Mnquma Local Municipality
Annual Financial Statements for
the year ended 30 June 2010

Mnquma Local Municipality

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

Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2010

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).

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.

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 set out on pages 4 to 55, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on its behalf by:

Accounting Officer
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
ASSETS			
Current Assets			
Inventories	9	2,626,308	1,816,337
Trade and other receivables	10	3,037,465	56,998
VAT receivable	11	2,945,623	4,627,855
Consumer debtors	12	5,928,609	13,404,481
Cash and cash equivalents	13	19,515,432	7,399,173
		34,053,437	**27,304,844**
Non-Current Assets			
Property, plant and equipment	5	144,570,877	123,979,443
Intangible assets	6	236,159	-
Investments	8	-	331,236
		144,807,036	**124,310,679**
TOTAL ASSETS		**178,860,473**	**151,615,523**
LIABILITIES			
Current Liabilities			
Finance lease obligation	15	519,423	614,784
Trade and other payables	18	23,295,982	13,144,473
VAT payable		-	3,908,290
Unspent conditional grants and receipts	16	12,270,846	9,395,080
Provisions	17	3,308,154	2,322,500
Bank overdraft	13	2,715,236	5,753,720
		42,109,641	**35,138,847**
Non-Current Liabilities			
Finance lease obligation	15	1,553,936	2,077,620
TOTAL LIABILITIES		**43,663,577**	**37,216,467**
NET ASSETS		**135,196,896**	**114,399,056**
Net Assets			
Accumulated surplus		135,196,890	114,399,063

Mnquma Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	21	19,298,832	28,975,966
Service charges	22	2,722,802	6,745,494
Rental of facilities and equipment		2,220,540	2,977,348
Fines		989,573	976,135
Licences and permits		-	1,962,782
Government grants & subsidies	23	123,823,677	106,329,564
Fees earned	24	3,127,672	395,518
Disposal of consumer deposits	24	-	317,227
Reversal of staff loan provisions	24	-	73,137
Rehabilitation of Landfill site		129,125	-
Interest received – investment	30	2,397,609	2,446,081
Total Revenue		**154,709,830**	**151,199,252**
Expenditure			
Personnel	27	(60,140,984)	(52,103,368)
Remuneration of councilors	28	(16,509,712)	(13,949,832)
Depreciation and amortization	31	(554,087)	(421,472)
Finance costs	32	(648,738)	(744,533)
Debt impairment	29	(20,646,806)	(43,925,553)
Repairs and maintenance		(5,801,324)	(3,407,404)
Bulk purchases	36	(3,056,977)	(2,456,986)
General Expenses	26	(18,836,199)	(21,184,164)
Total Expenditure		**(126,194,828)**	**(138 193 313)**
Gain on disposal of assets and liabilities		189,814	55,606
Surplus for the year		**28,704,816**	**13,061,545**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2008	**119,553,619**	**119,553,619**
Changes in net assets		
Surplus for the year	13,061,545	13,061,545
Total changes	13,061,545	13,061,545
Balance at 01 July 2009	**106,492,074**	**106,492,074**
Changes in net assets		
Surplus for the year	28,704,816	28,704,816
Total changes	28,704,816	28,704,816
Balance at 30 June 2010	**135,196,890**	**135,196,890**

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		-	-
Interest income			
Payments			
Suppliers			
Finance costs			
Net cash flows from operating activities	37		
Cash flows from investing activities			
Purchase of property, plant and equipment	5		
Proceeds from sale of property, plant and equipment	5		
Purchase of other intangible assets	6		
Purchase of investments			
Proceeds from sale of investments			
Net cash flows from investing activities			
Cash flows from financing activities			
Finance lease payments			
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year	13		

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 those applied in the previous period.

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 is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables and loans and receivables

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

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

Fair value estimation

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 municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - 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

1.1 Significant judgements and sources of estimation uncertainty (continued)

changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the appropriate interest rates that are denominated in the currency in which the benefits will be paid.

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

Allowance for doubtful debts

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

1.2 Investment property

Investment property is property held to earn rentals or for capital appreciation or both, rather than for:

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

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

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

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	years
Lifts	years
Air-conditioners	years
Other components	years

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

1.3 Property, plant and equipment

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

1.3 Property, plant and equipment (continued)

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

Property, plant and equipment is initially measured at cost or deemed cost which represents depreciated replacement cost.

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

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

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

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

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

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

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

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

Item	Average useful lives
Furniture and fittings	5 - 23
Other equipment	5 - 23
Computer equipment	5 - 20
Plant and machinery	5 - 31
Motor Vehicles	5 - 27
Office equipment	5 - 16

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.

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

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

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

Accounting Policies

1.3 Property, plant and equipment (continued)

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

1.4 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

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

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

Item	**Useful life**
Computer software, other	3 years
Other intangible assets	2 years

1.5 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

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

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

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

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

Regular way purchases of financial assets are accounted for at .

1.5 Financial instruments (continued)

Subsequent measurement

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

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

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit.

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

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (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.

1.6 Leases

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

1.6 Leases (continued)

Finance leases - 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.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.7 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

1.7 Inventories (continued)

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.

1.8 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

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

Defined contribution plans

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

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

Defined benefit plans

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

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some

1.8 Employee benefits (continued)

retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

1.9 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. .

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate.
The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.10 Revenue from exchange transactions

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

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

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

Sale of goods

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

Rendering of services

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

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

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

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

1.10 Revenue from exchange transactions (continued)

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

1.11 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

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

Recognition

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

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

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.11 Revenue from non-exchange transactions (continued)

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

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

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

1.12 Investment income

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

1.13 Comparative figures

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

1.14 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.15 Fruitless and wasteful expenditure

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

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

1.16 Irregular expenditure

Irregular expenditure as defined in section 32 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

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

1.16 Irregular expenditure (continued)

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

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

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

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

1.17 Presentation of currency

These annual financial statements are presented in South African Rand.

1.18 Offsetting

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

1.19 Investments

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

1.20 Conditional grants and receipts

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

Figures in Rand	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:

Statement of financial position

Property, plant and equipment		
Previously stated	1	-

Statement of financial performance

3.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2010 or later periods:

Revised
**IFRS 3(AC 140) Business Combinations
IASB Issue date: August 2009
APB Issue date: N/A
Effective date: 1 July 2010
- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
- Measurement of non-controlling interests
- Un-replaced and voluntarily replaced share-based payment awards.
This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

Revised
**IFRS 7(AC 144) Financial Instruments: Disclosures
IASB Issue date: August 2009
APB Issue date: N/A
Effective date: 1 January 2011
Clarifications of disclosures. This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

IFRS 9(AC 146) Financial Instruments
APB Issue date: January 2010
Effective date: 1 January 2013
New standard issued relating to the classification and measurement of financial assets, which will replace the relevant portions of IAS 39. The standard requires all financial assets to be:
- classified on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset
- subsequently measured at amortised cost or fair value.
This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

Amendment to
IAS 32(AC 125) Financial Instruments: Presentation
APB Issue date: January 2010
Effective date: 1 February 2010
Rights issues (rights, options or warrants) to acquire a fixed number of the entity's own equity instruments for a fixed amount, which is denominated in a currency other than the functional currency of the issuer will be accounted for as equity instruments.
This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

Revised
*IAS 39(AC 133) Financial Instruments: Recognition and Measurment
APB Issue date: May 2009

3. New standards and interpretations (continued)

Effective date: 1 January 2010
- Treating loan prepayment penalties as closely related embedded derivatives
- Scope exemption for business combination contracts
- Cash flow hedge accounting.

This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

**IFRIC 13(AC 446) Customer Loyalty Programmes (Fair value of award credit)
IASB Issue date: August 2009
APB Issue date: N/A
Effective date: 1 January 2011
This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

IFRIC 14(AC 447) The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Prepayments of a minimum funding requirement)
APB Issue date: January 2010
Effective date: 1 January 2011
This standard is expected to be implemented by the entity in the xx financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

IFRIC 19(AC 452) Extinguishing Financial Liabilities with Equity Instruments APB Issue date: January 2010
Effective date: 1 July 2010
This standard is expected to be implemented by the entity in the 2012 financial year in accordance with its effective date. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

*Standards and interpretations affected by the Improvements to IFRS

**Standards and interpretations affected by the Improvements to IFRS issued in an exposure draft as ED 272 – Improvements to IFRSs: Proposed amendments to International Financial Reporting Standards

The following GRAP standards have been approved but are not yet effective:

GRAP 18 - Segment Reporting
ASB Issue date: March 2005
Effective date: To be determined by the Minister
New standard of GRAP: Establishes principles for reporting financial information by segments. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 21 - Impairment of Non-cash-generating Assets
ASB Issue date: March 2009
Effective date: To be determined by the Minister
New standard of GRAP: Prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers)
ASB Issue date: February 2008
Effective date: To be determined by the Minister
New standard of GRAP: Prescribes requirements for the financial reporting of revenue arising from non-exchange transactions, other than non-exchange transactions that give rise to an entity combination. The standard deals with issues that need to be considered in recognising and measuring revenue from non-exchange transactions, including the identification of contributions from owners. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 24 - Presentation of Budget Information in Financial Statements
ASB Issue date: November 2007
Effective date: To be determined by the Minister
New standard of GRAP dealing with the presentation and disclosure of budget information as required by GRAP 1. The

3. New standards and interpretations (continued)

impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 25 - Employee Benefits
ASB Issue date: November 2009
Effective date: To be determined by the Minister
New standard of GRAP dealing with the requirements around accounting and disclosure of employee benefits including short term, long term and post retirement employee benefits. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 26 - Impairment of Cash-generating Assets
ASB Issue date: March 2009
Effective date: To be determined by the Minister
New standard of GRAP: Prescribes the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 103 - Heritage Assets
APB Issue date: July 2008
Effective date: To be determined by the Minister
New standard of GRAP: Prescribes the accounting treatment for heritage assets and related disclosure requirements. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

GRAP 104 - Financial Instruments
ASB Issue date: October 2009
Effective date: To be determined by the Minister
New standard of GRAP dealing with the recognition, measurement, presentation and disclosure of financial instruments. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

***Improvements to standards of GRAP
ASB Issue date: N/A
Effective date: Proposed: 1 April 2011
Improvements are proposed to the following standards of GRAP: GRAP 1-4, 9-14, 16-17, 19 and 100 as part of the ASB's improvement project. The impact of implementing this standard is expected to be immaterial in the context of this entity's operations

Figures in Rand	2010	2009

4. Investment property

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements

is
as follows:

In the exceptional cases when the municipality have to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

Notes to the Annual Financial Statements

When the municipality's policy is to subsequently measure investment property on the cost model, when the municipality cannot determine the fair value of the investment property reliably, the municipality must disclose:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie.

5. Property, plant and equipment

	2010			2009		
	Cost/Valuation	**Acc Dep**	**Carrying Value**	**Cost Valuation**	**Acc Dep**	**Carrying Value**
Computer Equipment	1,102,657	406,009	696,647	1,079,577	52,323	728,262
Furniture and Fittings	2,412,559	837,690	1,574,869	2,025,561	83,249	1,278,252
Motor Vehicles	4,522,415	1,284,056	3,405,855	4,522,415	167,496	3,405,855
Office equipment	560,399	138,103	422,295	560,399	30,371	258,316
Other equipment	1,029,946	277,047	752,898	1.029,946	237,437	593,089
Plant and Machinery	3,393,428	950,060	2,443,438	3,393,428	841,310	2,526,268
Total	**13,021,406**	**3,892,968**	**9,128,438**	**13,021,407**	**421,472**	**8,790,045**

Reconciliation of Property Plant and Equipment-2010

	Opening Balance	Additions	Total
Computer Equipment	728,263	(31,615)	696,648
Furniture and Fittings	1,278,253	296,616	1,574,869
Motor Vehicles	3,405,856	0	3,405,855
Office equipment	258,316	163,980	422,296
Other equipment	593,089	159,809	752,898
Plant and Machinery	2,526,268	82,900	2,443,368
Total	**8,790,045**	**338,393**	**9,128,439**

Reconciliation of Property Plant and Equipment-2009

	Opening Balance	Additions	Total
Computer Equipment	695,949	32,314	728,263
Furniture and Fittings	1,048,824	229,429	1,278,253
Motor Vehicles	2,879,798	-526,058	3,405,856
Office equipment	237,858	20,458	258,316
Other equipment	531,177	61,913	593,089
Plant and Machinery	1,842,596	683,672	2,526,268
Total	**7,236,202**	**1,553,843**	**8,790,045**

Pledged as security

Carrying value of assets pledged as security:

In terms of Directive 4 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. The Standard of GRAP on Property, Plant and Equipment was initially adopted on 1 July 2008

Due to the fact that the municipality has taken advantage of the transitional provision, property, plant and equipment were not recognised and measured in accordance with the Standards of GRAP on: Property, Plant and Equipment, the Presentation of Financial Statement, Effect of Changes in Foreign Exchange Transaction, Leases, Segment Reporting and Non-current Assets Held for Sale and Discontinued Operations.

Notes to the Annual Financial Statements

Property, plant and equipment acquired prior to the date of initial adoption of the Standard of GRAP are measured at provisional amounts (Nil value) in line with Directive 4. Additions to property plant and equipment since the Standard of Grap on Property, Plant and Equipment was initially adopted are recognised at cost. No depreciation is recognised onthese assets as all the related elements of the depreciation calculation could not be considered at year end.

During the financial year and exercise was performed to produce a GRAP compliant Movables Fixed Asset Register. For the current and prior financial year actual cost was include. Where assets prior to 1 July 2008 were identified and no cost could be determined, Discounted Gross Replacement cost (deemed cost) was used in line with Directive 4.

For the current financial year a project has been completed to produce an Immovable Fixed Asset Register, with nominal values. A detailed exercise will be undertaken in 2010/11 financial year to determine cost or deemed cost for these assets.

No measurement adjustments were made for Immovable Assets for the year ending 30 June 2010.

Assets subject to finance lease (Net carrying amount)

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

6. Intangible assets

	2010			2009		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Computer software, other	298,941	62,782	236,159	-	-	-

Figures in Rand	2010	2009

6. Intangible assets (continued)

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Computer software, other	-	298,941	298,941

Reconciliation of intangible assets - 2009

7. Financial assets by category

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

2010

	Loans and receivables	Total
Trade and other receivables	3,037,465	3,037,465
Cash and cash equivalents	19,515,432	19,515,432
Consumer debtors	5,928,609	5,928,609
	28,481,506	**28,481,506**

2009

	Loans and receivables	Held to maturity investments	Total
Investment	-	331,236	331,236
Trade and other receivables	56,998	-	56,998
Cash and cash equivalents	7,399,173	-	7,399,173
Consumer debtors	13,404,481	-	13,404,481
	20,860,652	**331,236**	**21,191,888**

8. Investments

A fixed deposit was since cashed in the year under review	0	331, 236

9. Inventories

Consumable stores	2,679,075	1,898,755
	2,679,075	1,898,755
Inventories (write-downs)	(52,767)	(82,418)
	2,626,308	**1,816,337**

Included in the Consumable stores are Stationeries, Maintenance materials and Cleaning materials.

10. Trade and other receivables from exchange transactions

Other Receivables	3,037,465	-
Transaction fees	-	56,998
	3,037,465	**56,998**

Fair value of trade and other receivables

Trade and other receivables past due but not impaired

Figures in Rand	2010	2009

10. Trade and other receivables from exchange transactions (continued)

Trade and other receivables which are less than 3 months past due are not considered to be impaired.

Trade and other receivables impaired

As of 30 June 2010, trade and other receivables of R 70,291,859 (2009: R 49,645,453) were

impaired and provided for.

11. VAT receivable

VAT	2,945,623	4,627,855

12. Consumer debtors

Gross balances		
Rates	48,701,547	39,442,893
Refuse	16,046,001	13,623,412
Housing rental	7,857,132	6,312,602
Fire levy	3,615,788	3,670,626
	76,220,468	**63,049,533**
Less: Provision for debt impairment		
Rates	(43,662,373)	(29,292,292)
Refuse	(15,587,046)	(12,128,756)
Housing rental	(7,475,840)	(5,140,722)
Fire levy	(3,566,600)	(3,083,283)
	(70,291,859)	**(49,645,053)**
Net balance		
Rates	5,039,174	10,150,602
Refuse	458,955	1,494,656
Housing rental	381,292	1,171,880
Fire levy	49,188	587,343
	5,928,609	**13,404,481**
Rates		
Current (0 -30 days)	564,198	8,092,094
31 - 60 days	839,133	1,032,291
61 - 90 days	799,016	1,026,215
91 - 120 days	794,749	1,001,978
121 - 365 days	802,455	1,003,241
> 365 days	44,901,996	27,287,074
	48,701,547	**39,442,893**
Refuse		
Current (0 -30 days)	269,174	512,499
31 - 60 days	236,678	435,539
61 - 90 days	228,405	546,617

Figures in Rand	2010	2009

12. Consumer debtors (continued)

91 - 120 days	227,237	536,903
121 - 365 days	15,084,506	534,909
> 365 days	-	11,056,945
	16,046,000	**13,623,412**

Housing rental

Current (0 -30 days)	253,689	806,106
31 - 60 days	130,626	183,200
61 - 90 days	149,169	182,574
91 - 120 days	224,540	372,619
121 - 365 days	139,043	180,933
> 365 days	6,960,065	4,587,170
	7,857,132	**6,312,602**

Fire levy

Current (0 -30 days)	235	196,339
31 - 60 days	233	195,779
61 - 90 days	-	195,226
91 - 120 days	-	195,118
121 - 365 days	-	195,476
> 365 days	3,615,320	2,692,689
	3,615,788	**3,670,627**

Reconciliation of debt impairment provision

Balance at beginning of the year	(49,645,053)	(105,493,457)
Contributions to provision	(20,646,806)	-
Reversal of provision	-	55,848,404
	(70,291,859)	**(49,645,053)**

Credit quality of consumer debtors

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

Figures in Rand	2010	2009

13. Cash and cash equivalents (continued)

Cash and cash equivalents consist of:

Bank balances	3,080,380	379,928
Short-term deposits	16,435,052	7,019,245
Bank overdraft	(2,715,236)	-
	16,800,196	**7,399,173**

Current assets	19,515,432	7,399,173
Current liabilities	(2,715,236)	-
	16,800,196	**7,399,173**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2010	**30 June 2009**	**30 June 2008**	**30 June 2010**	**30 June 2009**	**30 June 2008**
Current Account (Primary Bank Account) Meeg Bank - Butterworth Branch: Account Number 40 - 52 732 025	1,716,842	(6,525,846)	(2,714,031)	(182,347)	(5,182,526)	(6,525,846)
Current Account / Traffic Account (61 185 023 789)	1,693,112	356,500	838,082	2,682,612	379,928	897,173
Total	**3,409,954**	**(6,169,346)**	**(1,875,949)**	**2,500,265**	**(4,802,598)**	**(5,628,673)**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Finance lease obligation

Minimum lease payments due		
- within one year	519,423	845,663
- in second to fifth year inclusive	1,553,936	2,529,664
	2,073,359	3,375,327
less: future finance charges	-	(682,923)
Present value of minimum lease payments	**2,073,359**	**2,692,404**

Present value of minimum lease payments due		
- within one year	519,423	614,784
- in second to fifth year inclusive	1,553,936	2,077,620
	2,073,359	**2,692,404**

Non-current liabilities	1,553,936	2,077,620
Current liabilities	519,423	614,784
	2,073,359	**2,692,404**

Meeg Bank: Tractors & Trailors
Liability under finance lease agreement payable in monthly instalments of R 6 185 & R 2 814 over a period of 3 years at an interest rate of 2.5 % below prime per year. The lease is secured over the asset acquired.

Meeg Bank: Quantum & 2x Twin Cabs
Liability under finance lease agreement payable in monthly instalments of R 5 986 & R13 334 over a period of 5 years at an interest rate of 2.5 % below prime per year. The lease is secured over the asset acquired.

Toyata Finance: 8X Vehicles
Liability under finance lease agreement payable in monthly instalments of R 28 641 over a period of 6 years at an interest rate of 14.5 % per year linked at a current prime rate less 1 %. The lease is secured over the asset acquired.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Conditional grants from spheres of government	8,606,954	5,768,551
Other conditional grants	3,663,892	3,626,529
	12,270,846	**9,395,080**

These amounts are invested in a ring-fenced investment until utilised.

Figures in Rand	2010	2009

17. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Movement	Total
Landfill sites	2,322,500	(129,125)	2,193,375
Provision for Performance bonus	-	1,114,779	1,114,779
	2,322,500	**985,654**	**3,308,154**

Reconciliation of provisions - 2009

	Opening Balance	Additions	Total
Landfill sites	-	2,322,500	2,322,500

The municipality operates land fill site in Butterworth; it is approximately at 5224 square meters .The municipality has no permit to operate the site but Municipality's intention will go out on tender in 2010/2011 to determine the actual provision of rehabilitation of the site and its closure.

18. Trade and other payables from exchange transactions

	2010	2009
Trade payables	17,087,724	7,539,079
Other creditors	5,596,572	
Accrued leave pay	-	5,497,682
Accrued bonus	555,518	-
Accrued UIF	56,168	-
Deposits received	-	107,712
	23,295,982	**13,144,473**

19. Financial liabilities by category

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

2010

	Financial liabilities at amortised cost	Total
Trade and other payables	23,295,982	23,295,982
Bank overdraft	2,715,236	2,715,236
Finance lease	2,073,359	2,073,359
	28,084,577	**28,084,577**

2009

	Financial liabilities at amortised cost	Total
Trade and other payables	13,144,473	13,144,473
Bank overdraft	5,753,720	5,753,720
Finance lease	2,692,404	2,692,404
	21,590,597	**21,590,597**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. Revenue

Property rates	19,298,832	28,975,966
Service charges	2,722,802	6,745,494
Rental of facilities & equipment	2,220,540	2,977,348
Fines	989,573	976,135
Licences and permits	-	1,962,782
Government grants & subsidies	123,823,677	106,329,564
	149,055,424	**147,967,289**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	2,722,802	6,745,494
Rental of facilities & equipment	2,220,540	2,977,348
Licences and permits	-	1,962,782
	4,943,342	**11,685,624**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	19,298,832	28,975,966
Fines	989,573	976,135
Government grants & subsidies	123,823,677	106,329,564
	144,112,082	**136,281,665**

21. Property rates

Rates received

Residential, Commercial and State	19,298,832	28,975,966

Valuations

Residential	406,852,900	1,592,359,612
Commercial	219,413,100	114,699,012
	626,266,000	**1,707,058,624**

Valuations on land and buildings are performed every five years. The last valuation came into effect on 1 July 2009. A general rate of R0.03 (2009: R0.02) is applied to property valuations to determine assessment rates. Rebates of R15 000 are granted to residential and state property owners. Rates are levied on an annual basis on property owners.

22. Service charges

Fire levy	-	2,396,550
Refuse removal	2,722,802	4,348,944
	2,722,802	**6,745,494**

Figures in Rand	2010	2009

23. Government grants and subsidies

Equitable share	92,021,547	68,823,854
Other grants and subsidies	2,210,182	4,391,607
MIG grant	28,404,701	31,294,722
MSIG grant	454,511	1,054,477
FMG grant	732,736	764,904
	123,823,677	**106,329,564**

Equitable Share

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

All registered indigents receive a monthly subsidy of 50kwhl for electricity monthly,20litres bi-monthly for an alternative energy and 100% rebate on rates and services which is funded from the grant.

MIG grant

Balance unspent at beginning of year	5,768,551	10,343,923
Current-year receipts	31,243,104	26,719,349
Conditions met - transferred to revenue	(28,404,701)	(31,294,721)
	8,606,954	**5,768,551**

Conditions still to be met - remain liabilities (see note 16)

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

Other grants and subsidies

Balance unspent at beginning of year	3,626,529	4,168,964
Current-year receipts	37,363	6,210,988
Conditions met - transferred to revenue	-	(6,753,423)
	3,663,892	**3,626,529**

Conditions still to be met - remain liabilities (see note 16)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 1 of 2007 & Gazette No 29763), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

24. Other revenue

Fees earned	3,127,672	395,518
Disposal of consumer deposits	-	317,227
Reversal of staff loan provisions	-	73,137
Rehabilitation of Landfill sites	129,125	-
	3,256,797	**785,882**

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

Fees earned	3,127,672	395,518

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

Disposal of consumer deposits	-	317,227
Reversal of staff loan provisions	-	73,137
	-	**390,364**

26. General expenses

General expenditure	9,949,983	5,778,305
Sundry expenditure	11,943,194	13,083,359
Provision for Landfill site	-	2,322,500
	21,893,177	**21,184,164**

Figures in Rand	2010	2009

27. Employee related costs

Basic	44,538,272	38,235,935
Bonus	3,579,302	2,361,726
Medical aid - company contributions	2,793,412	1,782,331
UIF	398,029	375,646
Other payroll levies	405,325	424,972
Leave pay provision charge	1,304,185	809,769
Post-employment benefits - Pension - Defined contribution plan	7,446,956	5,293,924
Travel, motor car, accommodation, subsistence and other allowances	9,780,308	849,409
Overtime payments	661,824	630,341
Acting allowances	460,465	449,909
Car allowance	789,848	696,983
Housing benefits and allowances	147,832	192,423
Holiday Bonus	3,021,912	2,361,726
	72,305,758	**52,103,368**

Remuneration of municipal manager

Annual Remuneration	688,607	644,160
Car Allowance	107,866	-
Performance Bonuses	210,240	100,904
Cell phone allowance	50,149	24,462
	1,053,862	**769,526**

Remuneration of chief finance officer

Annual Remuneration	339,241	317,345
Car Allowance	109,826	102,737
Performance Bonuses	118,000	-
Contributions to UIF, Medical and Pension Funds	133,568	547,439
Cell phone allowance	39,554	14,550
		-
	740,189	**982,071**

Remuneration of Director Strategic Management

Annual Remuneration	358,913	335,747
Car Allowance	102,624	96,000
Performance Bonuses	96,469	-
Contributions to UIF, Medical and Pension Funds	103,321	96,652
Cellphone allowance	57,331	31,180
		-
	718,658	**559,579**

Remuneration of Director Community Services

Annual Remuneration	541,259	506,323
Car Allowance	114,878	107,463
Performance Bonuses	129,400	-
Cellphone allowance	32,355	-
Computer allowance	-	7,815
	817,892	**621,601**

Figures in Rand	2010	2009

27. Employee related costs (continued)

Remuneration of Legal Advisor

Annual Remuneration	340,258	318,299
Car Allowance	134,694	126,000
Contributions to UIF, Medical and Pension Funds	155,544	145,504
Cellphone allowance	24,000	24,000
Computer allowance	4,490	4,200
	658,986	**618,003**

Corporate and human resources (corporate services)

Annual Remuneration	547,439	512,104
Car Allowance	108,698	101,682
Performance Bonuses	125,000	-
Cell phone allowance	32,355	7,815
		-
	813,492	**621,601**

Remuneration of Director Infrastructural Development

Annual Remuneration	598,189	559,578
Performance Bonuses	96,469	-
Cellphone allowance	24,000	-
	718,658	**559,578**

28. Remuneration of councillors

Executive Mayor	12,200,204	4,517,361
Councillors	4,309,507	9,432,471
	16,509,712	**13,949,832**

29. Debt impairment

Debts impaired	20,646,806	43,925,553

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

30. Investment revenue

Interest revenue		
Bank	1,398,025	1,323,644
Interest charged on trade and other receivables	999,584	1,122,437
	2,397,609	**2,446,081**

31. Depreciation and amortisation

Property, plant and equipment	554,087	421,472

32. Finance costs

Trade and other payables	1,625	255,274
Finance leases	321,701	-
Other Finance Cost	325,412	489,259
	648,738	**744,533**

35. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	2,220,540	2,977,348

36. Bulk purchases

Electricity	-	2,456,986

37. Cash generated from operations

Surplus **Adjustments for:**
Depreciation and amortisation

Loss on sale of assets and liabilities
Finance costs - Finance leases
Interest income
Finance costs
Debt impairment
Movements in provisions
Changes in working capital:
Inventories
Trade and other receivables from exchange transactions
Consumer debtors
Trade and other payables from exchange transactions
VAT
Unspent conditional grants and receipts
Consumer deposits

Figures in Rand	2010	2009

37. Cash generated from operations (continued)

-

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure	-	28,445,366
• Community	-	500,000
	-	**28,945,366**

Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of three years and some rentals are fixed and some are escalating at 10% yearly. No contingent rent is payable.

39. Related parties

In the year under review, all Senior managers and Councillors declared their business interests. These businesses were compared to the operations during the year and no related party transactions were identified.

Key management information

Executive Mayor	Cllr M.W. Ntongana	
Mayoral Committee Member	Cllr N. Makabane	Portfolio Head: Budget and Treasury
Mayoral Committee Member	Cllr N. Mashiyi	Portfolio Head: Corporate Services
Mayoral Committee Member	Cllr M.C. Mpeluza	Portfolio Head: Communication
Mayoral Committee Member	Cllr M.M. Magobiane	
Mayoral Committee Member	Cllr M.N. Zimba	Portfolio Head: Strategic Management
Mayoral Committee Member	Cllr B.W. Mampofu	Portfolio Head: Social Services
Mayoral Committee Member	Cllr N. Lwana	Portfolio Head: Special Programmes Unit
Mayoral Committee Member	Cllr L. Mpangele	Portfolio Head: Housing
Mayoral Committee Member	Cllr Z. Xhongwana	Portfolio Head: Water and Sanitation
Municipal Manager	Mr N. Pakade	

40. Prior period errors

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

41. Risk management

Capital risk management

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

There are no externally imposed capital requirements.

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

Financial risk management

Liquidity risk

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

Credit risk

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

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

Figures in Rand	2010	2009

42. Going concern

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

43. Events after the reporting date

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

44. Unauthorised expenditure

Unauthorised expenditure current year	-	21,395
Unauthorised expenditure awaiting authorisation	-	714,324
	-	**735,719**

Incident
R714 324 was pension monies transferred by Old Mutual to pay over to councillors that were serving in the council prior 2006 and it was paid without reflecting in the budget as an additional income
R 21 395 is for Skills Development vote that exceeded the budget without notifying as exhausted, this is a challenge within Sebata system in personnel votes not giving early warning signs when the vote are exhausted

45. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure for the year	648,738	639,291
Unauthorised expenditure awaiting authorisation	-	238,000
	648,738	**877,291**

2009 Incidents
Interest of R 238 000 on overdue accounts
In the invoice of A & J Midas for the amount of R 143.00 vat number quoted was incorrect
R 255 274.00 is for interest on overdue accounts
R 135 128.00 interest on overdraft
Interest of an old debt for workman’s compensation which started at thee then Butterworth Municipality is R 248 747.

2010 Incident

Interest on overdue account and bank charges:

46. Irregular expenditure

47. Reconciliation between budget and statement of financial performance

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

Net surplus per the statement of financial performance	49,276,981	13,483,018

48. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	375,456	-
Current year subscription / fee	1,325,008	1,024,000
Amount paid - current year	(732,902)	(648,544)

	967,562	**375,456**

Figures in Rand	2010	2009

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

PAYE and UIF

Current year payroll deductions	-	7,609,603
Amount paid - current year	(3,078,788)	(7,609,603)
	-	**-**

The balance represents PAYE and UIF deducted from the June 2010 payroll. These amounts will be paid during July 2010.

Pension and Medical Aid Deductions

Current year payroll deductions and Council Contributions	-	8,827,046
Amount paid - current year	(9,043,776)	(8,827,046)
	(9,043,776)	**-**

The balance represents pension and medical aid contributions deducted from employees in the June 2010 payroll as well as Council's contributions to pension and medical aid funds. These amounts will be paid during July 2008.

VAT

VAT receivable	2,945,623	4,627,855
VAT payable	-	3,908,290
	2,945,623	**8,536,145**

VAT output payables and VAT input receivables are shown in note 10.

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2010:

30 June 2010	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor N. Miti-Dube		20,536	20,536

30 June 2009	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
Councillor N.N Makhabane	41	443	484
Councillor Tyala .N	154	1,844	1,998
	195	**2,287**	**2,482**

49. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	-	2,692,402
Used to finance property, plant and equipment	-	(3,020,279)
	-	**(327,877)**

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. No cash has been set aside to ensure that long-term liabilities can be repaid on redemption date as the liability being paid on a monthly basis.

50. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Renting of PVA screen ,professional services and maintenance in preparation for 2010 world were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

51. Retirement benefit information

All Employees belong to 4 defined benefit retirement funds administered by the Cape Joint Pension Fund, Cape Joint Retirement Fund, and National Fund for Municipal Workers and Samwu National Provided Fund.

All Councilors belong to 1 defined benefit retirement fund administered by the Municipal Councilors' Pension Fund.