Inxuba Yethemba Municipality
Annual Financial Statements
for the year ended 30 June 2010

Index

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

Abbreviations

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

Inxuba Yethemba Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practices (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 loss 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 loss.

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

The municipality is wholly dependent on the XXXX for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the XXXX has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2010 and were signed on its behalf by:

Accounting Officer

Inxuba Yethemba 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	6	759 040	685 015
Consumer debtors	9	38 394 069	39 127 122
Trade and other receivables from non exchange transactions	7	1 938 311	1 623 591
Cash and cash equivalents	2	4 923 558	3 337 865
		46 014 978	**44 773 593**
Non-Current Assets			
Investment property		40 088 590	40 088 590
Property, plant and equipment	3	326 647 325	367 871 934
Other financial assets	4	7 707	7 413
		366 743 622	**407 967 937**
Total Assets		**412 758 600**	**452 741 530**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	14	74 405 501	72 708 834
VAT payable	15	10 571 849	7 278 258
Consumer deposits	16	845 833	778 232
Unspent conditional grants and receipts	12	6 229 431	5 473 616
Long term liability - current portion		-	580 478
Bank overdraft	2	4 206 025	9 080 526
		96 258 639	**95 899 944**
Non-Current Liabilities			
Other financial liabilities	10	2 238 914	2 242 214
Retirement benefit obligation	5	22 599 621	22 826 695
Provisions	13	192 811	247 918
		25 031 346	**25 316 827**
Total Liabilities		**121 289 985**	**121 216 771**
Net Assets		**291 468 615**	**331 524 759**
Net Assets			
Accumulated surplus		291 468 615	331 524 759

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue	17	138 363 699	88 049 861
Other income		2 144 299	1 482 666
Operating expenses		(152 555 163)	(83 004 047)
Operating (deficit) surplus		**(12 047 165)**	**6 528 480**
Investment revenue	24	3 325 488	4 331 415
Finance costs	25	(367 719)	(430 622)
(Deficit) surplus for the year		**(9 089 396)**	**10 429 273**

Statement of Changes in Net Assets

Figures in Rand	Share capital / contributions from owners	Accumulated surplus	Total net assets
Balance at 01 July 2008	**-**	**(25 734 699)**	**(25 734 699)**
Changes in net assets			
Surplus for the year	-	10 429 273	10 429 273
Post medical aid contribution	-	(23 677 367)	(23 677 367)
Appropriation transactions	-	81 854 054	81 854 054
Adjustment PPE balances	-	(1 786)	(1 786)
Unbundling IMFO to GRAP	-	288 655 284	288 655 284
Total changes	-	357 259 458	357 259 458
Opening balance as previously reported	-	331 524 762	331 524 762
Adjustments			
Prior year adjustments	-	(117 365)	(117 365)
Balance at 01 July 2009 as restated	**-**	**331 407 397**	**331 407 397**
Changes in net assets			
Contribution to impairment allowance account	-	(19 079 107)	(19 079 107)
Adjustment internal loans	-	(1 264 079)	(1 264 079)
Adjustment opening balance	-	(10 506 200)	(10 506 200)
Net income (expenses) recognised directly in net assets	-	(30 849 386)	(30 849 386)
Surplus for the year	-	(9 089 396)	(9 089 396)
Total recognised income and expenses for the year	-	(39 938 782)	(39 938 782)
Total changes	-	(39 938 782)	(39 938 782)
Balance at 30 June 2010	**-**	**291 468 615**	**291 468 615**

Note(s)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2010

Cash Flow Statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		73 651 048	58 853 360
Grants		63 368 156	30 679 167
Interest income		3 325 254	4 331 415
Dividends received		234	-
Other receipts		418 333	14 137 685
		140 763 025	108 001 627
Payments			
Employee costs		(49 349 423)	(44 294 300)
Suppliers		(57 704 594)	(38 709 742)
Finance costs		(367 719)	(430 622)
Other payments		(20 469 336)	(22 654 086)
		(127 891 072)	(106 088 750)
Net cash flows from operating activities	30	**12 871 953**	**1 912 877**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(5 991 228)	(3 954 762)
Proceeds from sale of property, plant and equipment	3	163 541	-
Net movement of financial assets		(294)	(7 413)
Net cash flows from investing activities		**(5 827 981)**	**(3 962 175)**
Cash flows from financing activities			
Repayment of other financial liabilities		(3 300)	(645 302)
Movement in other payables - non current		(580 478)	87 728
Net cash flows from financing activities		**(583 778)**	**(557 574)**
Net increase/(decrease) in cash and cash equivalents		**6 460 194**	**(2 606 872)**
Cash and cash equivalents at the beginning of the year		(5 742 661)	(3 135 789)
Cash and cash equivalents at the end of the year	2	**717 533**	**(5 742 661)**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003).These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note Changes in accounting policy

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also

Accounting Policies

1.2 Property, plant and equipment (continued)

included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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

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

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

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

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

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

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

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

Item	**Average useful life**
Buildings	20-60 years
Plant and machinery	3-10 years
Furniture and fixtures	3-10 years
Motor vehicles	3-20 years
Office equipment	3-7 years
Roads	20 years
Other property, plant and equipment	3-12 years
Electricity	10-50 years
Other equipment	3-10 years
Security measures	3 years

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

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

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

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

Accounting Policies

1.2 Property, plant and equipment (continued)

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

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

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

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.3 Financial instruments

Classification

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

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

Initial recognition and measurement

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

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

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

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

Accounting Policies

1.3 Financial instruments (continued)
measurement of the instrument.

Subsequent measurement

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

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

1.4 Inventories

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

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

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

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of

Accounting Policies

1.4 Inventories (continued)

inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.5 Impairment of cash-generating assets

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

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

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

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

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

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

1.6 Impairment of non-cash-generating assets

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

Non-cash-generating assets are assets other than cash-generating assets.

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

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

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Accounting Policies

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

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

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

1.7 Share capital / contributions from owners

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.8 Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

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

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

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

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

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

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

1.9 Provisions and contingencies

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

1.9 Provisions and contingencies (continued)

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

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

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

1.10 Borrowing costs

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

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

1.11 Unauthorised expenditure

1.11 Unauthorised expenditure (continued)

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

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

1.12 Fruitless and wasteful expenditure

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

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

1.13 Irregular expenditure

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

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

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

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

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

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

1.14 Use of Estimates

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

1.15 Presentation of Currency

Accounting Policies

1.15 Irregular expenditure (continued)

These annual financial statements are presented in South African Rand.

1.16 Offsetting

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

1.17 Investments

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

1.18 Conditional Grants and receipts

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

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2010	2009
Cash on hand	5 620	5 620
Short-term deposits	4 917 938	3 332 245
Bank overdraft	(4 206 025)	(9 080 526)
	717 533	**(5 742 661)**
Current assets	4 923 558	3 337 865
Current liabilities	(4 206 025)	(9 080 526)
	717 533	**(5 742 661)**

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

3. Property, plant and equipment

	2010			2009		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	4 287 930	-	4 287 930	4 287 930	-	4 287 930
Buildings	13 555 900	-	13 555 900	13 555 900	-	13 555 900
Plant and machinery	1 110 822	(1 046 125)	64 697	1 110 822	(1 018 992)	91 830
Furniture and fixtures	82 139	(99 980)	(17 841)	56 939	(56 087)	852
Motor vehicles	3 285 602	(3 016 468)	269 134	3 285 602	(2 973 932)	311 670
Office equipment	494 683	(412 559)	82 124	443 683	(372 546)	71 137
Roads	727 119 752	(430 410 128)	296 709 624	721 204 723	(384 401 773)	336 802 950
Community	361 000	-	361 000	361 000	-	361 000
Cemetaries	333 200	-	333 200	333 200	-	333 200
Electricity	33 270 900	(24 396 473)	8 874 427	33 270 900	(23 342 565)	9 928 335
Park facilities	2 127 130	-	2 127 130	2 127 130	-	2 127 130
Total	**786 029 058**	**(459 381 733)**	**326 647 325**	**780 037 829**	**(412 165 895)**	**367 871 934**

Reconciliation of property, plant and equipment - 2010

	Opening Balance	Additions	Other changes, movements	Depreciation	Total
Land	4 287 930	-	-	-	4 287 930
Buildings	13 555 900	-	-	-	13 555 900
Plant and machinery	91 830	-	-	(27 133)	64 697
Furniture and fixtures	852	25 200	-	(43 893)	(17 841)
Motor vehicles	311 670	-	-	(42 536)	269 134
Office equipment	71 137	50 999	-	(40 012)	82 124
Roads	336 802 950	5 915 029	(660 784)	(45 347 571)	296 709 624
Community	361 000	-	-	-	361 000
Cemetaries	333 200	-	-	-	333 200
Electricity	9 928 335	-	-	(1 053 908)	8 874 427
Park facilities	2 127 130	-	-	-	2 127 130
	367 871 934	**5 991 228**	**(660 784)**	**(46 555 053)**	**326 647 325**

Reconciliation of property, plant and equipment - 2009

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

3. Property, plant and equipment (continued)

	Opening Balance	Additions	Transfers	Other changes, movements	Total
Land	3 763 563	-	-	524 367	4 287 930
Buildings	29 854 045	-	(336 175)	(15 961 970)	13 555 900
Plant and machinery	2 425 458	-	(99 899)	(2 233 729)	91 830
Furniture and fixtures	212 974	14 377	(26)	(226 473)	852
Motor vehicles	3 921 389	171 995	(235 632)	(3 546 082)	311 670
Office equipment	1 562 217	30 046	(54 556)	(1 466 570)	71 137
Roads	20 637 893	3 738 344	-	312 426 713	336 802 950
Community	-	-	-	361 000	361 000
Other property, plant and equipment	74 687	-	-	(74 687)	-
Cemetaries	1 800 000	-	-	(1 466 800)	333 200
Electricity	49 522 820	-	-	(39 594 485)	9 928 335
Security measures	114 659	-	-	(114 659)	-
Park facilities	3 730 331	-	-	(1 603 201)	2 127 130
Wastewater network	25 008 380	-	(25 008 380)	-	-
Water network	37 322 435	-	(37 322 435)	-	-
	179 950 851	**3 954 762**	**(63 057 103)**	**247 023 424**	**367 871 934**

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.

4. Other financial assets

	2010	2009
Loans and receivables		
Loans and receivables Terms and conditions	7 707	7 413
Non-current assets		
Loans and receivables	7 707	7 413

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2010 and 2009, as all the financial assets were disposed of at their redemption date.

For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.

5. Retirement benefits

Defined benefit plan

The defined benefit plan, to which -% (2009: -%) belong, consists of the (specify Pension Fund) governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position, however that it was recommended that the contribution should be increased by -% for - months. This recommendation is presently being implemented.

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

Post retirement benefit plan

Post retirement medical aid plan

Figures in Rand	2010	2009

6. Inventories

Consumable stores	702 782	616 590
Fuel (Diesel, Petrol)	56 258	68 425
	759 040	**685 015**

7. Trade and other receivables from non exchange transactions

Deposits	161 916	-
Other receivables 1	(593 723)	660 709
Prepayments (if immaterial)	-	962 882
Government subsidies	2 370 118	-
	1 938 311	**1 623 591**

8. VAT receivable

9. Consumer debtors

Gross balances		
Rates	31 065 644	18 682 226
Electricity	3 738 847	3 610 056
Refuse	23 682 769	20 237 516
Other (specify)	4 256 476	15 039 735
	62 743 736	**57 569 533**
Less: Provision for bad debts		
Rates	(8 627 913)	(6 151 365)
Electricity	(1 165 186)	(790 165)
Refuse	(10 636 729)	(5 207 806)
Other (specify)	(3 919 839)	(6 293 075)
	(24 349 667)	**(18 442 411)**
Net balance		
Rates	22 437 731	12 530 861
Electricity	2 573 661	2 819 891
Refuse	13 046 040	15 029 710
Other (specify)	336 637	8 746 660
	38 394 069	**39 127 122**
Rates		
Current (0 -30 days)	683 112	640 969
31 - 60 days	312 758	365 570
61 - 90 days	281 378	370 065
> 365 days	21 160 483	11 154 257
	22 437 731	**12 530 861**
Electricity		
Current (0 -30 days)	1 723 647	1 691 059
31 - 60 days	132 849	359 398
61 - 90 days	167 403	126 548
91 - 120 days	183 603	642 886
> 365 days	366 159	-
	2 573 661	**2 819 891**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

9. Consumer debtors (continued)

Refuse		
Current (0 -30 days)	593 249	589 946
31 - 60 days	358 880	367 465
61 - 90 days	356 388	425 651
> 365 days	13 379 749	13 646 648
	14 688 266	**15 029 710**

Summary of debtors by customer classification

Credit quality of consumer debtors

Fair value of consumer debtors

Fair value are assumed to be equal to book value as presented in the statement of financial position.

10. Other financial liabilities

Held at amortised cost		
DBSA	-	2 374 048
ABSA	-	438 821
DBSA	-	9 823
Bank loans - other Terms and conditions	122 209	(580 478)
Other financial liability 1 Terms and conditions	2 116 705	-
	2 238 914	**2 242 214**

Non-current liabilities		
At amortised cost	2 238 914	2 242 214

11. Finance lease obligation

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grant - Goverment	3 973 330	2 348 404
Unspent grant - Provincial	1 705 260	2 505 421
Unspent grant - Public	550 841	569 343
Unspent grant - Public	-	50 448
	6 229 431	**5 473 616**

Movement during the year

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the entity has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

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

13. Provisions

14. Trade and other payables from exchange transactions

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

14. Trade and other payables from exchange transactions (continued)

Trade payables	1 827 175	2 422 594
Payments received in advanced - contract in process	(592 536)	-
Other payables 1	5 760 479	1 962 752
Other payables 2	56 102 502	44 353 054
Accrued leave pay	3 121 975	2 327 921
Deposits received	118 460	10 997
Other creditors	8 067 446	5 543 184
Other Creditors	-	16 088 332
	74 405 501	**72 708 834**

[Only disclose if fair value does not approximate carrying amount]

Fair value of trade and other payables

The carrying amount of loans to and from shareholders are denominated in the following currencies:

15. VAT payable

Tax refunds payables	10 571 849	7 278 258

16. Consumer deposits

Electricity	845 833	778 232

17. Revenue

Sale of goods	(420)	7 721
Property rates	18 308 008	12 580 400
Service charges	54 086 451	42 378 307
Rental of facilities & equipment	1 403 467	1 339 811
Fines	170 065	42 568
Licences and permits	1 027 972	1 021 887
Government grants & subsidies	63 368 156	30 679 167
	138 363 699	**88 049 861**

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

Sale of goods	(420)	7 721
Service charges	54 086 451	42 378 307
Rental of facilities & equipment	1 403 467	1 339 811
Licences and permits	1 027 972	1 021 887
	56 517 470	**44 747 726**

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

Property rates	18 308 008	12 580 400
Fines	170 065	42 568
Government grants & subsidies	63 368 156	30 679 167
	81 846 229	**43 302 135**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

18. Property Rates

Rates received

Residential	18 308 008	12 580 400

19. Service charges

Sale of electricity	43 525 957	32 525 807
Refuse removal	10 560 494	9 852 500
	54 086 451	**42 378 307**

20. Government grants and subsidies

Equitable share	56 084 344	27 719 216
Government grant (operating) 1	-	2 959 951
Government grant (operating) 2	7 283 812	-
	63 368 156	**30 679 167**

21. General expenses

Advertising	177 950	92 585
Auditors remuneration	2 294 840	-
Bank charges	655 908	751 624
Commission paid	543 977	329 398
Consulting and professional fees	263 832	29 710
Consumables	411 711	268 436
Entertainment	27 095	7 069
Hire	266 676	193 962
Insurance	1 214 832	1 111 920
Conferences and seminars	7 718	162
IT expenses	1 033 164	470 631
Incorporation costs	56 184	8 096 028
Lease rentals on operating lease	478 698	16 931
Motor vehicle expenses	2 723 940	2 162 112
Postage and courier	602 610	445 676
Printing and stationery	366 501	459 753
Protective clothing	18 218	103 687
Security (Guarding of municipal property)	32 873	-
Subscriptions and membership fees	24 253	175 640
Telephone and fax	2 054 123	1 774 594
Training	28 969	6 292
Travel - local	486 600	339 457
Tourism development	160 293	151 346
Expense 1	2 916 836	1 968 751
Chemicals	14 967	19 556
Other expenses	1 448 132	428 886
	18 310 900	**19 404 206**

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

22. Employee related costs

Basic	30 270 775	28 374 388
Medical aid - company contributions	1 885 098	1 645 005
UIF	315 022	289 193
SDL	435 672	374 498
Other payroll levies	1 130 925	588 558
Short term benefit 1	31 794	41 116
Short term benefit 2	15 833	14 259
Other short term costs	121 842	272 919
Post-employment benefits - Pension - Defined contribution plan	4 882 551	4 415 644
Overtime payments	1 609 049	792 586
13th Cheques	2 103 561	1 936 822
Car allowance	1 856 063	1 649 994
Housing benefits and allowances	176 316	254 515
Entertainment	5 620	3 267
Other allowance	105 925	125 026
Telephone	440	-
Uniform	137 570	8 312
	45 084 056	**40 786 102**

Remuneration of municipal manager

Annual Remuneration	764 541	-

Remuneration of chief finance officer

Annual Remuneration	618 334	-

Corporate and human resources (corporate services)

Annual Remuneration	618 334	-

23. Remuneration of councillors

Executive Major	575 051	3 508 199
Mayoral Committee Members	820 737	-
Speaker	241 130	-
Councillors	2 202 230	-
Councillors' pension contribution	426 220	-
	4 265 368	**3 508 199**

24. Investment revenue

Dividend revenue		
Listed financial assets - Local	234	-
Interest revenue		
Unlisted financial assets	135 050	9 481
Interest charged on trade and other receivables	3 190 204	4 321 934
	3 325 254	**4 331 415**
	3 325 488	**4 331 415**

25. Finance costs

Non-current borrowings	284 878	430 622

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

25. Finance costs (continued)

Bank	82 841	-
	367 719	**430 622**

26. Auditors' remuneration

Fees	2 294 840	-

27. Contracted Services

Other Contractors	386 240	284 466

28. Grants and subsidies paid

Other subsidies		
grants	20 566 627	3 876 218
Grants in aid	108 735	109 788

29. Bulk purchases

Electricity	26 744 618	19 656 290

30. Cash generated from operations

(Deficit) surplus	(9 089 396)	10 429 273
Adjustments for:		
Depreciation and amortisation	45 501 145	-
Loss on sale of assets and liabilities	(163 541)	-
Movements in retirement benefit assets and liabilities	(227 074)	22 826 695
Movements in provisions	(55 107)	247 918
Prior year adjustments	-	(78 038 879)
Other non-cash items	(29 252 056)	-
Changes in working capital:		
Inventories	(74 025)	103 498
Trade and other receivables from non exchange transactions	(314 720)	(1 623 591)
Consumer debtors	733 053	15 761 276
Trade and other payables from exchange transactions	1 696 667	40 368 593
VAT	3 293 591	(1 497 762)
Unspent conditional grants and receipts	755 815	(5 783 031)
Consumer deposits	67 601	(881 113)
	12 871 953	**1 912 877**

31. Prior period errors

Correction of transfers to Agency account R1949

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

Statement of financial position		
Property, plant and equipment	-	(1 949)
Opening Accumulated Surplus or Deficit	-	1 949

Inxuba Yethemba Municipality
Annual Financial Statements for the year ended 30 June 2010

Detailed Income statement

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	18	18 308 008	12 580 400
Service charges	19	54 086 451	42 378 307
Interest received - investment	24	3 325 254	4 331 415
Rental of facilities and equipment		1 403 467	1 339 811
Sale of goods		(420)	7 721
Fines		170 065	42 568
Licences and permits		1 027 972	1 021 887
Fees earned		1 097 391	576 185
Commissions received		123 469	110 603
Government grants & subsidies	20	63 368 156	30 679 167
Other income		759 898	795 878
Dividends received	24	234	-
Total Revenue		**143 669 945**	**93 863 942**
Expenditure			
Employee related costs	22	(45 084 056)	(40 786 102)
Remuneration of councillors	23	(4 265 368)	(3 508 199)
Administration		10 606 081	5 964 638
Depreciation and amortisation		(45 501 145)	-
Finance costs	25	(367 719)	(430 622)
Repairs and maintenance		(2 193 555)	(1 343 416)
Bulk purchases	29	(26 744 618)	(19 656 290)
Contracted services	27	(386 240)	(284 466)
Grants and subsidies paid	28	(20 675 362)	(3 986 006)
General Expenses	21	(18 310 900)	(19 404 206)
Total Expenditure		**(152 922 882)**	**(83 434 669)**
Gain or loss on disposal of assets and liabilities		163 541	-
(Deficit) surplus for the year		**(9 089 396)**	**10 429 273**

The supplementary information presented does not form part of the annual financial statements and is unaudited