rebates are granted subject to certain conditions. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers.

20. Conditional grants and receipts

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

21. Borrowing costs

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

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

22. Value-added tax

The Municipality accounts for value-added tax on a cash basis.

23. Segmental information

The principal segments have been identified on a primary basis by service operation and on a secondary basis by the classification of income and expenditure. The primary basis is representative of the internal structure for both budgeting and management purposes. The secondary basis classifies all operations based on the classification of income and expenditure.

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in the appendices consistent with the prior year.

24. Grants-in-aid (expense)

The Municipality annually awards grants to individuals and organisations based on merit. 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.

25. Unauthorised expenditure

Unauthorised expenditure means:

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

not in accordance with the purpose of the main division.

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

26. Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act, 2003 (Act 56 of 2003), the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), the Public Office Bearers Act, 1993 (Act 20 of 1998) or in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure.

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

27. Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure in the 2009/10 financial year 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.

28. Comparative figures

Prior year comparatives

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

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

The comparative figures (accounting policy and disclosures) may not be consistent with the current year accounting policies and disclosures due to the implementation of the new GRAP standards.

29. Tax

The City of Tshwane is exempt from tax in terms of section 10(1)cB(i)(ff) of the Income Tax Act.

30. Significant judgements and sources of estimation uncertainty

The preparation of these financial statements in conformity with GRAP required the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the City of Tshwane's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the notes to the financial statements where applicable.

Trade receivables/held-to-maturity investments and/or loans and receivables

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

Available-for-sale financial assets

The group follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the group evaluates, among other factors, the duration and extent to which the fair value of an investment iss less than its cost, as well as the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

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 end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the current value of the estimated future cash flows.

Impairment testing

The group 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.

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 6 (Provisions).

Post-retirement benefits

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 43.

Effective interest rate

The Municipality used the weighted average interest rate on external borrowings 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 at the reporting date taking into account the different classes of debtors and the history of payment success of debtors.

31. Budget information

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

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

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements. Refer to note 61.