NGQUSHWA MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2010

Issued 31 August 2010

General Information

Legal form of entity	Municipality
Mayoral committee	
Executive Mayor	Mr B Ntotela
Councillors	Mr M Xhotyeni (Speaker)
	F. Matiwane (Member of the Executive Committee)
	S. Ndwayana (Member of the Executive Council)
	T.Camagu (Member of the Executive Council)
	N.Magingxa (Member of the Executive Comittee)
	V.Kaulela
	N. Ndabazonke
	T. Dyani
	M.Sethuntsa
	S.Jali
	P.Skade
	M.Mphunga
	MF. Joyi
	N.Coto
	N. Mapekula
	V.Myozolo
	M.Falteni
	B.Ncapayi
	N.Mhlakane
	Q.Gqamane
	N.Sahula
	F.Phumaphi
	N.Dyani
	S.Jali
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr P Mahlasela
Accounting Officer	Mrs N Y Zongo
Registered office	Peddie
Business address	Corner of N2 and R345 Road Peddie 5640
Postal address	P.O.Box 539 Peddie 5640
Bankers	First National Bank, Peddie
Telephone Number	040 673 3940
Fax Number	040 673 3771
Email Address	paulmahlasela@yahoo.com

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

Abbreviations

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

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 she 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, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The accounting officer certifies that the salaries, allowances and benefits of Councillors and payments made are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government’s determination in accordance with this Act.

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 36, 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:

Mrs N Y Zongo
Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Trade and other receivables from exchange transactions	7	1,500,913	4,102,003
Other receivables from non-exchange transactions	8	-	2,003,455
VAT receivable	9	2,595,109	2,335,723
Current portion of long term receivable		68,120	40,158
Cash and cash equivalents	10	4,444,324	2,230,678
		8,608,466	**10,712,017**
Non-Current Assets			
Investment property	4	-	-
Property, plant and equipment	5	19,097,897	5,112,835
Long term loan receivables		-	68,093
		19,097,897	**5,180,928**
Total Assets		**27,706,363**	**15,892,945**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	14	6,522,012	3,163,387
Provisions	13	-	718,290
		6,522,012	**3,881,677**
Non-Current Liabilities			
Unspent conditional grants and receipts	12	5,620,699	2,517,084
Total Liabilities		**12,142,711**	**6,398,761**
Net Assets		**15,563,652**	**9,494,184**
Net Assets			
Reserves			
Housing Development Fund	11&11	2,042,578	1,948,076
Accumulated surplus		13,521,074	7,546,108
Total Net Assets		**15,563,652**	**9,494,184**

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Service Charges		384,319	328,555
Property rates		2,343,488	3,594,671
Fines		466,148	320,153
Licences and permits		637,674	102,906
Government grants & subsidies	17	38,884,352	28,549,101
Other grant receipts		12,450,017	7,105,669
Rental income		53,378	157,083
Other income	18	1,439,309	3,284,829
Interest received - investment	22	312,013	506,153
Total Revenue		**56,970,698**	**43,949,120**
Expenditure			
Personnel	20	(17,720,340)	(15,934,146)
Remuneration of councillors	21	(5,610,150)	(5,128,277)
Finance costs		(404,046)	13,684
Debt impairment		(6,900,073)	(2,031,917)
Repairs and maintenance		(697,117)	(409,082)
General Expenses	19	(19,664,009)	(11,152,422)
Total Expenditure		**(50,995,735)**	**(34,642,160)**
Surplus for the year		**5,974,963**	**9,306,960**

Statement of Changes in Net Assets

Figures in Rand	Housing Development fund	Accumulated surplus	Total net assets
Opening balance as previously reported	1,783,594	(1,580,531)	203,063
Adjustments			
Fundamental errors affecting net assets	-	7,017,072	7,017,072
Transfer	-	(7,197,393)	(7,197,393)
Balance at 01 July 2008 as restated	**1,783,594**	**(1,760,852)**	**22,742**
Changes in net assets			
Transfers to / from accumulated surplus	164,482	-	164,482
Net income (losses) recognised directly in net assets	164,482	-	164,482
Surplus for the year	-	9,306,960	9,306,960
Total recognised income and expenses for the year	164,482	9,306,960	9,471,442
Total changes	164,482	9,306,960	9,471,442
Balance at 01 July 2009	**1,948,076**	**7,546,111**	**9,494,187**
Changes in net assets			
Surplus for the year	-	5,974,963	5,974,963
Transfers to / from accumulated surplus	94,502	-	94,502
Total changes	94,502	5,974,963	6,069,465
Balance at 30 June 2010	**2,042,578**	**13,521,074**	**15,563,652**
Note(s)	11		

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		3,028,788	2,161,694
Grants		51,334,369	35,654,770
Interest income		312,013	506,153
		54,675,170	38,322,617
Payments			
Employee costs		(23,330,490)	(21,062,423)
Suppliers		(14,741,926)	(10,738,245)
Finance costs		(404,046)	13,684
		(38,476,462)	(31,786,984)
Net cash flows from operating activities	24	**16,198,708**	**6,535,633**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(13,985,062)	(5,112,835)
Net increase/(decrease) in cash and cash equivalents		**2,213,646**	**1,422,798**
Cash and cash equivalents at the beginning of the year		2,230,678	807,880
Cash and cash equivalents at the end of the year	10	**4,444,324**	**2,230,678**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historic cost convention, except where indicated otherwise. They have been prepared in terms of Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) in accordance with the Accounting Standards prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directive 4 issued by the ASB in March 2009.

The Accounting Framework of the municipality ,based on the preceding paragraphs and applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
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
GAMAP 9	Paragraphs relating to Revenue from Non-Exchange Transactions
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an arrangement contains a lease

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

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 / Held to maturity investments and/or 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 or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Fair value estimation

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.

Provisions

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Allowance for doubtful debts

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

1.2 Investment property

Investment property is reported at provisional amounts (Nil value), due to the fact that the initial accounting for Investment property was incomplete by the end of a reporting period in which the Standard became effective.

Investment property was not disclosed in the financial statements for the year ending 30 June 2009 but is disclosed at provisional amounts in the current financial statements. Please refer to note 4. No other retrospective adjustments to provisional amounts were recognised to reflect new information obtained about facts and circumstances that existed on the effective date of the Standard.

It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2011.

No accounting policy to investment property was included in the prior year financial statements.

1.3 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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.

1.3 Property, plant and equipment (continued)

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.

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 provisions, 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 Statements, Effect of Changes in Foreign Exchange Transactions, Leases ,Segment Reporting, and Non-current Assets Held for Sale and Discontinued Operations.

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 on these assets as all the related elements of the depreciation calculation could not be considered at year end.

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

1.4 Financial instruments

Classification

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

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

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

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

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

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

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

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

Subsequent measurement

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

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or

Accounting Policies

1.4 Financial instruments (continued)
deficit as part of other income when the municipality's right to receive payment is established.

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

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

Impairment of financial assets

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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

Financial instruments designated as available-for-sale

Available for sale investments are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

Loans to managers and employees

These financial assets are classified as loans and receivables.

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.

Accounting Policies

1.4 Financial instruments (continued)

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 except where material variances exist between the armotised cost and the nominal value.

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Impairment of financial assets

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

Assets are carried at amortised cost.

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

1.5 Leases

Accounting Policies

1.5 Leases (continued)

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.

In terms of Directive 4 the municipality is not required to recognise finance lease assets/liabilities in the financial statements in relation to those Property, plant and equipment that have not been recognised as a result of applying the transitional provisions in the Standards of GRAP related to Property, plant and equipment.

The disclosure requirements included in the Standard of GRAP on Leases were applied insofar as the lease assets/ liabilities have been identified.

No measurement adjustments were made for the year ending 30 June 2010. The future lease commitments not disclosed in the financial statements for the year ending 30 June 2009 are now however disclosed in the financial statements. Please refer to note 25 for the details to future lease commitments.

It is anticipated that the requirements of the Standard of GRAP on Leases will be applied in the financial statements for the year ending 30 June 2010 when the transitional provisions in the Standards of GRAP on Property, Plant and Equipment expire.

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.

1.6 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.

1.7 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

Accounting Policies

1.7 Provisions and contingencies (continued)
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.

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 26.

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, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

Accounting Policies

1.7 Provisions and contingencies (continued)

- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets as described in accounting policy and .

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

In terms of Directive 4, the municipality is not required to recognise provisions (which form part of the cost of an asset) as a result of applying the transitional provisions in the Standards of GRAP on Property, Plant and Equipment. The disclosure requirements on the provisions related to the assets were however complied with in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets.

The rehabilitation cost liability that relate to landfill sites was neither disclosed nor recognised in the financial statements for the year ending 30 June 2009. The liability was not recognised in the current financial year but details relating to the estimated liability is disclosed in note 13.

Except for the provision for landfill site no other provisions were affected by the transitional provisions set out in Directive 4 and no other measurement adjustments were made for the year ending 30 June 2010.

1.8 Revenue from exchange transactions

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

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

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

Measurement

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

Rendering of services

Accounting Policies

1.8 Revenue from exchange transactions (continued)

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

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

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

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

1.9 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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

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

Measurement

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

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.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

1.9 Revenue from non-exchange transactions (continued)

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue 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.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a

Accounting Policies

1.9 Revenue from non-exchange transactions (continued)

liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.10 Investment income

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

1.11 Comparative figures

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

1.12 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.

1.13 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.

1.14 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

Accounting Policies

1.15 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.16 Presentation of currency

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

1.17 Offsetting

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

1.18 Housing development fund

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

1.19 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.

2. Changes in accounting policy

Accounting Policies have been consistently applied, except as indicated below:
The municipality changes an accounting policy only if the change:
a) is required by a Standard of GRAP; or
b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

3. New standards and interpretations

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:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 103 Heritage Assets - issued July 2008

Application of all the above GRAP standards will be effetive from the date to be announced by the Minister of Finance. This date is currently not available.

The following standards , ammendments to standards and interpretations have been issued but not yet effective and have not been early adopted by the municipality:

- IAS 19 Employee Benefits - effective 1 January 2009
- IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009
- IAS 39 Financial Instruments: Recognition and Measurement - portions of standard effective 1 July 2009 .

Management has considered all the of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

4. Investment property

Investment properties were recognised at provisional amounts (Nil Value).

Investment property consists of the following properties:

1. Hamburg Caravan Park
2. ANC Constituency Office
3. Engen (land)
4. Vodacom Tower
5. Premedia
6. Eric Mjolo (Farm)

Lease payments receivable on rental property		
- Within one year	86,808	69,139
- In second to fifth year inclusive	8,808,551	907,848
	8,895,359	**976,987**

5. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Furniture and fixtures	133,983	-	133,983	-	-	-
Motor vehicles	531,984	-	531,984	-	-	-
IT equipment	403,821	-	403,821	-	-	-
Infrastructure	8,800,335	-	8,800,335	-	-	-
Community	8,788,006	-	8,788,006	5,112,835	-	5,112,835
Other property, plant and equipment	439,768	-	439,768	-	-	-
Total	**19,097,897**	**-**	**19,097,897**	**5,112,835**	**-**	**5,112,835**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Total**
Furniture and fixtures	-	133,983	133,983
Motor vehicles	-	531,984	531,984
IT equipment	-	403,821	403,821
Infrastructure	-	8,800,335	8,800,335
Community	5,112,835	3,675,171	8,788,006
Other property, plant and equipment	-	439,768	439,768
	5,112,835	**13,985,062**	**19,097,897**

Reconciliation of property, plant and equipment - 2009

	Opening balance	**Additions**	**Total**
Community	-	5,112,835	5,112,835

6. Financial assets by category

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

2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

6. Financial assets by category (continued)

	Loans and receivables	Available-for-sale	Total
Other financial assets	68,120	-	68,120
Trade and other receivables	1,500,913	-	1,500,913
Cash and cash equivalents	-	4,444,324	4,444,324
VAT Receivable	2,595,109	-	2,595,109
	4,164,142	**4,444,324**	**8,608,466**

2009

	Loans and receivables	Available-for-sale	Total
Trade and other receivables	4,102,003	-	4,102,003
Cash and cash equivalents	-	2,230,678	2,230,678
Current portion of long term receivable	40,158	-	40,158
VAT Receivable	2,335,723	-	2,335,723
Other receivables	2,058,232	-	2,058,232
	8,536,116	**2,230,678**	**10,766,794**

7. Trade and other receivables from exchange transactions

	2010	2009
Trade debtors	1,210,834	4,102,003
Prepaid expenses	290,079	-
	1,500,913	**4,102,003**

Credit quality of trade and other receivables

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

Trade receivables

Counterparties with external credit rating		
A (Government Accounts)	249,785	-
B (Businesses)	46,870	-
C (Domestic and other)	914,180	-
	1,210,835	**-**

Analysis of table:
A - The debtors are of good credit quality and no default in payment is expected.
B - The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time
C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

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

Trade Receivables	-	-
1-30 days past due	910,836	-
31-60 days past due	160,527	-
61-90 days past due	139,471	-
	1,210,834	**-**

Trade and other receivables impaired

Figures in Rand	2010	2009

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

Refer to the receivables note for an analysis of the impaired receivables.

8. Other receivables from non-exchange transactions

Trafic Summonses	-	387,516
Sundry Debtors	-	897,490
Transfers between banks	-	(43,658)
Unallocated Expenditure	-	28,486
Amathole DM-Control	-	518,020
Debit Orders	-	215,601
	-	**2,003,455**

9. VAT receivable

VAT	2,595,109	2,335,723

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	236,686	143,770
Short-term deposits	4,207,638	2,086,908
	4,444,324	**2,230,678**

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**
First National Bank- Call Account-62035920596	64,397	53,642	53,642	64,397	53,642	53,642
First National Bank -Call account-62048047494	2,026,601	1,767,617	1,767,617	2,042,701	1,767,617	1,767,617
First National Bank -Call Account- 62270666616	1,000,000	-	-	1,002,959	-	-
First National Bank -Call account-62270667531	1,000,000	-	-	1,002,959	-	-
First National Bank- Call account-61684000098	94,622	86,265	86,265	94,622	86,265	86,265
First National bank -Public Sector Cheque Account-62022000898	(61,182)	143,770	(1,099,643)	236,686	2,037,259	359,193
Total	**4,124,438**	**2,051,294**	**807,881**	**4,444,324**	**3,944,783**	**2,266,717**

11. Housing Development Fund

Balance at the beginning of the year	1,948,076	1,783,593
Interest	94,502	164,483
	2,042,578	**1,948,076**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

12. Unspent conditional grants and receipts (continued)

Municipal Infrastructure Grant	4,192,911	895,363
Drivers; Licence testing station	1,323,504	1,460,721
Municipal Systems Improvement Grant	104,284	161,000
	5,620,699	**2,517,084**

Movement during the year

Balance at the beginning of the year	3,524,212	2,479,321
Additions during the year	2,096,487	37,763
	5,620,699	**2,517,084**

13. Provisions

Reconciliation of provisions - 2010

	Opening Balance	Utilised during the year	Total
Provisions	718,290	(718,290)	-

Reconciliation of provisions - 2009

	Opening Balance	Additions	Total
Provisions	-	718,290	718,290

The provision for the rehabilitation to the landfill sites operated in Peddie and Hamburg was not recognised in line with Directive 4 due to the application of the transitional provisions in the Standards of GRAP on Property, Plant and Equipment also being applied.

The following information were applied in the calculation of the present value of the liability to rehabilitate the mentioned landfill sites:

Interest rate applied: 5.4% (Interest rate on most current investments)
Estimated useful life of landfill sites as at 30 June 2009: 10 years
Estimated cost increase for annual rehabilitation : 8%
Annual rehabilitation costs required is R 791,640
Estimated costs for closure: R 2,140,000
Once off costs R 270,000
Present value of rehabilitation obligation equates R 3,120,642 (2009 : R 2,336,056)

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14. Trade and other payables from exchange transactions

Trade payables	5,137,814	1,996,971
Accrued leave pay	584,189	568,259
Accrued bonus	457,349	368,336
Accrued Administration and water sanitation expense	119,299	119,300
Other creditors	223,361	54,970
Receiver of Revenue - PAYE	-	55,551
	6,522,012	**3,163,387**

15. Financial liabilities by category

Figures in Rand	2010	2009

15. Financial liabilities by category (continued)

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

2010

	Financial liabilities at amortised cost	Total
Accrued leave pay	584,189	584,189
Accrued bonuses	457,349	457,349
ADM Expense	119,299	119,299
Trade payables	5,137,814	5,137,814
Other creditors	223,361	223,361
	6,522,012	**6,522,012**

2009

	Financial liabilities at amortised cost	Total
Accrued leave pay	568,259	568,259
Trade and other payables	1,996,971	1,996,971
Accrued Bonuses	368,336	368,336
ADM Expense	119,300	119,300
Other creditors	54,970	54,970
Receiver of Revenue	55,551	55,551
	3,163,387	**3,163,387**

16. Revenue

Refuse removal	384,319	328,555
Property rates	2,343,488	3,594,671
Fines	466,148	320,153
Licences and permits	637,674	102,906
Government grants & subsidies	38,884,352	28,549,101
Other Grant Receipts	12,450,017	7,105,669
	55,165,998	**40,001,055**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Refuse removal	384,319	328,555
Licences and permits	637,674	102,906
	1,021,993	**431,461**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	2,343,488	3,594,671
Fines	466,148	320,153
Government grants & subsidies	38,884,352	28,549,101
Other grant receipts	12,450,017	7,105,669
	54,144,005	**39,569,594**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

17. Government grants and subsidies

Equitable share	38,884,352	28,549,101

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 R - (2009: R -), which is funded from the grant.

18. Other income

Sundry Revenue	1,210,795	3,086,369
Cemetery fees	1,922	1,416
Income from ADM	91,723	-
Pound fees	10,325	9,870
Photocopies and faxes	4,294	113
Grazing income	-	1,542
Building plan fees	49,111	41,714
Penalties	42,460	120,352
Tresspass fees	28,679	23,453
	1,439,309	**3,284,829**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

19. General expenses

Administration fees	5,818,951	1,806,168
Advertising	163,572	95,596
Auditors remuneration	1,306,907	430,861
Bank charges	201,039	153,685
Refund to debtors	12,563	-
Computer expenses	20,586	77,503
Consulting and professional fees	289,850	271,003
Consumables	197,379	128,014
IEC Voting station	2,000	-
Institutional Plan and Restructuring	282,240	-
Licence fees	9,350	-
Entertainment	274,649	810,859
Special Programmes	73,336	-
Animal Feed	15,758	5,691
Hire of lifesavers	62,480	-
Insurance	129,599	272,973
Conferences and seminars	16,000	9,533
IT expenses	-	95,505
Rezoning and registration	206,851	-
Lease rentals on operating lease	664,866	286,908
Communicasion and Public relations	594,650	446,708
Pest control	3,759	1,754
Fuel and oil	526,246	554,335
Auction fees	3,758	1,060
Postage and courier	-	6,504
Printing and stationery	522,072	161,177
Legal Expenses	719,600	117,326
Protective clothing	220,854	140,678
Indigent registration	10,539	-
Stocks and material	376,777	645,642
Security (Guarding of municipal property)	128,040	548,991
Subscriptions and membership fees	-	109,314
Telephone and fax	768,131	174,839
Collection fees	42,925	-
Training	469,812	250,000
Travel - local	219,379	85,400
Refuse	54,754	30,605
Electricity	366,342	426,492
Water	53,020	-
Free basic electricity	2,323,395	657,039
Disaster Management	138,314	189,396
Audit Committee Expense	-	387,009
Valuation costs	229,014	100,000
Accomodation expenses	1,651,943	645,642
Newsletters and publications	60,878	-
Other	431,831	1,028,212
	19,664,009	**11,152,422**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

20. Employee related costs

Basic	10,363,008	9,407,579
Bonuses	817,254	503,249
Contributions to UIF, pension and medical aid	2,231,744	1,322,852
Skills Development Levy	113,183	84,396
Redemption of leave	165,087	332,956
Travel, motor car, accommodation, subsistence and other allowances	487,288	1,216,675
Overtime payments	583,527	318,840
Housing benefits and allowances	46,943	39,304
	14,808,034	**13,225,851**

Remuneration of municipal manager

Annual Remuneration	547,980	455,903
Travel, motor car, accomodation,subsistence and other allowances	158,484	150,000
Contributions to UIF, Medical and Pension Funds	1,497	-
	707,961	**605,903**

Remuneration of chief finance officer

Annual Remuneration	437,710	393,598
Travel, motor car, accomodation,subsistence and other allowances	132,000	132,000
Contributions to UIF, Medical and Pension Funds	1,497	-
	571,207	**525,598**

Remuneration of executive managers

2010	**Technical Services R**	**Corporate Services R**	**Community Services R**
Annual Remuneration	411,226	419,710	419,710
Travel, motor car, accomodation, subsistence and other allowances	126,000	126,000	126,000
Contributions to UIF, Medical and Pension Funds	1,497	1,497	1,497
	538,723	**547,207**	**547,207**

2009	**Technical Services R**	**Corporate Services R**	**Community Services R**
Annual Remuneration	393,598	383,598	393,598
Travel, motor car, accomodation, subsistence ad other allowances	132,000	132,000	132,000
	525,598	**515,598**	**525,598**

21. Remuneration of councillors

Executive Major	536,781	501,867
Executive Committee Members	900,140	841,260
Speaker	432,838	344,244
Councillors' remuneration	2,051,132	3,440,906
Councillors' pension contribution	696,379	-
Councillors' allowances	992,880	-
	5,610,150	**5,128,277**

In-kind benefits

The Mayor, Speaker are full-time. The executive committee members are part time employed by the Municipality. The Mayor

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

21. Remuneration of councillors (continued)

and Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.The Mayor has one full-time bodyguard .

22. Investment revenue

Interest revenue		
Bank	202,246	490,241
Interest charged on trade and other receivables	109,767	15,912
	312,013	**506,153**

The amount included in Investment revenue arising from exchange transactions amounted to R 109,766.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 202,246.

23. Auditors' remuneration

Fees	1,306,907	430,861

24. Cash generated from operations

Surplus	5,974,963	9,306,960
Adjustments for:		
Movements in provisions	(718,290)	718,290
Movement in reserves	94,505	164,483
Other non cash movement	-	(180,320)
Changes in working capital:		
Trade and other receivables from exchange transactions	2,601,090	(3,700,677)
Other receivables from non-exchange transactions	2,003,455	106,090
Current portion of long term receivable	(27,962)	2,753
Long term receivables	68,093	42,457
Trade and other payables from exchange transactions	3,358,625	1,163,980
VAT	(259,386)	(1,126,146)
Unspent conditional grants and receipts	3,103,615	37,763
	16,198,708	**6,535,633**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

25. Capital Commitments

25.1 Authorised capital expenditure

	2010	2009
Approved and contracted for: Community		
• Corporate Services	111,372	3,201,340
• Community services	649,960	-
• Technical services	5,985,458	-
• Finance services	1,000,000	-
	7,746,790	**3,201,340**
Approved but not yet contrated for		
• Community	216,700	999,069

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

25.2 Operating leases Commitments

	2010	2009
Minimum lease payments due		
- within one year	271,370	258,339
- in second to fifth year inclusive	68,615	339,985
	339,985	**598,324**

Operating lease payments represent rentals payable by the municipality for certain of its office properties.No contingent rent is payable.Lease agreements include a clause of price plus index on rental increases.

26. Contingencies

Contingent liabilities

Milisa Security and Cleaning Services is instituting a damages claim against the municipality following cancellation of its contract during January 2009. Council is contesting the claim based on legal advice. A court date has not yet been set. The legal costs will be determined one action has started. The supplier is claiming R 174,000 for damages.

Action has been instituted against the municipality for the expulsion of ANC Councillors. Estimated costs are R 100,000.

	2010	2009
Claim for damages	274,000	174,000

Contingent assets

Action was instituted against the former Municipal Manager to recover funds spent as fruitless and wasteful expenditure during his term of office, civil proceedings have commenced to recover an amount of R 397,126. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.The future trial fee is estimated at R 50,000. The related receivable was not recognised pending outcome of the case.

27. Related parties

Relationships

Chief Financial Officer	Mr P Mahlasela
Executive Manager - Technical Services	Mr B Badi
Executive Manager - Corporate Services	Mr V Gwintsa
Executive Manager - Community Services	Mr N Mjo

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

28. Prior period errors

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

Statement of financial position		
The correction of the errors are as follows:	-	-
Trade and other payables		
Balance per 2009 Annual report	-	3,764,982
Correction of accounts payable balances as at 30 June 2009	-	752,066
Correction of misallocation of hall deposit and rental	-	(538)
Payments received in advance write off due to lack of supporting documentation	-	(725,626)
Reclassification of interest on receivables	-	13,447
Adjustment to ADM water and sanitation to agree to confirmation	-	(640,944)
	-	**3,163,387**
Trade and other receivables		
Balance per 2009 Annual report	-	6,281,000
Correction of prior year balances taking into account revenue only billed in 2010	-	(473,838)
Increase in debt impairment for 2009	-	(2,130,235)
Refuse revenue billed in 2010	-	32,643
Rental escalation processed in prior year	-	378,986
Reclassification of interest receivable on accounts receivable	-	13,447
Adjustment to debt impairment for fair value of debtors	-	98,318
Fair value adjustment on sundry debtors	-	(4,160)
Fair value adjustment on basic refuse debtors	-	(49,235)
Fair value adjustment on assessment rates debtors	-	(44,923)
	-	**4,102,003**
VAT Receivable		
Balance per 2009 Annual report	-	2,382,266
Vat on rental escalations not processed in the prior year	-	(46,543)
	-	**2,335,723**
Other receivables		
Balance per 2009 Annual report	-	2,505,234
Employee tax due on package	-	(446,231)
Clearing of suspense account - debit orders	-	(768)
Clearing of sundry debtors accounts	-	(54,780)
	-	**2,003,455**
Current portion of long term receivables		
Balance per 2009 annual report	-	42,457
Adjustment for receipt not recognised in 2009	-	(2,299)
	-	**40,158**
Non current unspent conditional grants and receipts		
Balance per 2009 annual report	-	3,524,212
Correction of FMG revenue	-	(15,811)
Correction of MIG revenue	-	366,683
MIG revenue accounted for in prior year	-	(1,358,000)
	-	**2,517,084**
Capital Replacement reserve		
Balance per 2009 annual report	-	92,117

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
28. Prior period errors (continued)		
Transfer of reserve to accumulated surplus in term of Directive 4	-	(92,117)
	-	**-**
Accumulated surplus / (Deficit)		
Balance per 2009 Annual report	-	3,611,432
Transfer of reserve to accumulated surplus in term of Directive 4	-	92,117
Correction of accounts payable balances as at 30 June 2009	-	(752,066)
Adjustment for receipt not recognised in 2009	-	(2,299)
Depreciation adjustment for 2009 Additions	-	5,112,835
Clearing of sundry debtors accounts	-	(54,778)
Clearing of suspense account - debit orders	-	(768)
Adjustment to correct opening balance of housing development fund	-	(149,382)
Adjustments through income statement	-	(310,983)
	-	**7,546,108**
Property. Plant and Equipment		
Balance per 2009 Annual report	-	-
Depreciation adjustment for 2009 Additions	-	5,112,835
	-	**5,112,835**
Housing Development Fund		
Balance per 2009 Annual report	-	1,798,693
Adjustment to correct opening balance of housing development fund	-	149,382
	-	**1,948,075**
Statement of financial performance		
Refer to reconciliations below:	-	-
Property Rates		
Amount reported per 2009 Annual report	-	4,173,044
Fair value adjustment of assessment rates debtors	-	(84,784)
Correction of prior year balances taking into account revenue only billed in 2010	-	(493,589)
	-	**3,594,671**
Service Charges		
Amount reported per 2009 Annual report	-	329,622
Fair value adjustment of assessment rates debtors	-	(27,218)
Correction of prior year balances taking into account revenue only billed in 2010	-	(13,479)
Revenue only billed in 2010	-	26,358
Rental escalations not processed in prior year	-	13,272
	-	**328,555**
Other grant receipts		
Amount reported per 2009 Annual report	-	6,098,541
Correction of FMG revenue	-	15,811
Correction of MIG revenue	-	(366,683)
MIG Revenue accounted for in prior year	-	1,358,000
	-	**7,105,669**
Rental of facilities and equipment		
Amount reported per 2009 Annual report	-	150,260
Hall revenue only billed in 2010	-	5,772
Toilet revenue only billed in 2010	-	912

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
28. Prior period errors (continued)		
Correction of misallocation between hall deposit and rental	-	538
	-	**157,482**
Other income		
Amount reported per 2009 Annual report	-	1,565,858
Write off of payments received in advance due to lack of documentation	-	725,626
Correction of prior year balances taking into account revenue only billed in 2010	-	33,230
Rental escalations not processed in 2009	-	319,171
Adjustment to ADM water and sanitation expense to agree to confirmation	-	640,944
	-	**3,284,829**
Employee related costs		
Amount reported per 2009 Annual report	-	12,779,619
Employee tax on package	-	446,230
Employee costs not reported in prior year.	-	2,708,297
	-	**15,934,146**

Cash flow statement

Cash flow from operating activities		
Decrease in profit	-	(3,019,270)
Changes in working capital	-	(4,734,375)
	-	**(7,753,645)**
Cash flow from investing activities		
Purchase of property , plant and equipment	-	(5,112,835)

29. Comparative figures

Certain comparative figures have been reclassified.

Interest accumulated has been reclassified to accounts receivables and this interest related to debtors.

The effects of the reclassification are as follows:

Statement of financial position		
Trade and other receivables	-	13,447
Trade and other payables	-	(13,447)

30. 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. Available capital is largely dependant on grant receipts from national government. Minimised use of capital from external borrowings ensures optimal capital structures and also reduces the cost of capital. The municipality manages capital risk through the monitoring of proposed grants to be received from national government and through the synchronisation of capital outlay with grant receipts.

The capital structure of the municipality consists of cash and cash equivalents and equity .

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

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

30. Risk management (continued)

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the financial department with the assistance of operating divisions.Risk management is carried out under policies approved by the accounting officer.

Liquidity risk

The municipality’s risk relates to funds available that will cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and projected grant receipts. Cash flow forecasts are prepared and adequate managed borrowing facilities are continually monitored.

Market Risk: Interest rate risk

The municipality’s interest bearing assets are included under cash and cash equivalents. The municipality’s income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

At year end financial assets exposed to interest rate risk were as follows:

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Trade debtors in arrears linked to South African prime rate plus two percent.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 4.

At year end, financial liabilities exposed to interest rate risk were as follows:

Finance leases linked to South African prime rate.

Management manages interest rate risk by negotiating beneficial rates on floating rate loans

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management’s assessment of the reasonably possible change in interest rates.
A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite % adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis for one year to the next.

	2010	2009
The estimated rate increases		
The estimated increase in base points	200	200
Effect on net Surplus	6,240	10,123
	6,440	**10,323**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

30. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the municipality's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

The carrying amount of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk:

Financial Instrument		
Bank balances	236,686	143,770
Short term deposits	4,207,638	2,086,908
Trade and other receivables	1,500,913	4,102,003
Other receivables	-	2,003,455
Long term debtors	-	68,093
	5,945,237	**8,404,229**

Market Risk: Currency risk

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Market risk-other price risk

The Municipality's financial assets does not include equity investments that will expose it to price risks.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified a available-for-sale.

31. 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.

32. Events after the reporting date

The accounting officer is not aware of any events after the reporting date.

33. Unauthorised expenditure

Opening balance	3,224,106	3,224,106
Unauthorised expenditure for the year	-	-
	3,224,106	**3,224,106**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

34. Irregular expenditure

Opening balance	826,816	-
Add: Irregular Expenditure - current year	2,801,795	826,816
	3,628,611	**826,816**

Irregualr Expenditure - 2009

Irregular expenditure amounting to R130 883 relates to a contract that was renewed on expiry without the contract going through the normal competitive bidding process. No disciplinary action has been taken to date.

Irregular expenditure amounting to R695 932.99 relates to tenders awarded where the 80/20 evaluation principle were not applied.No disciplinary action has been taken to date.

Irregular Expenditure - 2010

Irregular expenditure of R248,000 relates to payments to Penny Lindstrohm made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date.

Irregular expenditure of R395,000 relates to the appointment of Sinakho Inc to prepare the financial year ended 30 June 2009 annual financial statements made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date.

Irregular expenditure of R2,158,794.86 relates to a diagreement by the Accounting Officer with the recommendation of the Adjudication Committee, the National Treasury, Provincial Treasury and Auditor General have been notified of this decision No disciplinary action has been taken to date.

35. Retirement benefit Information

Defined Contribution Plan

It is the policy of the municipality to provide retirement benefits to all its employees. The current defined contribution provident fund is held with SAMWU, which are subject to the Pensions Fund Act, exist for this purpose.

The Municipality is under no obligation to cover any unfunded benefits.

The total contribution to such schemes amount to R 1,588,956