Nkonkobe Municipality
Annual Financial Statements
for the year ended 30 June 2010

General Information

Mayoral committee	
Honourable Mayor	Cllr AW Ntsangani
Councillors	Cllr Papu Zondi
	Cllr MJ Makeleni
	Cllr NW Nxawe
	Cllr MV Rara
	Cllr N Gqokro
	Cllr ME Mgengo
Accounting Officer	Mr. KC Maneli
Registered office	8 Somerset Street
	PO Box 36
	Fort Beaufort
	5720
Auditors	Office of the Auditor General

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The reports and statements set out below comprise the annual financial statements presented to the National Treasury, Provincial Treasury and the Office of the Auditor-General:

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 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 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 have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 38, which have been prepared on the going concern basis, were approved by the accounting officer on 31 May 2010 and were signed on its behalf by:

Mr. KC Maneli
Municipal Manager

The accounting officer submits his report for the year ended 30 June 2010.

1. 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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

2. Subsequent events

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

Nkonkobe Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	3	201,550	175,317
Short term deposits		13,116,807	19,398,858
Trade and other receivables from exchange transactions	4	64,969,180	21,554,702
VAT receivable		4,124,711	-
Other Receivables		5,173,149	-
Cash and cash equivalents	5	34,879,910	11,083
		122,465,307	**41,139,960**
Non-Current Assets			
Property, plant and equipment	2	21,326,634	-
Non-Current Assets		21,326,634	-
Current Assets		122,465,307	41,139,960
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**143,791,941**	**41,139,960**
Liabilities			
Current Liabilities			
Trade and other payables	7	69,647,466	19,920,890
VAT payable	8	-	11,391,146
Unspent conditional grants and receipts		4,207,955	-
Other Loans		4,359,102	8,678,381
Suspense Accounts		429,305	-
Trust Funds		-	17,676,046
Bank overdraft	5	-	1,079,791
		78,643,828	**58,746,254**
Non-Current Liabilities		-	-
Current Liabilities		78,643,828	58,746,254
Liabilities of disposal groups		-	-
Total Liabilities		**78,643,828**	**58,746,254**
Assets		143,791,941	41,139,960
Liabilities		(78,643,828)	(58,746,254)
Net Assets		**65,148,113**	**(17,606,294)**
Net Assets			
Accumulated surplus		65,148,113	(17,606,294)

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Sale of electricity		20,641,362	9,835,535
Rendering of services		4,726,685	4,544,494
Property rates	10	10,099,057	9,669,414
Interest received (trading)		3,961,614	5,450,009
Fines		118,080	84,491
Licences and permits		1,733,442	687,641
Government grants & subsidies	12	79,860,972	47,508,851
Rental income		157,376	131,394
Sundry Income		8,428,376	1,351,918
Interest received	18	1,248,057	-
Total Revenue		**130,975,021**	**79,263,747**
Expenditure			
Personnel	15	(36,179,217)	(29,297,417)
Remuneration of councillors	16	(10,085,856)	(8,482,708)
Finance costs	19	(845,423)	(1,426,960)
Debt impairment	17	-	(13,288,642)
Repairs and maintenance		(6,045,591)	(2,283,311)
Bulk purchases		(14,639,522)	(9,560,418)
Grants and subsidies paid	21	(3,369,738)	(2,135,585)
General Expenses	14	(15,683,250)	(10,890,438)
Total Expenditure		**(86,848,597)**	**(77,365,479)**
Revenue		130,975,021	79,263,747
Expenditure		(86,848,597)	(77,365,479)
Other		-	-
Surplus for the year		**44,126,424**	**1,898,268**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2008	**(19,504,562)**	**(19,504,562)**
Changes in net assets		
Surplus for the year	1,898,268	1,898,268
Total changes	1,898,268	1,898,268
Balance at 01 July 2009	**21,021,689**	**21,021,689**
Changes in net assets		
Surplus for the year	44,126,424	44,126,424
Total changes	44,126,424	44,126,424
Balance at 30 June 2010	**65,148,113**	**65,148,113**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Receipts for the period		129,726,964	79,263,747
Interest income		1,248,057	-
		130,975,021	79,263,747
Payments			
Employee costs		(46,265,073)	(37,780,125)
Finance costs		(845,423)	-
Other payments		-	(39,585,354)
Movements per cash generated form operations note		(39,738,101)	1,815,038
		(86,848,597)	(75,550,441)
Total receipts		130,975,021	79,263,747
Total payments		(86,848,597)	(75,550,441)
Undefined difference compared to the cash generated from operations note		**(5,022,027)**	**-**
Net cash flows from operating activities	22	**39,104,397**	**3,713,306**
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(21,326,634)	-
Proceeds from sale of financial assets		6,282,051	-
Purchase of Property, Plant and Equipment		(5,173,149)	-
Net cash flows from investing activities		**(20,217,732)**	**-**
Cash flows from financing activities			
Repayment of long term loan		-	(172,544)
Movement in other loans		(4,319,279)	-
Movement in other liability 2		429,305	-
Movement in other liability 3		(17,676,046)	-
Net cash flows from financing activities		**(21,566,020)**	**(172,544)**
Net increase/(decrease) in cash and cash equivalents		**(2,679,355)**	**3,540,762**
Cash and cash equivalents at the beginning of the year		(1,068,708)	(4,609,470)
Cash and cash equivalents at the end of the year	5	**(3,748,063)**	**(1,068,708)**

Accounting Policies

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

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.

1.1 Critical judgements, estimations and assumptions

Revenue recognition

Accounting Policy 10.2 on Revenue from Exchange Transactions and Accounting Policy 10.3 on Revenue from Non-exchange Transactions describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services is rendered, whether the service has been rendered.

Financial assets and liabilities

The classification of financial assets and liabilities into categories, is based on judgement by management.

Accounting Policies

1.1 Critical judgements, estimations and assumptions (continued)

Impairment of financial assets

Accounting Policy 6.4 on Impairment of Financial Assets describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in IAS 39: Financial Instruments - Recognition and Measurement. The management of the municipality is satisfied that the impairment of financial assets recorded during the year, is appropriate.

Useful lives of Property, Plant and Equipment

As described in Accounting Policies 2.3 and 3, the municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

Going concern assumption

The Annual Financial Statements have been prepared on a going concern basis.

Offsetting

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

Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- 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
- GRAP 104 Financial instruments
- GRAP 26 Impairment of cash generating assets
- GRAP 25 Employee benefits
- GRAP 21 Impairment of non cash generating assets

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.
The following standards, amendments to standards and interpretations have been issued but are 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
- IFRS 7 Financial Instruments Disclosure
- IFRS 9

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.

1.2 Investment property

Initial Recognition
Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

1.2 Investment property (continued)

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

Directive 4 impact - Investment property (GRAP 16)

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. 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.

Accounting Policies

1.3 Property, plant and equipment

Initial Recognition
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 year.

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

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Subsequent Measurement
Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

Depreciation
Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	Years		Years
Infrastructure		Security	5
Roads and Paving	10 -30	Buildings	30
Pedestrian Malls	30	Specialist Vehicles	5 - 20
Electricity	20 - 30	Other Vehicles	5 - 10
Water	40	Office Equipment	3 - 7
Sewerage	15 - 20	Furniture and Fittings	7 - 10
Housing	30	Watercraft	15
Landfill Sites	30	Bins and Containers	5

1.3 Property, plant and equipment (continued)

Specialised Plant and Equipmen t	10 - 15
ther items of Plant and Equipment	2 - 5
Improvements	30
Recreational Facilities	20 - 30

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

Incomplete Construction Work
Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

Finance Leases
Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

Heritage Assets
Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

Infrastructure Assets
Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

Derecognition of property, plant and equipment
The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

Impairment of assets
<u>Cash generating assets</u>
The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit. An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

Accounting Policies

1.3 Property, plant and equipment (continued)

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or is recognised immediately in surplus or deficit.

Impairment of Non-Cash generating assets
The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in surplus or deficit.

Directive 4 impact - Property, plant and equipment (GRAP 17)

In terms of directive 4 the municipality are 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.

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

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

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

1.3 Property, plant and equipment (continued)

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.

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

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

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

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

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

1.4 Intangible assets

Initial Recognition
Identifiable non–monetary assets without physical substance which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset only 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.

Internally generated intangible assets are subject to the following recognition criteria. Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:
- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits or service potential;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding five years. Development assets are tested for impairment annually as described below.

Intangible assets are initially recognised at cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. Where an intangible asset is acquired at no cost or for a nominal consideration, its cost is its fair value as at the date it is acquired. Where an intangible asset 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.

Subsequent Measurement, Amortisation and Impairment
Amortisation is charged on a straight-line basis over the intangible assets' useful lives, which are estimated to be between 3 to 5 years. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, for example servitudes obtained by the municipality give the municipality access to land for specific purposes for an unlimited period - however, such intangible assets are subject to an annual impairment test.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The

1.4 Intangible assets (continued)

impairment loss is the difference between the carrying amount and the recoverable amount which is calculated at the lower of value in use and fair value less costs to sell.

The estimated useful life and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Surplus or deficit for the year.

Derecognition

Intangible assets 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 on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Surplus or deficit.

Directive 4 impact – Intangible assets (GRAP 102)

The municipality are not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible Assets. The Standard of GRAP on Intangible Assets was initially adopted on 1 July 2008.

Intangible Assets 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 Intangible Assets since the Standard of GRAP on Intangible Assets was initially adopted are recognised at cost.

1.5 Financial Instruments

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

Financial Assets - Classification

A financial asset is any asset that a cash or contractual right to receive cash or another financial asset or equity. The municipality has the following types of financial assets:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

The Financial Assets of the municipality are classified as follows into the four categories allowed:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

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

Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has

Accounting Policies

1.5 Financial Instruments (continued)
the following types of financial liabilities:
- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured as:
- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as "Other financial liabilities".

Initial and Subsequent Measurement
Financial Assets:
Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Liabilities:
Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.

Impairment of Financial Assets
Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in surplus or deficit.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for impairment. The provision is made whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit for the year.

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the surplus or deficit for the year to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of Financial Assets

1.5 Financial Instruments (continued)
The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Derecognition of Financial Liabilities
The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.6 Leases

Municipality as lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Municipality as lessor

Amounts due from lessees under finance leases or installment sale agreements are recorded as receivables at the amount of the Municipality’s net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality’s net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

Directive 4 Impact (GRAP 13)

In terms of Directive 4 the municipality are 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.

1.6 Leases (continued)
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.

1.7 Inventories

Initial Recognition
Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. .

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Subsequent Measurement
Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the FIFO method. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on the FIFO method.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of surplus and deficit in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.8 Non-current assets held for sale and disposal groups

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

Subsequent Measurement
Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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

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

1.9 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in the Statement of surplus and deficit as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee

1.9 Employee benefits (continued)

renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Defined contribution plans

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of suplus and deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

1.10 Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, 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.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the surplus or deficit for the year as a finance cost as it occurs.

Accounting Policies

1.11 Revenue recognition

General
Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service benefit will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from Exchange Transactions
Service Charges
Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Pre-paid Electricity
Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale.

Finance income
Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Tariff Charges
Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

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

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 buyer 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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rentals
Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

Accounting Policies

1.11 Revenue recognition (continued)
Revenue from Non-exchange Transactions
Rates and Taxes
Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines
Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

Public contributions
Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other Donations and Contributions
Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure
Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

Transitional Provisions
Revenue was initially recognised at cost and not at fair value in the previous financial year as the requirements of GAMAP 9.12 and SAICA circular 09/2006, which states that revenue should be recognised initially at fair value through discounting all future receipts using an imputed rate of return, have been exempted in terms of General Notice 522 of 2007. Revenue is initially recognised at fair value for the year ended 30 June 2009 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 SAICA circular 09/2006.

1.12 Comparative figures

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

Accounting Policies

1.13 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.14 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of surplus and deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality’s or Municipal Entities’ supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of surplus or deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.16 Changes in accounting policies, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note 26 for details of changes in accounting policies.

Although the retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. Continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 24 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in the previous financial year. Continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

1.17 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

Accounting Policies

1.18 Contingent assets and contingent liabilities

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

Directive 4 impact - Provisions, Contingent Liabilities and Contingent Assets (GRAP 19)

In terms of Directive 4, the municipality are 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 about the provisions related to the assets are however disclosed in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets.

The provision for landfill sites was neither disclosed nor recognised in the financial statements for the year ending 30 June 2010. The provision was however included in the current financial year.

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.

1.19 Conditional grants and receipts

Income 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. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of surplus and deficit in the year in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality’s interest it is recognised as interest earned in the Statement of surplus and deficit.

Accounted for government grants and receipts in the previous financial year in accordance with the requirements of IAS 20.24 and .26, GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – .46, as appropriate, and not in accordance with the requirements of the entire IAS 20 as these requirements, other than IAS 20.24 and .26, were exempted in terms of General Notice 522 of 2007. Accounted for government grants and receipts for the year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GAMAP 9.42 - .46 and ASB Directives 4.

1.20 Value Added Tax

The Municipality accounts for Value Added Tax on the payments basis.

1.21 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.22 Treatment of administration and other overhead expenses

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	664,805	-	664,805	-	-	-
Buildings	2,779,196	-	2,779,196	-	-	-
Plant and machinery	2,424,821	-	2,424,821	-	-	-
Furniture and fixtures	157,029	-	157,029	-	-	-
Motor vehicles	2,226,148	-	2,226,148	-	-	-
Office equipment	28,959	-	28,959	-	-	-
IT equipment	269,365	-	269,365	-	-	-
Infrastructure	12,776,311	-	12,776,311	-	-	-
Total	**21,326,634**	**-**	**21,326,634**	**-**	**-**	**-**

Reconciliation of property, plant and equipment - 2010

	Opening balance	**Additions**	**Total**
Land	-	664,805	664,805
Buildings	-	2,779,196	2,779,196
Plant and machinery	-	2,424,821	2,424,821
Furniture and fixtures	-	157,029	157,029
Motor vehicles	-	2,226,148	2,226,148
Office equipment	-	28,959	28,959
IT equipment	-	269,365	269,365
Infrastructure	-	12,776,311	12,776,311
	-	**21,326,634**	**21,326,634**

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.

3. Inventories

Consumable stores	201,550	133,176
Fuel (Diesel, Petrol)	-	42,141
	201,550	**175,317**

4. Trade and other receivables from exchange transactions

Trade debtors	17,315,289	(26,932,567)
Sundry Debtors	35,691,292	35,661,866
Other debtors	10,727,097	11,207,916
Bank suspense accounts	1,235,502	1,617,487
	64,969,180	**21,554,702**

Trade and other receivables past due but not impaired

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

A market related interest rate is charged at the prime interest rate plus 1%, thus the carrying value of the receivable is held at amortised cost (Fair Value).

Trade and other receivables impaired

The amount of the provision was R (78,385,099) as of 30 June 2010 (2009: R 65,372,569).

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

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

The trade debtors have been split as follows:

	2010	2009
Gross Balances		
Rates	29,080,440	24,192,888
Electricity	25,103,453	16,806,710
Refuse	6,297,953	5,395,507
Sundry	35,220,332	33,692,237
	95,702,178	**80,087,342**
Rates		
Current (0 - 30 days)	487,007	2,596,806
31 - 60 days	596,381	105,983
61 - 90 days	579,347	196,673
Greater than 90 days	27,417,705	21,293,425
	29,080,440	**24,192,887**
Electricity		
Current (0 - 30 days)	1,532,539	1,671,120
31 - 60 days	1,076,792	574,481
61 - 90 days	437,050	531,529
Greater than 90 days	25,103,453	14,029,580
	28,149,834	**16,806,710**
Refuse		
Current (0 - 30 days)	154,153	142,522
31 - 60 days	134,532	122,339
61 - 90 days	124,980	108,621
Greater than 90 days	5,884,288	5,021,994
	6,297,953	**5,395,476**
Sundry		
Current (0 - 30 days)	362,834	564,811
31 - 60 days	531,697	372,876
61 - 90 days	527,681	552,527
Greater than 90 days	33,798,120	32,203,023
	35,220,332	**33,693,237**

5. Cash and cash equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash on hand	11,083	11,083
Bank balances	34,868,827	-
Bank overdraft	-	(1,079,791)
	34,879,910	**(1,068,708)**
Current assets	34,879,910	11,083
Current liabilities	-	(1,079,791)
	34,879,910	**(1,068,708)**

The municipality has the following bank accounts:

First National Bank - Account number 6202 619 2336 (Primary Acccount)

Cash book balance at beginning of year	R	

Figures in Rand		2010	2009
5. Cash and cash equivalents (continued)			
Cash book balance at end of year	R		
Bank statement balance at beginning of year	R		
Bank statement balance at end of year	R		
First National Bank - Account number 6205 512 3170 (Alice Golf Area)			
Cash book balance at beginning of year	R 468 797		
Cash book balance at end of year	R 37 934		
Bank statement balance at beginning of year	R 468 797		
Bank statement balance at end of year	R 37 934		
First National Bank - Account number 6205 512 3245 (Alice Kuntselamanzi)			
Cash book balance at beginning of year	R 706		
Cash book balance at end of year	R 99		
Bank statement balance at beginning of year	R 706		
Bank statement balance at end of year	R 99		
First National Bank - Account number 6206 769 1735 (Erhoxeni People's Housing Project)			
Cash book balance at beginning of year	R 227 902		
Cash book balance at end of year	R 240 004		
Bank statement balance at beginning of year	R 227 902		
Bank statement balance at end of year	R 240 004		
First National Bank - Account number 6206 212 5482 (Bhofolo Phase 2)			
Cash book balance at beginning of year	R 743		
Cash book balance at end of year	R 342		
Bank statement balance at beginning of year	R 743		
Bank statement balance at end of year	R 342		
First National Bank - Account number 6205 512 2940 (Fort Beaufort Golf Area)			
Cash book balance at beginning of year	R 182 828		
Cash book balance at end of year	R 192 440		
Bank statement balance at beginning of year	R 182 828		
Bank statement balance at end of year	R 192 440		
First National Bank - Account number 6206 212 6555 (Fort Beaufort Golf Gomma Gomma)			
Cash book balance at beginning of year	R 16 848		
Cash book balance at end of year	R 16 768		
Bank statement balance at beginning of year	R 16 848		
Bank statement balance at end of year	R 16 768		
First National Bank - Account number 6206 769 1975 (Kwankobokobo People's Housing Project)			
Cash book balance at beginning of year	R 163 207		
Cash book balance at end of year	R 929 954		
Bank statement balance at beginning of year	R 163 207		
Bank statement balance at end of year	R 929 954		
First National Bank - Account number 6206 850 1115 (McFarland Housing Project)			
Cash book balance at beginning of year	R 967		
Cash book balance at end of year	R 315		
Bank statement balance at beginning of year	R 967		

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

5. Cash and cash equivalents (continued)

Bank statement balance at end of year	R 211	
First National Bank - Account number 6206 769 2303 (McFarland People's Housing Project)		
Cash book balance at beginning of year	R 172 236	
Cash book balance at end of year	R 181 283	
Bank statement balance at beginning of year	R 172 236	
Bank statement balance at end of year	R 181 283	
First National Bank - Account number 6202 675 3815 (Middledrift Housing)		
Cash book balance at beginning of year	R 19 830	
Cash book balance at end of year	R 20 787	
Bank statement balance at beginning of year	R 19 830	
Bank statement balance at end of year	R 20 787	
First National Bank - Account number 6211 184 7854 (MIG Funding)		
Cash book balance at beginning of year	R 963 368	
Cash book balance at end of year	R 2 692 715	
Bank statement balance at beginning of year	R 963 368	
Bank statement balance at end of year	R 2 692 715	
First National Bank - Account number 6205 512 3039 (Mpotweni Housing Development)		
Cash book balance at beginning of year	R 70 783	
Cash book balance at end of year	R 73 980	
Bank statement balance at beginning of year	R 70 783	
Bank statement balance at end of year	R 73 980	
First National Bank - Account number 6206 849 9188 (Roxeni Housing Project)		
Cash book balance at beginning of year	R 25 245	
Cash book balance at end of year	R 23 332	
Bank statement balance at beginning of year	R 25 245	
Bank statement balance at end of year	R 23 332	
First National Bank - Account number 6205 512 3112 (Seymour Ext 6)		
Cash book balance at beginning of year	R 403 870	
Cash book balance at end of year	R 22 266	
Bank statement balance at beginning of year	R 403 870	
Bank statement balance at end of year	R 22 266	
First National Bank - Account number 6221 726 7203 (Business Money Market)		
Cash book balance at beginning of year	R 0	
Cash book balance at end of year	R 269 218	
Bank statement balance at beginning of year	R 255 394	
Bank statement balance at end of year	R 269 218	
First National Bank - Account number 6204 401 6922 (Councillor Upper Limits)		
Cash book balance at beginning of year	R 138 964	
Cash book balance at end of year	R 146 627	
Bank statement balance at beginning of year	R 138 964	
Bank statement balance at end of year	R 146 627	
Standard Bank - Account number 082 731 306 (Alice Housing Projects)		
Cash book balance at beginning of year	R 300 712	

5. Cash and cash equivalents (continued)

Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 300 712	
Bank statement balance at end of year	R 0	
Standard Bank - Account number 082 733 228 (Alice CMIP)		
Cash book balance at beginning of year	R 23 947	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 23 947	
Bank statement balance at end of year	R 0	
First National Bank - Account number 6202 675 3766 (Fishing Project)		
Cash book balance at beginning of year	R 96 132	
Cash book balance at end of year	R 101 283	
Bank statement balance at beginning of year	R 96 132	
Bank statement balance at end of year	R 101 283	
First National Bank - Account number 6203 550 2287 (Human Settlement Redevelopment Plan)		
Cash book balance at beginning of year	R 332 054	
Cash book balance at end of year	R 2 630	
Bank statement balance at beginning of year	R 332 054	
Bank statement balance at end of year	R 2 630	
Standard Bank - Account number 082 747 105 (Middledrift Infrastructure)		
Cash book balance at beginning of year	R 43 850	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 43 850	
Bank statement balance at end of year	R 0	
First National Bank - Account number 6207 580 7689 (MSP Grant Funding)		
Cash book balance at beginning of year	R 1 754	
Cash book balance at end of year	R 1 772	
Bank statement balance at beginning of year	R 1 754	
Bank statement balance at end of year	R 1 772	
First National Bank - Account number 6205 513 2189 (NER Operating Account)		
Cash book balance at beginning of year	R 936 450	
Cash book balance at end of year	R 924 869	
Bank statement balance at beginning of year	R 936 450	
Bank statement balance at end of year	R 924 869	
First National Bank - Account number 6207 580 7465 (Primary Health Care)		
Cash book balance at beginning of year	R 965 021	
Cash book balance at end of year	R 3 294	
Bank statement balance at beginning of year	R 961 347	
Bank statement balance at end of year	R 3 294	
First National Bank - Account number 6208 377 3369 (Equity Suspense Account)		
Cash book balance at beginning of year	R 11	
Cash book balance at end of year	R 5 860 701	
Bank statement balance at beginning of year	R 11	
Bank statement balance at end of year	R 5 860 701	

Figures in Rand	2010	2009

5. Cash and cash equivalents (continued)

<u>First National Bank - Account number 6208 568 1594 (Development Account)</u>

Cash book balance at beginning of year	R 720 148	
Cash book balance at end of year	R 56 587	
Bank statement balance at beginning of year	R 720 148	
Bank statement balance at end of year	R 56 587	

<u>First National Bank - Account number 6211 819 8375 (Umsobomvu & FMG Trust)</u>

Cash book balance at beginning of year	R 1 779 018	
Cash book balance at end of year	R 518 421	
Bank statement balance at beginning of year	R 1 779 018	
Bank statement balance at end of year	R 518 421	

<u>First National Bank - Account number 6203 501 1519 (MIG Funding 2)</u>

Cash book balance at beginning of year	R 9 797 033	
Cash book balance at end of year	R 15 442	
Bank statement balance at beginning of year	R 9 797 033	
Bank statement balance at end of year	R 15 442	

<u>First National Bank - Account number 6212 742 5842 (Land Survey Account)</u>

Cash book balance at beginning of year	R 678 011	
Cash book balance at end of year	R 715 085	
Bank statement balance at beginning of year	R 678 011	
Bank statement balance at end of year	R 715 085	

<u>Standard Bank - Account number 082 142 076 (Fresh Produce Market Account)</u>

Cash book balance at beginning of year	R 68 710	
Cash book balance at end of year	R 68 710	
Bank statement balance at beginning of year	R 68 710	
Bank statement balance at end of year	R 68710	

<u>First National Bank - Account number 7405 547 7598 (13 Starter Homes Account)</u>

Cash book balance at beginning of year	R 177 355	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 187 527	
Bank statement balance at end of year	R 0	

<u>First National Bank - Account number 7405 562 8399 (Survey Kwatiniduba Account)</u>

Cash book balance at beginning of year	R 21 373	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 21 373	
Bank statement balance at end of year	R 0	

<u>First National Bank - Account number 7405 563 0823 (Town Council FB Account)</u>

Cash book balance at beginning of year	R 135 809	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 136 845	
Bank statement balance at end of year	R 0	

<u>First National Bank - Account number 7405 577 4572 (Kat River Bridge Project Account)</u>

Cash book balance at beginning of year	R 4 210	
Cash book balance at end of year	R 0	

5. Cash and cash equivalents (continued)

Bank statement balance at beginning of year	R 4 210	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 535 1841 (Legal Costs Account)</u>		
Cash book balance at beginning of year	R 33 161	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 33 161	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 524 1662 (Implementation of Full Prop Account)</u>		
Cash book balance at beginning of year	R 0	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 38913	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 513 4411 (Survey Account)</u>		
Cash book balance at beginning of year	R 28 617	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 28 617	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 536 2997 (FB Framework Plan Account)</u>		
Cash book balance at beginning of year	R 34 055	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 34 055	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 535 8566 (Land Development Objective Account)</u>		
Cash book balance at beginning of year	R 186 245	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 186 245	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 535 8417 (Kat River Publicity Account)</u>		
Cash book balance at beginning of year	R 26 385	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 26385	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 535 5546 (Structure Plan 2 Account)</u>		
Cash book balance at beginning of year	R 46 800	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 46 800	
Bank statement balance at end of year	R 0	
<u>First National Bank - Account number 7405 563 3695 (Fort Beaufort TLC Account)</u>		
Cash book balance at beginning of year	R 65 226	
Cash book balance at end of year	R 0	
Bank statement balance at beginning of year	R 65 226	
Bank statement balance at end of year	R 0	

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

6. Provisions

The provision for the rehabilitation of the landfill sites operated in the municipality's demarcations was not receognised 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.

However the municipality has the following 4 sites:
Middledrift Waste Disposal Site
Alice Waste Disposal Site
Fort Beaufort Transfer Station
Other Waste Disposal Site

7. Trade and other payables

Trade payables	12,282,490	2,564,662
Other Payables	52,363,613	14,630,685
Accrued leave pay	2,321,823	-
Accrued bonus	1,737,732	1,817,492
Deposits received	941,808	908,051
	69,647,466	**19,920,890**

8. VAT payable

Tax refunds payables	-	11,391,146

9. Revenue

Sale of electricity	20,641,362	9,835,535
Rendering of services	4,726,685	4,544,494
Property rates	10,099,057	9,669,414
Fines	118,080	84,491
Licences and permits	1,733,442	687,641
Government grants & subsidies	79,860,972	47,508,851
	117,179,598	**72,330,426**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Sale of goods	20,641,362	9,835,535
Rendering of services	4,726,685	4,544,494
Licences and permits	1,733,442	687,641
	27,101,489	**15,067,670**

The amount included in revenue arising from non-exchange transactions is as follows:		
Property rates	10,099,057	9,669,414
Fines	118,080	84,491
Government grants & subsidies	79,860,972	47,508,851
	90,078,109	**57,262,756**

10. Property rates

Rates received

Residential	10,099,057	9,669,414

11. Service charges

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

12. Government grants and subsidies

MSIG	19,075,000	-
Subsidies	2,148,863	934,135
Equitable Share - Operating	56,652,109	43,923,234
Transfers received	250,000	2,651,482
Finance Management Grant	1,735,000	-
	79,860,972	**47,508,851**

13. Other revenue

Rental income - third party	157,376	131,394
Sundry Income	8,428,376	1,351,918
	8,585,752	**1,483,312**

14. General expenses

Advertising	368,841	396,612
Auditors remuneration	1,123,679	318,305
Bank charges	114,914	122,728
Cleaning	487,670	656,783
Consulting and professional fees	2,876,993	1,042,253
Consumables	940,401	694,614
Entertainment	473,068	502,816
Gifts	24,873	-
Insurance	550,698	617,949
Community development and training	4,054	-
IT expenses	217,810	-
Lease rentals on operating lease	948,563	781,240
Horticulture	28,733	-
Medical expenses	2,718	3,987
Motor vehicle expenses	851,632	-
Pest control	50,000	-
Fuel and oil	331,170	517,647
Postage and courier	415,936	238,303
Printing and stationery	411,449	371,622
Protective clothing	144,018	20,101
Project maintenance costs	-	49,210
Royalties and license fees	93,603	112,654
Security (Guarding of municipal property)	179,442	71,576
Subscriptions and membership fees	931,401	496,029
Telephone and fax	1,598,848	1,844,777
Training	390,281	226,346
Travel - local	778,744	537,116
CBP Expenses	808,587	4,337
Electricity	40,812	174,395
Sundry Expenses	-	320,065
Special Programs	149,554	88,795
NEDA	290,000	-
Strategic Planning	-	680,178
Balfour VIC	50,300	-
Disaster Management	4,458	-
	15,683,250	**10,890,438**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

15. Employee related costs

Basic	240,065	-
Leave pay provision charge	606,819	-
P M U	(357,628)	214,150
	489,256	**214,150**

Remuneration of Mayor

Annual Remuneration	416,069	-
Car Allowance	134,213	-
Contributions to UIF, Medical and Pension Funds	6,280	-
	556,562	**-**

Remuneration of Municipal Manager

Annual Remuneration	500,768	-
Car Allowance	113,525	-
Contributions to UIF, Medical and Pension Funds	99,452	-
	713,745	**-**

Remuneration of Chief Financial Officer

Annual Remuneration	317,364	-
Car Allowance	60,050	-
Contributions to UIF, Medical and Pension Funds	4,607	-
	382,021	**-**

16. Remuneration of councillors

Speaker	171,722	155,141
Councillors	9,653,299	8,262,387
Councillors’ pension contribution	260,835	65,180
	10,085,856	**8,482,708**

17. Debt impairment

Debt impairment	-	13,288,642

18. Investment revenue

Interest revenue

Bank	1,248,057	-
	-	-
	1,248,057	-

19. Finance costs

Current borrowings	845,423	1,426,960

20. Auditors' remuneration

Fees	1,123,679	318,305

21. Grants and subsidies paid

Other subsidies

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

21. Grants and subsidies paid (continued)

Indigent Subsidy	3,369,738	2,135,585
Grants paid to ME's	-	-
Other subsidies	3,369,738	2,135,585

22. Cash generated from operations

Surplus	44,126,424	1,898,268
Adjustments for:		
Prior Year Adjustment	-	89,605
Other non cash flow items	-	4,810,441
Appropriations	-	13,119,328
Interest income	-	(7,703,634)
Finance costs and redemption of loans	-	1,371,881
Grants and Subsidies received	-	(47,495,728)
Non operating expenditure	-	(33,752,394)
Cash contributions from public and state	-	83,438,760
Changes in working capital:		
Inventories	(26,233)	201,019
Trade and other receivables from exchange transactions	(43,414,478)	-
Consumer debtors	-	(23,351,389)
Trade and other payables	49,726,586	11,087,149
VAT	(15,515,857)	-
Unspent conditional grants and receipts	4,207,955	-
	39,104,397	**3,713,306**

23. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	1,750,419	-

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.

24. Prior period errors

Property, Plant and Equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

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

25. Risk Management (IFRS 7)

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 dependent 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

25. Risk Management (IFRS 7) (continued)

The municipality's activities expose it to a variety of financial risks: market risk (including, 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.

Market risk: Currency risk

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

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 one 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:

DBSA loan linked to South African prime rate.

?
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 increase rates		
The estimated increase in basis points	100	100
Effect on Net Surplus	(R 52 514)	(R 36 142)

Market risk: other price risk

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

Credit risk

25. Risk Management (IFRS 7) (continued)

Credit risk refers to the risk that 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 particular 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:

	2010	2009
Investments		
Consumer Debtors		
Other receivables		
Long term debtors		

Credit quality

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

	2010	2009
A	9%	12%
B	14%	13%
C	77%	75%

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.

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

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.

26. Change in accounting policy

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of GRAP:

Statutory Funds		
Balance previously reported	1	-
Implementation of GRAP	1	-
	2	**-**

Reserves		
Balance as previously reported	1	-
Implementation of GRAP	1	-

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

26. Change in accounting policy (continued)

	2	**-**

Other items

Balance as previously reported	1	-
Implementation of GRAP	1	-
	2	**-**