INKWANCA MUNICIPALITY

Together Advancing in Development

Annual Financial Statements
2009/2010

EC 133

INKWANCA MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2010
INDEX

INKWANCA MUNICIPALITY
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010
GENERAL INFORMATION

MEMBERS OF THE COUNCIL

Councillors	
M.E YEKANI	Mayor
K. P. KIDO	Councillor
N.S. NOYI	Councillor
M.N. QAMNGWANA	Councillor
J.G. STRETTON	Councillor
N.T. FOLOSE	Councillor

GRADING OF LOCAL AUTHORITY

Inkwanca Municipality is a Grade 2 Local Authority

EXTERNAL AUDITORS

Office of the Auditor General - East London

BANKERS

Standard Bank
P. O. Box 14
Molteno
5500

REGISTERED OFFICE

39 Smith Street	P.O. Box 1		
Molteno	Molteno	Telephone :	045 - 967 0021
5500	5500	Facsimile :	045 - 967 0467

MUNICIPAL MANAGER as at 30 June 2010

N.A. NCUBE	Telephone :	045 - 967 0021

CHIEF FINANCIAL OFFICER as at 30 June 2010

Z. FOLOSE	Telephone :	045 - 967 0021

APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements as set out on pages 4 to 23 were approved by the Municipal Manager and the

Chief Financial Officer on this the …………………………….....2010.

……………………………………………………………………..
MUNICIPAL MANAGER: INKWANCA MUNICIPALITY
(Accounting Officer - N.A Ncube)

……………………………………………………………………..
CHIEF FINANCIAL OFFICER: INKWANCA MUNICIPALITY
Z. Folose

INKWANCA MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2010

	NOTES	2009/10 R	2008/09 R
ASSETS			
Non-current assets		**263 267**	**-**
Infrastructure, plant and equipment	1	263 267	-
Investment property	2	-	-
Intangible Assets	3	-	-
Long term receivables	5	-	-
Current assets		**5 062 303**	**4 926 137**
Inventory	6	-	-
Trade and other receivables	4	4 310 330	4 866 587
Other receivables	4	-	-
Short term portion of long-term receivables		-	-
VAT receivable	5	397 477	-
Investments	2	39 125	38 169
Cash and cash equivalents	6	315 371	21 381
Total Assets		**5 325 570**	**4 926 137**
NET ASSETS AND LIABILITIES			
Non-current liabilities		**(2 976 179)**	**(2 975 988)**
Long-term loan: CHDM	7	(2 069 011)	(2 069 011)
Finance lease obligation	8	(91 988)	(205 807)
Operating lease liability	13	-	-
Post employment benefit obligation	15	-	-
Leave accrual	11.1	(637 511)	(539 858)
Consumer deposits	10	(177 669)	(161 312)
Current liabilities		**(10 634 015)**	**(10 345 215)**
Finance lease obligation	8	(109 166)	(156 254)
Short term portion of loan: CHDM	7	-	-
Trade and other payables	11	(7 090 864)	(6 932 353)
VAT payable	5	-	(582 440)
Bank overdraft	10	-	(164 864)
Unspent conditional grants and receipts	16	(3 433 985)	(2 509 304)
Net assets		**8 284 624**	**8 395 066**
Revaluation reserve		-	-
Capital replacement reserve		-	-
Government Grant reserve	12.2	-	-
Leave reserve		-	-
Accumulated surplus/(deficit)		8 284 624	8 395 066
Total Net Assets and Liabilities		**(5 325 570)**	**(4 926 137)**

.... *DATE :...............................*

MUNICIPAL MANAGER

....
CERTIFIED AS CORRECT

CHIEF FINANCIAL OFFICER

INKWANCA MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2010

Budget 2008/09 R	Budget 2009/10 R		Notes	Actuals 2009/10 R	Actuals 2008/09 R
		REVENUE			
4 216 498	3 943 246	Service charges		5 508 037	15 359 395
2 749 677	2 262 341	Income from Assesment rates		3 148 526	4 323 855
11 583 668	17 814 000	Government grants & subsidies	**12**	13 272 545	8 237 674
397 984	602 043	Other income	**13**	506 694	587 257
-	-	Interest earned - external investments		956	1 876
-	-	Interest earned - outstanding receivables	**24**	1 986 198	2 083 710
500 000	2 485 000	Conditional grants received		9 071 746	3 761 456
-	-	Fair value adjustment - Leave reseve		-	4 712
19 447 827	**27 106 630**	**Total Revenue**		**33 494 702**	**34 359 935**
		EXPENDITURE			
11 309 049	12 855 997	Employee related costs	**23**	9 833 922	10 697 547
1 555 606	1 100 091	Remuneration of councillors	**19**	1 235 150	1 084 539
-	623 115	Bad debt impairment		4 863 423	14 269 531
-	-	Collection costs		-	-
-	-	Depreciation and amortisation		-	-
1 069 781	1 963 122	Repairs & maintenance		769 907	1 082 896
275 320	1 165 171	Finance costs	**25**	190 933	200 949
-	735 000	Conditional grants expensed		9 266 134	3 761 456
-	-	Conditional grants paid - capital		-	-
5 238 072	8 664 134	General expenses- other		6 453 249	9 937 937
-	-	Indigent subsidy		771 542	-
19 447 828	**27 106 630**	**Total Expenditure**		**33 384 260**	**41 034 855**
(1)	**-**	**OPERATING SURPLUS/ (DEFICIT)**		**110 442**	**(6 674 920)**
		Investment income			
-	-	Gain/(loss) on disposal of assets		-	27 286
(1)	**-**	**SURPLUS/(DEFICIT) FOR THE YEAR**		**110 442**	**(6 647 634)**

Refer to Appendix E (1) for explanation of variances

INKWANCA MUNICIPALITY
STATEMENT OF CHANGE IN NET ASSETS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

	Accumulated surplus	Revaluation reserve	Total	Disclosure required by GRAP 1
Balance at 30 June 2008	663 558	0	663 558	*Par 111 (b)*
Surplus/(Deficit) for the year	(6 674 920)		(6 674 920)	*Par 110 (a)*
Change in accounting policy	(796 639)	0	-796 639	*Par 111 (c)*
Prior year adjustments	(1 587 065)		(1 587 065)	*Par 111 (c)*
Reversal of depreciation				*Par 110 (b)*
Revaluation of land and buildings				*Par 111 (b)*
Balance at 30 June 2009	(8 395 066)	0	(8 395 066)	
Balance at 30 June 2009	(8 395 066)	0	(8 395 066)	*Par 111 (b)*
Surplus/(Deficit) for the year	110 442		110 442	*Par 110 (a)*
Contributions to fixed assets	-	0	0	*Par 111 (c)*
Prior year adjustments	-	-	-	*Par 111 (c)*
Reversal of depreciation	-		-	*Par 110 (b)*
Revaluation of land and buildings				*Par 111 (b)*
Balance at 30 June 2010	(8 284 624)	0	(8 284 624)	

INKWANCA MUNICIPALITY
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2010

	2010	2009
Cash flow from operating activities		
Cash received from consumers, government and other	31 276 149	25 877 017
Cash paid to suppliers and employees	30 127 100	16 928 376
Cash generated from operating activities	1 149 049	8 948 641
Change in Opening balance GRAP Conversion	422 590	
Interest received	1 986 198	2 083 710
Interest paid	-25 814	-189 446
Net cash flow from operating activities	3 532 023	10 842 905
Cash flow from investing activities		
Additions to property, plant and equipment	-263 267	-82 296
Proceeds on disposal of property, plant and equipment	0	685 081
Decrease in assets	-3 117 894	-11 024 385
Additions to investment property	0	
Increase in investments	-956	-2 232
Increase in non-current receivables	0	
Decrease in call investment deposits		
Net cash flow from investing activities	-3 382 117	-10 423 832
Cash flow from financing activities		
Non-current liabilities raised	144 083	
Decrease in short-term loans	0	
Net cash flow from financing activities	144 083	
Net cash flows for the year	293 989	419 073
Cash and cash equivalents beginning of year	21 381	-275 590
Cash and cash equivalents end of year	315 371	143 483

1. BASIS OF ACCOUNTING

1.1 BASIS OF PRESENTATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention, unless specified otherwise.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below and there are no comparatives for this set of financial statements.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

1.2 SIGNIFICANT JUDGEMENTS

In the process of applying the municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions to amounts recognised in the financial statements:

Property, plant and equipment

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Infrastructure assets

The identification of the electricity infrastructure assets will in future be based upon assumptions and professional judgement applied by consulting engineers using best engineering practice and industry norms and standards.
Engineering best practice and accepted norms will be used to determine the size of bulk, reticulation and other infrastructure. For infrastructure where the condition is unknown, the remaining useful life is assumed to be the worst case scenario. Where the condition of the infrastructure is known, the remaining useful life will be a percentage of its useful life.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This will be performed per debtor type category.

Electricity and water stock

Electricity is not stock piled and therefore cannot be measured at year end. Water stock at year end is an asset of the Chris Hani District Munisipality and therefore not measured by Inkwanca Municipality although being under the control of the municipality.

Held-to-maturity financial assets

Management has reviewed the held-to-maturity financial assets in light of its capital management and liquidity requirements and has confirmed the positive intention and ability to hold these assets to maturity.

Operating lease commitments -Municipality as lessor

The Municipality has not entered into commercial property leases on its investment property portfolio. The municipality has determined that it retains all the significant risks and rewards of ownership of these properties.

Post-employment benefits

The cost of defined benefit plans and other employment medical benefits are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, morality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Provisions and contingent liabilities

Management's judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material.

1.2. PRESENTATION CURRENCY

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

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1, has been provided in an annexure to these financial statements and forms part of the audited annual financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. 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 April 2006
GRAP 21 Impairment of non-cash- generating assets - issued March 2009
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 26 Impairment of cash-generating assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008

These standards are not expected to have a material impact for the municipality.

The municipality has adopted IAS 36 Impairment for impairment testing in conjunction with the tools issued by National Treasury.

2. RESERVES

2.1 REVALUATION RESERVE

The surplus arising from the revaluation of land and buildings is credited to a non-distributable reserve. The re-valued assets are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/ (deficit). On disposal, the net revaluation surplus is transferred to the accumulated surplus/ (deficit) while gains or losses on disposal, based on re-valued amounts, are credited or charged to the Statement of Financial Performance.

The surplus arising from the revaluation of land and buildings is credited directly to equity in the revaluation reserve. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Depreciation on re-valued buildings is charged to surplus or deficit. On the subsequent sale or retirement of a re-valued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to accumulated surplus/(deficit).

3. PROPERTY, PLANT AND EQUIPMENT

3.1 INITIAL RECOGNITION

Property, plant and equipment is stated at cost, less accumulated depreciation except for land and buildings, which have been re-valued as indicated below.

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

The cost of an item of property, plant and equipment 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.

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 asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amounts of the asset(s) given up.

The municipality has elected to apply the transitional provision as contained in Directive 4 and 7 issued by the ASB. on investment property.

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

3.3 SUBSEQUENT MEASUREMENT - REVALUATION MODEL (LAND AND BUILDINGS)

Land and buildings are carried at the re-valued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation . Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date. Land and buildings are re-valued every 3-5 years.

An increase in an asset's carrying amount, as a result of a revaluation, is credited directly to equity in the revaluation reserve. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to equity in the revaluation reserve to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

3.4 DEPRECIATION AND IMPAIRMENT

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

All fixed assets, except land and heritage assets, shall be depreciated - or amortised in the case of intangible assets.

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The annual depreciation rates are based on the following estimated asset lives:
As stipulated in the Council's Fixed Asset Management Policy and summarised below:

	Useful life		Useful life
Infrastructure		***Other***	
Roads and	10-30	Buildings	30
Pedestrian	20-30	Specialist vehicles	3-20
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
Community		Bins and containers	5
Improveme	10-30	Specialised plant and	10-15
Recreation	20	Other items of plant	2-5
Security	3-5		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.
Residual values are estimated at 10% of the purchase cost of the asset. The depreciable amount of an asset is determined after deducting the residual value of the asset.

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

Assets are capitalised on the last day of the month of purchase.

Assets under construction are carried at cost. Depreciation of an asset commences when the asset is ready for its intended use.

Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives of the assets.

3.5 DERECOGNITION

Items of Property, Plant and Equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.
The gain or loss arising from the de-recognition of an item of property, plant and equipment is included in the Statement of Financial Performance when the item is derecognised. The gain or loss arising from the de-recognition of an item of property, plant and equipment is determined as the difference between the sales proceeds, if any, and the carrying value of the item.

3.6 INFRASTRUCTURE ASSETS

Electricity assets are recognised at fair value on the date of acquisition and depreciated to their estimated residual values on the straight line basis over their estimated useful lives. A three year implimentation plan for the identification of and valuation of these electricity infrastracture assets has been approved by Council due to the unbundeling of data pertaining to this infrastructure assets.

The implementation plan will assist in the physical identification and condition analysis of all major components of each scheme. The identification of the electricity infrastructure assets is based upon assumptions and professional judgement applied by consulting engineers using best engineering practice and industry norms and standards.

Where a scheme layout or size are unknown, the infrastructure is estimated based on the population demand and settlement layout. Engineering best practice and accepted norms will be used to determine the size of bulk, reticulation and other infrastructure. For infrastructure where the condition is unknown, the remaining useful life is assumed to be the worst case scenario. Where the condition of the infrastructure is known, the remaining useful life will be a percentage of its useful life.

4. INTANGIBLE ASSETS

4.1 INITIAL RECOGNITION

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

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Where an intangible 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.

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.

4.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are carried at cost less any accumulated amortisation.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but is subject to an annual impairment test. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

4.3 AMORTISATION AND IMPAIRMENT

Amortisation is provided to write down the finite intangible assets, on a straight line basis, over their estimated useful lives as follows:

Item	Useful life
Computer software - Application software	10 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset 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.

4.4 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 Financial Performance.

5. INVESTMENT PROPERTY

5.1 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.

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.

5.2 SUBSEQUENT MEASUREMENT - COST MODEL

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less any accumulated depreciation and any accumulated impairment losses.
Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.
The annual depreciation rates are based on the following estimated average asset lives:
Investment property 30 years

6. NON-CURRENT ASSETS HELD FOR SALE

6.1 INITIAL RECOGNITION

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered 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.

6.2 SUBSEQUENT MEASUREMENT

Non-current assets held for sale (or disposal group) are measured at the lower of 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.

7. INVENTORIES

7.1 INITIAL RECOGNITION

Inventories comprise current assets held for sale, 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 manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

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.

7.2 SUBSEQUENT MEASUREMENT

Consumables stores, raw materials, work-in-progress, settlements and finished goods are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. In general, the basis of determining cost is the first-in, first-out 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. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance 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.

7.2.1 Unsold properties and land used for housing are valued at the lower of cost or current replacement cost.
Unsold properties and land used for housing are classified as inventory where there is an intention to develop such land and to sell or transfer it to a third party.

7.2.2 Housing development inventory is measured at cost on the first-in, first-out basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.
The carrying amount of these inventories held for distribution is recognised as an expense when beneficiaries take occupation of the houses.
Housing development funding received is recognised as revenue and expenditure on the Statement of Financial

Performance to the extent that the Municipality has complied with any of the criteria, obligations or conditions of the grant.

8. FINANCIAL INSTRUMENTS

The municipality initially classifies financial instruments, on initial recognition as a financial asset or financial liability in accordance with the substance of the contractual arrangement.

8.1 INITIAL RECOGNITION

Financial assets and financial liabilities are recognised on the entity's Statement of Financial Position when the municipality becomes party to the contractual provisions of the instrument

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the entity intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

8.2 SUBSEQUENT MEASUREMENT

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost . The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

FINANCIAL ASSETS

The municipality classifies its financial assets according to the following categories:
- Financial Assets at Fair Value through Profit or Loss
- Held-to-Maturity Investments
- Loans and Receivables
- Available for Sale

The classification depends on the purpose for which the financial asset is acquired, and is as follows:

- Financial assets at fair value through profit or loss are financial assets that are classified as held for trading, where the municipality has acquired the financial asset principally for the purpose of selling it in the near future. They are subsequently measured at fair value at Statement of Financial Position date. Any fair value adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

- 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. They are subsequently measured at amortised cost, using the effective interest rate method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

- Loans and receivables are financial assets that are created by providing money, goods or services directly to a debtor. They are subsequently measured at amortised cost, using the effective interest method. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

- Available for Sale financial assets that are designated as available for sale, and are subsequently measured at fair value at Statement of Financial Position, except for investments in equity instruments that do not have a quoted market price in an active market and for which fair value cannot be reliably measured, which shall be measured at cost. Any adjustment is recorded in the Statement of Financial Performance in the period in which it arises.

FINANCIAL LIABILITIES

The municipality measures all financial liabilities, including trade and other payables, at amortised cost, using the effective interest rate method. Financial liabilities include borrowings and other non-current liabilities.

8.2.1 INVESTMENTS

Financial assets, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as held-to-maturity and are measured at amortised cost.
Where investments 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.
On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or

credited to the Statement of Financial Performance.

8.2.2 TRADE AND OTHER RECEIVABLES

Trade receivables are categorsied as financial assets; loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest less repayments and impairments.
An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.
Bad debts are written off in the year in which they are identified as irrecoverable, subject to the approval of the necessary dedicated authority.
Impairments are determined by discounting expected future cash flows to their present value.
Amounts receivable within 12 months from the date of reporting are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.
Interest is charged on overdue amounts.

8.2.3 TRADE PAYABLES AND BORROWINGS

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.
Finance costs are accounted for using the effective interest rate method.

8.2.4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand and cash with banks and other short-term highly liquid investments that are readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. Where term deposits exceed three months, it is classified under another class of financial instrument, depending on the nature.
These are initially and subsequently recorded at fair value.

8.2.5 LOANS TO MUNICIPALITIES, MUNICIPAL ENTITIES AND EMPLOYEES

These financial assets are categorsied as loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost.
Amortised cost refers to the initial carrying amount, plus interest less repayments and impairments.

8.2.6 LOANS FROM MUNICIPALITIES AND THE DEVELOPMENT BANK OF SOUTH AFRICA

They are categorised as financial liabilities held at amortised cost and are initially recognised at fair value. Subsequently, these financial liabilities are measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

8.3 DERECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets are derecognised when the rights to receive cash flows from the asset have expired, the right to receive cash flows have been retained but an obligation to pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all the risks and rewards of ownership.

Financial liabilities are derecognised when the associated obligation has been discharged, cancelled or has expired.

9. INVESTMENT IN SUBSIDIARIES

Subsidiaries are all controlled entities over which the municipality has ownership control or effective control to govern the financial and operating policies of such controlled entities so as to benefit from its activities. Controlled entities are fully consolidated from the date on which control is transferred to the Municipality, and are carried at cost.

10. LEASES

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

to ownership.

10.1 FINANCE LEASES - LESSEE

Finance leases are initially recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability.

The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate over the remaining balance of the liability.

Leases are classified as finance leases if the following situations in accordance with paragraphs 12 and 13 of GRAP 13 individually or in combination occur:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the asset even if title is not transferred;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialised nature that only the lessee can use them without major modifications;
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. 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.

10.2 OPERATING LEASES - LESSOR

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

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

Income from leases is disclosed under revenue in the Statement of Financial Performance, on a straight line basis over the term of the lease.

10.3 OPERATING LEASES - LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This asset or liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

11. PROVISIONS

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

- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.

Gains from the expected disposal of assets are not taken into account in measuring a provision.
Provisions are not recognised for future operating losses.

Contingent assets and contingent liabilities are not recognised. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.
Contingencies are disclosed in note 34.

12. EMPLOYMENT BENEFITS

12.1 SHORT-TERM EMPLOYEE BENEFITS

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

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

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

12.2 RETIREMENT BENEFIT PLANS

The municipality provides retirement benefits for its employees and councilors.
Defined Contribution plans are post-employment benefit plans, under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year in which they become payable.

Defined Benefit plans are post-employment plans other than Defined Contribution plans. The Defined Benefit funds, which are administered on a provincial basis are actuarially valued tri-annually by means of projected unit credit method. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year in which they become payable.

12.2.1 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 company's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

12.2.2 DEFINED BENEFIT PLANS

For defined benefit pension and post retirement medical plans, full actuarial valuations are carried out for each financial year using the projected unit credit method.
Actuarial gains and losses, which can arise from differences between the expected and actual outcomes or changes in actuarial assumptions, are recognised immediately in the Statement of financial performance. Any increase in the present value of plan liabilities expected to arise from employee service during the period is charged to operating surplus.
The expected return on plan assets and the expected increase during the period in the present value of plan liabilities are included in investment income and interest expense.

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

The retirement benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation as adjusted for unrecognised past service costs and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

12.2.3 MEDICAL AID: CONTINUED MEMBERS

The municipality provides post retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such a medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the municipality for the remaining 70%.

13. REVENUE RECOGNITION

13.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

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

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

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable services provided in the normal course of business, net of value added tax.

An estimate for revenue is raised for the period between the last meter reading and the financial year end.

13.1.1 SERVICES

Service income is recognised on an invoice basis. Service charges from refuse removal are based on the number of refuse removals on each developed property using the tariffs approved by Council and are levied monthly.

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 are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. The adjustments are recognised as revenue in the invoicing period.

13.1.2 INTEREST

Interest are recognised on a time proportion basis in the Statement of Financial Performance.

13.1.3 RENTALS

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

13.1.4 AGENCY SERVICES

Income from agency services is recognised once such income has been received in accordance with a service level agreement.

13.2 REVENUE FROM NON-EXCHANGE TRANSACTIONS

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 public contributions and donations 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 qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

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.

13.3 GRANTS, TRANSFERS AND DONATIONS

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as set out in Note 14. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional and funds are invested until utilised.
Grants without any conditions attached are recognised as revenue when the asset is recognised.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is the municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

14. CONDITIONAL GRANTS AND RECEIPTS (DEFERRED INCOME)

Government grants are recognised when there is reasonable assurance that:
- the municipality will comply with the conditions attaching to them; and
- the grants will be received.

Government grants are recognised as income over the periods necessary to match them with the related costs that they are intended to compensate.

A government grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Government grants related to assets, including non-monetary grants at fair value, are presented in the Statement of Financial Position by setting up the grant as income or by deducting the grant in arriving at the carrying amount of the asset.
Grants related to income are presented as a credit in the Statement of Financial Performance.

Repayment of a grant related to income is applied first against any un-amortised deferred credit set up in respect of the grant. To the extent that the repayment exceeds any such deferred credit, or where no deferred credit exists, the repayment is recognised immediately as an expense.

Repayment of a grant related to an asset is recorded by increasing the carrying amount of the asset or reducing the income balance by the amount repayable. The cumulative additional depreciation that would have been recognised to date as an expense in the absence of the grant is recognised immediately as an expense.

15. BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established.

Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

16. IMPAIRMENT OF 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.

Irrespective of whether there is any indication of impairment, the municipality also tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

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 or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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 or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

17. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, 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 and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

18. 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 municipality's Supply Chain Management Policy.
Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

19. 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 Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

INKWANCA MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. INFRASTRUCTURE, PROPERTY PLANT AND EQUIPMENT

Reconciliation of Carrying Value	Investment property	Infrastructure	Community	Heritage	Other	Total
	R	R	R	R	R	R
As at 1 July 2008	-	-	-	-	-	(0)
Cost	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Transfer In / (Out)	-	-	-	-	-	-
Accumulated depreciation	0	-	-	-	-	-
Acquisitions	-	-	-	-	-	-
Capital under Construction	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
based on cost				-	-	-
based on revaluation	-	-	-	-	-	-
Carrying value of disposals	-	-	-	-	-	-
Cost/revaluation	-	-	-	-		-
Accumulated depreciation	-	-	-	-		-
Carrying values						
As at 30 June 2009	-	-	-	-	-	-
Cost	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Accumulated depreciation	0	-	-	-	-	-
Cost	0	-	-	-	-	-
Revaluation	-	-	-	-	-	-

Reconciliation of Carrying Value	Investment property	Infrastructure	Community	Heritage	Other	Total
	R	R	R	R	R	R
As at 1 July 2009	-	-	-	-	-	(0)
Cost	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Transfer In / (Out)	-	-	-	-	-	-
Accumulated depreciation	0	-	-	-	-	-
Acquisitions	-	-	-	-	263 267	263 267
Capital under Construction	-	-	-	-	-	-
Increases/decreases in revaluation	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
based on cost				-	-	-
based on revaluation	-	-	-	-	-	-
Carrying value of disposals	-	-	-	-	-	-
Cost/revaluation	-	-	-	-	-	-
Accumulated depreciation	-	-	-	-	-	-
Carrying values						
As at 30 June 2010	-	-	-	-	263 267	263 267
Cost	-	-	-	-	263 267	263 267
Revaluation	-	-	-	-	-	-
Accumulated depreciation	0	-	-	-	-	-
Cost	0	-	-	-	-	-
Revaluation	-	-	-	-	-	-

No restriction on title exists on any assets held.

Amounts reflected for assets in the transitional period have been provisionally determined and not in terms of GRAP standards for measuring assets.
The municipality has engaged the services of consultants to identifiy and value the property plant and equipment assets held on register.
The municipality has a multi-year plan to identify, verify, value and reconcile the infrastructure assets to the fixed asset register in place. This plan is based on the GRAP 17 standards in terms of Directive 4 and therefore valued at zero.
Commencing the 2009/10 financial year, consulting engineers will be appointed to undertake the identification, valuation, verification and condition of these assets.

Revaluations

Included in other assets above are land and buildings that have been valued during 2005/6 with the general valuation of all properties in the jurisdictional area o of Inkwanca Municipality.
Land and buildings are re-valued independently every 3-5 years

Refer to Appendix B for more detail on property, plant and equipmen

2. INVESTMENTS

2.1 Investments

Held to maturity financial assets

The following fixed deposit accounts have been classified as held to maturity financial assets in accordance with IAS 39: Financial Instruments. Maturity periods are fixed and range between 3 - 12 months.

In accordance with the Municipality's risk management policy deposits are only made with major banks with quality credit standing and limits exposure to any one counter party.

			2009/10	2008/09
			R	R
Fixed investment deposits			39 125	38 169
Total: Fixed Investment Deposits			**39 125**	**38 169**
Fixed Investment Deposits				
STANDARD BANK	**Account No**	38850097	4 183	4 121
STANDARD BANK	**Account No**	38850104	1 934	1 864
STANDARD BANK	**Account No**	38850106	4 003	3 858
STANDARD BANK	**Account No**	38850107	3 294	3 175
STANDARD BANK	**Account No**	38850108	3 977	3 833
STANDARD BANK	**Account No**	38850130	2 164	2 086
STANDARD BANK	**Account No**	28066132	7 694	7 580
STANDARD BANK	**Account No**	38850169	2 320	2 236
STANDARD BANK	**Account No**	38850180	1 706	1 680
STANDARD BANK	**Account No**	38850214	1 661	1 636
STANDARD BANK	**Account No**	38850220	1 472	1 450
STANDARD BANK	**Account No**	38850242	4 719	4 649
The value of the financial assets disclosed in the above note have not been disclosed as cash and cash equivalents due to its maturity period of 3 months or more as at Statement of Financial Position date.			**39 125**	**38 169**

3. INVENTORY

Consumable stores: at cost	-	-
Housing projects	-	-
Unsold properties held for resale: settlements 22	-	-
Water - purchased	-	-
Water - own	-	-
Total Inventory	**-**	**-**

Housing Projects
The cost incurred on completed housing units that are occupied by beneficiaries has been transferred to the Statement of Financial Performance.

Unsold properties held for resale: settlements
In accordance with GRAP 12 land owned for housing, selling or other developments have to be transferred from PPE to inventory at the lower of cost and current replacement cost. A project to identify all Council's land and improvements will be undertaken in the following financial year.

The consumable stock were not determined at year end as a result of the process of returning unutilised stock to the stores were not undertaken.

4. TRADE AND OTHER RECEIVABLES

	2009/10	2008/09
	R	R
Rates Debtors	**1 813 213**	**1 449 317**
- Rates	9 066 063	7 246 586
Less: Impairment of doubtful debts	(7 252 850)	(5 797 269)
Service Debtors	**79 876**	**211 417**
- Electricity	1 166 450	776 550
- Water	8 591 620	7 296 207
- Sanitation	11 040 906	8 759 745
- Refuse Removal	6 647 383	5 539 077
- Sundry Debtors	403 760	393 469
- Interest on arrears component	15 267 977	10 682 330
	43 118 095	**33 447 378**
Less: Impairment of doubtful debts	(43 038 219)	(33 235 961)
Total consumer receivables	**1 893 089**	**1 660 734**

The ageing of debtors are as follows:-	2009/10 R	2008/09 R
Rates and Service Debtors: aging		
Current (0 - 30 days)	5 079 518	1 833 143
30 - 90 Days	1 363 108	615 974
90 - 120 Days	1 262 377	651 859
120 - 180 Days	2 391 282	719 249
+180 Days	45 575 321	36 873 739
Total	**55 671 606**	**40 693 964**

Summary of Debtors by Customer Classification	**Total**	**Domestic**	**Industrial / Commercial**	**Indigent**	**National and Provincial Government**
30 June 2009	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Current (0 – 30 days)	105 204	-	33 143		72 061
30 - 90 Days	9 727 522	9 727 522	-		-
90 - 120 Days	19 917 396	19 917 396	-		-
120 - 180 Days	10 388 404	10 278 931	60 536		48 937
180+ Days	555 438	555 438	-		-
Sub-total	**40 693 964**	**40 479 287**	**93 679**	**-**	**120 998**
Less: Impairment of doubtful receivables	(39 033 230)	(39 033 230)	-		-
Total debtors by customer classification	**1 660 734**	**1 446 057**	**93 679**		**120 998**

Summary of Debtors by Customer Classification	Total	**Domestic**	**Industrial / Commercial**	**Indigent**	**National and Provincial Government**
30 June 2010	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Current (0 – 30 days)	5 079 518	4 800 098	107 308	78 109	94 003
30 - 90 Days	1 363 108	1 267 389	28 993	43 544	23 182
90 - 120 Days	1 262 377	1 186 087	16 338	41 972	17 980
120 - 180 Days	2 391 282	1 897 316	72 864	362 781	58 321
180+ Days	45 575 322	44 197 121	190 089	1 068 202	119 910
Sub-total	**55 671 606**	**53 348 010**	**415 592**	**1 594 608**	**313 396**
Less: Impairment of doubtful receivables	-53 778 517	-51 920 956	-262 953	-1 594 608	-
Total debtors by customer classification	**1 893 089**	**1 427 054**	**152 639**	**-**	**313 396**

	2009/10 **R**	**2008/09** **R**
Reconcilaition of Doubtful Debt Allowance		

The municipality's trade receivables are stated after impairment of doubtful receivables based on management's assessment of the the debtors' creditworthiness. An analysis of the allowance is as follows:

Balance at beginning of the year	39 033 231	24 763 700
Contributions to allowance	11 257 838	14 269 531
Doubtful debts written off against impairment	-	-
Reversal of impairment	-	-
Balance at end of year	**50 291 069**	**39 033 231**

An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired.
The tool for the provision of doubtful debts issued by National Treasury was used to assist in calculating the provision.

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 1 month past due are not considered to be impaired.
At 30 June 2010, R2 417 241 (2009: R 214 677) were past due but not impaired.
The ageing of amounts past due but not impaired is as follows:

1 month past due	-	105 204
2 months past due	-	72 061
3 months past due	2 417 241	37 412

The fair value of trade and other receivables approximates their carrying amounts.

5. VAT RECEIVABLE	**2009/10 R**	**2008/09 R**
Vat receivable	397 477	(582 440)
	397 477	**(582 440)**

VAT is paid over to SARS only once payment is received from debtors.

6. CASH AND CASH EQUIVALENTS	**2009/10 R**	**2008/09 R**
The cash position at financial year end was made up of the following:		
STANDARD BANK		
Current Account - Primary Account Number-28067083	522	8 331
Current Account - Community Garden Account Number-280661258	1 069	86
Current Account - CMIP Account Number-280661541	8 187	7 459
Current Account - NATIS Account Number-280660332	163 169	5 505
Total Cash Reserves	**172 947**	**21 381**

INKWANCA BANK ACCOUNT INFORMATION

CURRENT ACCOUNTS TOTAL		**142 424**	**(164 864)**
STANDARD BANK	*Closing Balance*	**142 424**	**(164 864)**
	Opening Balance	(164 864)	-
280661061			
Molteno			

7. LONG TERM LOAN: CHDM	**2009/10 R**	**2008/09 R**
The loans to the municipality represents loans from Chris Hani District Municipality.	2 069 011	2 069 011
The loan currently does not attract interest.	**2 069 011**	**2 069 011**
Non current portion	2 069 011	2 069 011
Current portion	-	-
	2 069 011	**2 069 011**

8. FINANCE LEASE OBLIGATION	**2009/10 R**	**2008/09 R**
Minimum lease payments due		
-within one year	109 166	193 496
-in second to fifth year inclusive	120 021	228 343
-later than five years	-	-
	229 187	421 839
less: future finance charges	(28 033)	(59 778)
Present value of minimum lease payments	**201 154**	**362 061**
Present value of minimum lease payments due		
-within one year	109 166	193 496
-in second to fifth year inclusive	91 988	168 565
-later than five years	-	-
	201 154	**362 061**
Non current liabilities	91 988	205 807
Current liabilities	109 166	156 254
	201 154	**362 061**

It is the municipality's policy to lease certain equipment under finance leases.

The average lease term was 5 years.

All leases have fixed repayment terms with no annual escalation rate, but varies with the changes in the prime interest rate.
No arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

9. POST EMPLOYMENT BENEFIT INFORMATION

Retirement benefit information

The Post Employment Health Care Benefit plan, of which the membrs are made up as follows:

- In-service (employee) members	56		
- Continuation (retiree, widow/er and orphan) members	6		
Total	62	**2009/10**	**2008/09**
		R	**R**
The liability in respect of past service has been estimated to be as follows:			
- In-service members	6=R8285.40*12	106 909	99 425
- Continuation members	56=R44272.20*12	571 254	531 266
Total		**678 163**	**630 691**

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

- Bonitas
- LAMAF/Discovery
- Samwumed

On retirement of an employee Council has post retirement obligation to contribute 70% to the medical cost of the employee.

The future service cost for the ensuing year is estimated to be R 665 286 whereas the interest cost for the next year is estimated to be R 701 778

The contributions made by Council in respect of the above defined benefit funds have been expensed. No plan asset or liability was recognised.
The municipality has accepted the exemption provided by Government Gazette 30013 dated 29 June 2007 which states that defined benefit plans can be accounted for as if they were defined contribution plans.

10. CONSUMER DEPOSITS	**2009/10** **R**	**2008/09** **R**
Consumer deposits	(177 669)	(161 312)
	(177 669)	**(161 312)**

The consumer deposits relate to the electricity and water function.

11. TRADE AND OTHER PAYABLES	**2009/10** **R**	**2008/09** **R**
Trade payables	(6 383 065)	(3 364 043)
Other payables	(291 151)	-
Amounts received in advance:	(416 648)	(362 456)
Accrued leave pay	-	-
Accrued performance bonus	-	-
Accrued service bonus	-	-
Equitable Share Projects	-	-
Total	**(7 090 864)**	**(3 726 499)**

The movement on the leave accrual balance as above for the 2010 financial year was as follows:

11.1 Staff Leave Pay		
Opening Balance	(539 858)	(608 041)
Plus: Contributions during the year	(97 653)	-
Leave sold during the year		68 183
Total leave accrual	**(637 511)**	**(539 858)**
Non current portion of leave accrual	(637 511)	(535 178)
Current portion of leave accrual	0	(4 680)
	(637 511)	**(539 858)**

The municipality makes provision for staff leave pay based upon the basic salary scale for 2009/10.
The short term portion of the provision is based on the number of accrued days versus the number of days sold.

12. GOVERNMENT GRANTS AND SUBSIDIES	**2009/10** **R**	**2008/09** **R**
Equitable share	10 925 696	8 237 674
Conditional Grants: Conditions met - transferred to revenue	2 346 849	-
Release of deferred income	-	-
Total Government Grant and Subsidies	**13 272 545**	**8 237 674**

Based on the allocations set out in the Division of Revenue Act. Act 1 of 2005 significant changes in the level of government grant funding have materialised.

INKWANCA MUNICIPALITY
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12.1 Equitable Share

This grant is used to subsidise the following functions:

Refuse Removal	3 281 395
Electricity	5 226 398
Institutional Grant	1 972 018
Council Support	505 446

The Municipality renders water and sanitation services on behalf of the Chris Hani District Municipality and is refunded 100% of the total expenditure incurred. A service leval agreement was signed on 13 October 2009 although the services are rendered since 2005/2006 financial year. Subsidy was only paid for water services that was rendered. The municipality is currently in negotiations with CHDM pertaining to the subsidy and services rendered on their behalf.

	2009/10 R	2008/09 R
12.2 Conditional Grants		
Balance unspent at beginning of year	2 509 305	-
Error Correction	-	496 531
Current year receipts	10 190 814	7 782 075
Interest Received	-	-
Less: Expenditure	(9 266 133)	(5 769 301)
Condition still to be met-transferred to liabilities	**3 433 986**	**2 509 305**
Refer to Annexure 1		
13. OTHER INCOME		
Other income	506 694	587 257
Administration fees	-	-
Total Other Income	**506 694**	**587 257**
18. EMPLOYEE RELATED COSTS PER THE PAYROLL		
Employee related costs- Salaries and Wages	8 252 798	7 654 874
Employee related costs- Contribution for UIF, pensions and medical aid.	1 369 896	1 500 655
Travel, motor car, accommodation, subsistence and other allowances	651 984	899 407
Housing benefits and allowances	-	-
Overtime payments	25 474	38 031
Bonus	587 540	557 661
Other benefits/allowances	95 872	46 920
Total Employee Related Costs	**10 983 564**	**10 697 547**
Defined Benefit Plan (Post employment medical aid) Expense	**-**	**-**
- current service cost	-	-
- interest cost	-	-
Remuneration of the Municipal Manager		
Annual Remuneration	355 377	316 150
Performance Bonus	29 912	26 346
Leave Encashment	-	0
Acting Allowance	-	-
Cell Phone Allowance	6 000	-
Travel Allowance	132 769	145 431
Back Pay of Remuneration	2 915	15 592
Contributions to UIF, Medical and Pension Funds	50 565	0
TOTAL	**577 538**	**503 519**
Remuneration of the Chief Finance Officer		
Annual Remuneration	332 569	202 437
Performance Bonuses	27 887	28 385
Leave Encashment	-	0
Acting Allowance	-	-
Cell Phone Allowance	6 000	6 000
Travel Allowance	-	90 000
Back Pay of Remuneration	2 075	0
Contributions to UIF, Medical and Pension Funds	1 497	0
Total	**370 028**	**326 822**
Remuneration of the Manager: Corporate Services		
Annual Remuneration	254 610	156 750
Performance Bonuses	20 800	3 669
Leave Encashment	-	-
Acting Allowance	-	-
Cell Phone Allowance	6 000	5 000
Travel Allowance	84 455	90 000
Back Pay of Remuneration	2 666	-
Contributions to UIF, Medical and Pension Fund	1 497	-
Total	**370 028**	**255 419**

	2009/10	2008/09
	R	R
Remuneration of the Manager: Technical Services		
Annual Remuneration	332 569	202 437
Performance Bonuses	27 887	38 475
Leave Encashment	0	0
Acting Allowance	-	-
Cell Phone Allowance	6 000	6 000
Travel Allowance	0	90 000
Back Pay of Remuneration	2 075	0
Contributions to UIF, Medical and Pension Fund	1 497	0
Total	**370 028**	**336 912**

	2009/10	2008/09
Remuneration of the Manager: Community Services	R	R
Annual Remuneration	254 610	156 750
Performance Bonuses	20 800	0
Leave Encashment	-	0
Acting Allowance	-	-
Cell Phone Allowance	6 000	5 000
Travel Allowance	84 455	90 000
Back Pay of Remuneration	2 666	0
Contributions to UIF, Medical and Pension Fund	1 497	0
Total	**370 028**	**251 750**

19. REMUNERATION OF COUNCILLORS	2009/10	2008/09
	R	R
Councillors	1 124 729	997 331
Councillors pension & UIF contribution	110 421	87 207
Total Councillors` Remuneration	**1 235 150**	**1 084 538**

The salaries, allowances and benefits of the political office-bearers are within the upper limits of the framework as prescribed by section 219 of the Constitution.

	2009/10	2008/09
20. PAYE AND UIF	R	R
Opening balance	208 614	-
Current year payroll deductions	0	759 112
Amount paid-current year	-	(550 498)
Amount paid-previous year	(146 860)	-
Total	**208 614**	**208 614**

21. PENSION AND MEDICAL AID DEDUCTIONS		
Opening balances	410 920	-
Current year payroll deductions and Council Contributions	0	2 356 473
Amount paid-current year	-	(1 945 553)
Amount paid-previous year	(466 879)	-
Total	**(55 959)**	**410 920**

The pension fund contributions disclosed above includes contributions to the defined benefit and defined contribution funds. Refer note 15.

22. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

22.1 Unauthorised expenditure

Reconciliation of unauthorized expenditure		
Opening balance		
Unauthorised expenditure current year	37 200	18 790 979
Approved by Council or condoned	-	-
Transfer to receivables for recovery	-	-
Unauthorised expenditure awaiting authorisation	-	-
	37 200	**18 790 979**

22.2 Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure		
Opening balance		
Fruitless and wasteful expenditure current year	97 767	411 666
Condoned or written off by Council	-	-
To be recovered- contingent asset	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	97 767	**411 666**

22.3 Irregular expenditure

Reconciliation of irregular expenditure		
Opening balance		
Irregular expenditure current year		414 363
Condoned or written off by Council		-
Transfer to receivables for recovery- not yet condoned	-	-
Irregular expenditure awaiting condonement	-	-

	-	**414 363**

23. INTEREST EARNED - EXTERNAL INVESTMENTS	**2009/10 R**	**2008/09 R**
Interest revenue		
Unlisted financial assets held to maturity	956	1 876
Cash and cash equivalents		-
	956	**1 876**

24. INTEREST EARNED - OUTSTANDING RECEIVABLES		
		-
Services Debtors	1 986 198	2 083 710
Loans receivable	-	-
	1 986 198	**2 083 710**

25. FINANCE COSTS		
Finance leases	190 933	200 949
External borrowings	-	-
	190 933	**200 949**

26. AUDIT FEES PAID		
Fees	-	-
	-	**-**

27. COMMITMENTS

Authorised capital expenditure		
- Approved and contracted for	**-**	**-**
Infrastructure		-
Community	-	-
Heritage	-	-
Other	-	-
Investment Properties	-	-
- Approved but not yet contracted for	**-**	**-**
Infrastructure		-
Community		-
Heritage	-	-
Other	-	-
Investment Properties	-	-
Total	**-**	**-**

This expenditure will be financed from:		
- External Loans		-
- District Council Grants		-
- Own resources		-
Total	**-**	**-**

27.1 Operating leases

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

Operating leases - as lessee (expense)

Minimum lease payments due		
-within one year	94 390	75 341
-in second to fifth year inclusive	64 186	64 034
-later than five years		-
	158 576	**139 375**

Operating lease payments represent rentals payable by the municipality for certain of its office properties and office equipment.
Leases are negotiated for an average term of 3 years and rentals escalate on average at 10% p.a.
No contingent rent is payable.

Operating leases – as lessor (income)

Minimum lease payments due		
-within one year	-	-
-in second to fifth year inclusive	-	-
-later than five years	-	-
	-	**-**

Operating lease payments represent rentals receivable by the Municipality for certain of its properties situated

Leases are negotiated for an average of 4 years and rentals escalate by an average of 12% annually.

	2009/10	2008/09
	R	R
27.1 CONTINGENT LIABILITIES		
The following contingent liabilities have been disclosed and not recognised:		
Consumer debtors - Advance payments	(416 648)	(362 456)
Consumer debtors - Deposits	(177 669)	(161 312)
	(594 317)	**(523 768)**

27.2 CONTINGENT ASSET

The following contingent asset has been disclosed and not recognised:

28. Change in accounting policy

Property plant and equipment - Infrastructure assets

On 1 July 2006 the municipality transferred responsibility for the provision of water and sanitation services as required by Government Notice 849 issued in terms of section 84(3)(a) of the Municipal Structures Act, 1998 (Act No. 117 of 1998). to Chris Hani District Municipality.
The Council accepted Directive 4 for the treatment of Infrastructure Assets as well as PPE therefore all depreciation during previous years were written back.

The correction of the errors resulted in adjustments as follows:	2009/10	2008/09
	R	R
GAMAP conversion		
Adjustment against opening accumulated surplus 30 June 2009	-	(422 590)
Assets obtained during 2009 written off during 2010		
Statement of financial position		
Decrease in assets	-	64 592 235
Decrease in reserve funds		(3 207 403)
Statement of financial position		
Decrease in accumulated depreciation	-	(60 984 704)
Increase in PPE assets	-	

Investment Property

Statement of financial position

Increase in investment property

Decrease in property plant and equipment - other

39. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified.

Property plant and equipment

The comparative figures for PPE have been restated as zero in terms of directive 4.
Refer note 1 for the effect on the statement of financial position.

29. FINANCIAL INSTRUMENTS

Categories fo financial instruments

2010 Financial Year

	Loans and receivables	Financial assets liabilities	Held to Maturity Investments	Investments at cost	Total
Non Current Assets					
Investment in Subsidiary				-	-
Long term receivables	-				-
Current Assets					
Trade and other receivables	-	1 893 089			1 893 089
Investments			39 125		39 125
Cash and cash equivalents	315 371				
Short term portion of long term debt	-				
Non Current Liabilities					
Long Term loan: CHDM		2 069 011			2 069 011
Finance lease liability		201 154			201 154
					-

Current liabilities					-
Trade and other payables		(7 090 864)			(7 090 864)
Short term portion		-			-

2009 Financial Year

	Loans and receivables	Financial assets & liabilities	Held to Maturity Investments	Investments at cost	Total
Non Current Assets					
Investment in Subsidiary				-	-
Long term receivables	-				-
Current Assets					
Trade and other receivables	-	1 660 734			1 660 734
Investments			38 169		38 169
Cash and cash equivalents	(143 483)				
Non Current Liabilities					
Long Term loan: CHDM		2 069 011			2 069 011
Finance lease liability		362 061			362 061
Current liabilities					
Trade and other payables		(3 726 499)			(3 726 499)
Short term portion		-			-

30. RISK MANAGEMENT

30.1. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has adopted a policy of only dealing with creditworthy parties.

The municipality only transacts with entities that have an appropriate credit rating. This information is supplied by independent rating agencies where available, if not available, the entity uses other publicly available financial information and its own trading records to rate its major customers. The muncipality's exposure and the credit ratings of its customers are continuously monitored.

Financial assets, that potentially subject the municipality to credit risk, consist principally of cash and cash equivalents, short-term deposits, loans and receivables, investments and trade and other receivables.
Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.
Credit exposure is controlled by the application of the municiplaity's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

To manage credit risk in borrowing and investing, the municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions and by spreading its exposure over a range of such institutions in accordance with its investment policies.

Maximum exposure to credit risk

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 credit risk relating to employee loans (car loans) is low as they are related to the entity.

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 without taking into account the value of any collateral obtained:

	2009/10 R	2008/09 R
Standard Bank	-	
Investments	39 125	38 169
Trade receivables	1 893 089	1 660 734
Other receivables	-	-
Long term debtors	-	-
	1 932 214	**1 698 903**

The municipality is exposed to the following guarantees:

Guarantees in lieu of Eskom and the Post office	-	-
	-	**-**

Credit quality

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

	2010	2009	
A	0%	0%	Government Accounts
B	63%	0%	Businesses
C	97%	96%	Domestic % other

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.

Age analysis of financial assets that are past due but not impaired:

	1 - 30 days past due	31 - 60 days past due	61 - 90 days past due	91 - 120 days past due	Total
2010					
Trade receivables	-	-	-	2 417 241	2 417 241
2009					
Trade receivables	-	105 204	72 061	37 412	214 677

Impaired financial assets

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

30.1.2 Market risk management

The municipality's activities expose it primarily to the risks of fluctuations in interest rate.

Interest rate risk refers to the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Market risk exposures are measured using sensitivity analysis. A sensitivity analysis shows how surplus and/or net assets would have been affected by changes in the relevant risk variable that were reasonably possible at the reporting date.

30.2.1 Interest rate risk management

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.

Investments at fixed interest rates.

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

Loans granted linked to a fixed rate of interest.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 3.

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

DBSA loans linked to a fixed rate of interest.

Interest bearing external interest loans are detailed in Appendix A and note 11.

Finance leases linked to South African prime rate.

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

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date.

For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

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

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

	2010	2009
The estimated increase rates		
The estimated increase in basis points	0	0
Effect on Net Surplus	-	-

30.3 Liquidity risk management

Liquidity risk is the risk that the municipality will not be able to meet its financial obligations as they fall due.
The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.
Cash flow forecasts and budgets are prepared and adequate utilised borrowing facilities are monitored.

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of Financial Position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows of financial liabilities.

2010	1-3 months	4-6 months	7-9 months	10-12 months	Later than 12 months	Total
Trade and other payables	1 899 383	92903	0	2 455 866	0	4 448 152
Other	0	0	0	0	-	-

2009	1-3 months	4-6 months	7-9 months	10-12 months	Later than 12 months	Total
Trade and other payables	-	**0**	0	-	0	-
Other	0	0	0	0	-	-

2010	0-1 year	1 - 2 years	2 - 5 years	5 years and late	Total
Finance lease liability	-	109 166	120 021	-	229 187
Borrowings	-	2 069 011	-	-	2 069 011

2009	0-1 year	1 - 2 years	2 - 5 years	5 years and late	Total
Finance lease liability	-	-	-	-	-
Borrowings	-	2 069 011	-	-	2 069 011

31. NON-COMPLIANCE WITH SECTION 71(1) AND 54(1)(a) OF THE MUNICIPAL FINANCE MANAGEMENT ACT
The monthly budget statements were not always submitted within 10 working days after month end to the Mayor. The monthly statements were submitted to the Provincial Treasury, but uncertainty surrounds compliance with the submission date.

32. NON-COMPLIANCE WITH SECTION 6(2)(a) AND 17(2) OF THE MUNICIPAL SUPPLY CHAIN MANAGEMENT REGULATIONS
The Municipality failed to submit a report, to Council, on the implementation of the supply chain management policy within 30 days of the financial year end
In addition reports on awards made based on less than three quotations were not submitted within three days of the end of each month

33. EVENTS AFTER THE REPORTING DATE AS AT 30 JUNE 2010

No events subsequent events have been identified subsequent to reporting date

34. COMPARISON WITH THE BUDGET

The comparison of the Municipality's actual financial performance with that budgeted is set out in Appendix E(1)

IMFO/GRAP BUDGET 2009/2010

ACCOUNT NAME	ACCOUNT NUMBER	BUDGETED EXPENSE GRAP		BUDGETED EXPENSE IMFO	
Personnel Expenditure		*2 009*	*2 010*	*2 009*	*2 010*
Salaries	1	*0*		*9 464 003*	*10 404 398*
Medical Aid contr.	5	*0*	*0*	*520 549*	*553 325*
Pension cont.	6	*0*	*0*	*1 182 403*	*1 410 494*
UIF cont.	7	***0***	*0*	*84 081*	*94 235*
Industrial council cont.	9	*0*	*0*	*3 874*	*5 382*
Annual bonus	10	*0*	*0*	*565 383*	*755 552*
Telephone allowance	12	*0*	*0*	*107 979*	*56 760*
Overtime	13	*0*	*0*	*21 455*	*125 600*
Transport allowance	14	*0*	*0*	*914 928*	*550 342*
Total Personnel Expenditure		*0*	*0*	***12 864 655***	***13 956 088***
Employee related costs		11309049	12855997		
Remuneration of Councillors		1555606	1100091		
		12 864 655	**13 956 088**		

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General Expenditure					
Administration charges	24	*0*	*0*	*25 100*	*31 000*
Advertisements	28	*0*	*0*	*12 100*	*25 000*
Mayor's fund	33	*0*	*0*	*300 000*	*250 000*
Bank charges	46	*0*	*0*	*102 034*	*108 156*
Donations & charges	73	*0*	*0*	*10 000*	*20 000*
Printing & stationery	82	*0*	*0*	*90 776*	*147 223*
Electrisity Purchases	86	*0*	*0*	*2 806 115*	*3 641 602*
Tools & accessories	91	*0*	*0*	*34 334*	*64 100*
Rent Office equipment	119	*0*	*0*	*75 000*	*85 600*
Congress fees	133	*0*	*0*	*5 000*	*10 000*
Membership fees	142	*0*	*0*	*50 000*	*50 000*
Licence fees	146	*0*	*0*	*6 390*	*6 860*
Workmans compensation	162	*0*	*0*	*40 000*	*200 000*
Bad debts	166	*0*	*0*	*0*	*623 115*
Consumables	174	*0*	*0*	*5 000*	*0*
Training	178	*0*	*0*	*61 900*	*225 000*
Audit fees	182	*0*	*0*	*0*	*250 000*
Postage	186	*0*	*0*	*12 233*	*20 000*
Professional services	190	*0*	*0*	*0*	*50 000*
Legal costs	194	*0*	*0*	*0*	*20 000*
Subsistance & travelling	198	*0*	*0*	*205 153*	*248 250*
Computer costs	202	*0*	*0*	*40 000*	*70 000*
Interest other	206	*0*	*0*	*4 392*	*4 656*
Interest bank overdraft	210	*0*	*0*	*69 417*	*75 000*
Security	215	*0*	*0*	*20 000*	*45 000*
Cleaning material	218	*0*	*0*	*30 855*	*200 000*
MSIG grant	222	*0*	*0*	*0*	*735 000*
Skills development levy	223	*0*	*0*	*79 555*	*65 000*
Telephone charges	226	*0*	*0*	*224 225*	*255 000*
Equipment fuel & oil	234	*0*	*0*	*0*	*3 000*
Uniforms/protective clothing	238	*0*	*0*	*40 000*	*175 000*
Insurance external	254	*0*	*0*	*181 611*	*184 364*
Refreshments	262	*0*	*0*	*5 000*	*15 000*
Transport costs	268	*0*	*0*	*4 000*	*4 280*
Vehicle fuel & oil	276	*0*	*0*	*429 725*	*493 348*
Refuse bags	288	*0*	*0*	*0*	*35 000*
Water purchases	292	*0*	*0*	*48 923*	*655 000*
Water purification	296	*0*	*0*	*219 234*	*450 000*
				5 238 072	*9 540 554*
Bad Debt provision		0	623 115		
Conditional grants paid		0	735 000		
General expenses- other		*5 238 072*	8 182 439		
		5 238 072	9 540 554		
Repairs & Maintenance					
Cemetary	298	*0*	0	*0*	*85000*
Parks	301	*0*	0	*26626*	*35000*
Electricity	302	*0*	0	*20000*	*65000*
Buildings	304	*0*	0	*120623*	*258285*
Tools & equipment	306	*0*	0	*193969*	*345400*
Furniture & equipment	308	*0*	0	*13500*	*25000*
Fencing	310	*0*	0	*73600*	*90000*
Spoprtfields	312	*0*	0	*5000*	*10000*
Stormwater	314	*0*	0	*250000*	*200000*
Sanitation	315	*0*	0	*48579*	*227332*
Streetlights	317	*0*	0	*15000*	*12000*
Streets	318	*0*	0	*204041*	*200000*
Vehicles & Implements	320	*0*	0	*98843*	*165000*
Water reticulation	322	*0*	0	*0*	*245105*
				1069781	*1963122*
Repairs & Maintenance		1 069 781	1963122		
Capital expenditure ex revenue					
Vehicles	341	0	0	*253775*	*349776*
Tools & Equipment	344	0	0	*21545*	*800395*
Furniture & equipment	348	0	0	*0*	*15000*
				275320	*1165171*
Finance costs		275320	1165171		
Contribution to funds					
Disaster fund	355	0	0	*0*	*75000*
Leave reserve fund	363	0	0	*0*	*406696*
				0	*481696*
General expenses		0	481696		
Revenue					
Cemetary fees	416	0	0	*85000*	*95000*
Fines	426	0	0	*100000*	*120000*
Motor registration Comm.	441	0	0	*0*	*95000*
Sundry income	451	0	0	*0*	*1000*
Assesment rates	456	0	0	*2749677*	*2262341*
Electricity connection fees	466	0	0	*64200*	*95000*
Electricity sales	471	0	0	*2530877*	*3693246*
Rent buildings	496	0	0	*70800*	*105163*
Rent halls	511	0	0	*25000*	*30000*
MSIG grant	526	0	0	*0*	*735000*
Equitable share	531	0	0	*8237674*	*10639000*

INKWANCA MUNICIPALITY
NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

WSSP	532	0	0	*3345994*	*7175000*
FMG grant	533	0	0	*500000*	*1750000*
Commission on collections	551	0	0	*10000*	*10600*
Sewerage blockages	596	0	0	*38984*	*46000*
Sanitation fees	601	0	0	*753773*	*0*
Pound fees	606	0	0	*4000*	*4280*
Refuse removal	645	0	0	*299348*	*250000*
Water sales	649	0	0	*632500*	*0*
				19447827	*27106630*

Service charges	4216498	3943246
Income from Assesment rates	2749677	2262341
Government grants & subsidies	11583668	17814000
Other income	397984	602043
Interest earned - external investments	0	0
Interest earned - outstanding receivables	0	0
Conditional grants received	500000	2485000
Fair value adjustment - Leave reseve	0	0
	19447827	27106630

APPENDIX B

INKWANCA MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT

AS AT 30 JUNE 2010

Classification	Cost/Revaluation							Accumulated Depreciatio						
	Opening Balance	Transfer In / (Out)	New Opening Balance	Additions	Revalue	Disposals	Closing Balance	Opening Balance	Transfer In / (Out)	New Opening Balance	Additions	Disposals	Closing Balance	Carrying Value
INFRASTRUCTURE	**18 768 722**	**-**	**18 768 722**	**-**	**-**	**-**	**18 768 722**	**18 046 888**	**(18 046 888)**	**-**	**-**	**-**	**-**	**18 768 722**
Roads:	***10 061 993***	-	***10 061 993***	-	-	-	***10 061 993***	***9 474 616***	(9 474 616)	**-**	-	-	**-**	***10 061 993***
Streets & Stormwater	10 061 993	-	10 061 993	-	0	0	10 061 993	9 474 616	(9 474 616)	-	-	-	-	10 061 993
Water	**-**	**-**	**-**	-	-	-	**-**	**-**	-	**-**	**-**	-	**-**	**-**
Reservoirs & Tanks														
Supply / Reticulation	-	-	-				-	-	-	-	-		-	-
Water - Other														
Water Mains														
Meters										-				
Sanitation	**-**	**-**	**-**	-	-	-	**-**	**-**	-	**-**	**-**	-	**-**	**-**
Purification works	-	-	-				-	-	-	-	-		-	-
Electricity	***8 706 729***	-	***8 706 729***				***8 706 729***	8 572 272	(8 572 272)	**-**	-		**-**	**8 706 729**
Work in Progress														
Infrastructure under Construction														
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
COMMUNITY	**2 348 600**	**(561 600)**	**1 787 000**	**-**	**-**	**-**	**1 787 000**	**1 884 082**	**(1 884 082)**	**-**	**-**	**-**	**-**	**1 787 000**
Clinics & Hospitals														
Fire Stations														
Land and Buildings	2 348 600	(561 600)	1 787 000		-	-	1 787 000	1 884 082	(1 884 082)	-	-		-	1 787 000
Security System														
INVESTMENT PROPERTIES	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Administration														
OTHER	**3 377 605**	**969 237**	**4 346 842**	**263 267**	**-**	**-**	**4 610 109**	**2 959 016**	**(2 959 016)**	**-**	**-**	**-**	**-**	**4 610 109**
LAND AND BUILDINGS	***1 072 538***	*1 288 462*	*2 361 000*	-	-	-	***2 361 000***	*1 072 538*	*(1 072 538)*	**-**	-	-	**-**	*2 361 000*
Administration	807 437	471 063	1 278 500		-		1 278 500	807 437	(807 437)	-			-	1 278 500
Housing Schemes	-	-	-			-	-	-	-	-			-	-
Resorts & Buildings	265 101	338 399	603 500		-	-	603 500	265 101	(265 101)	-			-	603 500
Land Sport Fields		479 000	479 000		-		479 000	-	-	-				479 000
Office Equipment	***478 366***	*62 116*	*540 482*	*215 225*	-	-	***755 707***	***478 367***	*(478 367)*	**-**	-	-	**-**	*755 707*
Air Conditioners		1 710	1 710		-		1 710		-	-	-		-	1 710
Computer Hardware	478 366	60 406	538 772	215 225	-		753 997	478 367	(478 367)	-	-		-	753 997
Operating Software														
Office Machines														
Furniture and Fittings	***289 930***	*(86 245)*	*203 685*	*48 042*	-	-	***251 727***	***289 930***	*(289 930)*	**-**	-	-	**-**	*251 727*
Cabinets & Cupboards														
Chairs														
Furniture and Fittings : Other	289 930	(86 245)	203 685	48 042	-		251 727	289 930	(289 930)	-	-		-	251 727
Tables & Desks														
Plant and Equipment	***172 569***	*(161 504)*	*11 065*	-	-	-	***11 065***	***172 569***	*(172 569)*	**-**	-	-	**-**	*11 065*
Ambulance Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Compressors														
Medical Equipment		2	2		-		2	-	-	-	-	-	-	2
Fire Equipment														
Fire Arms														
Laboratory Equipment														
Lawnmowers	-	5 063	5 063		-		5 063		-	-			-	5 063
Plant & Equipment : General														
Tractors	172 569	(172 569)	-		-	-	-	172 569	(172 569)	-		-	-	-
Radio Equipment		6 000	6 000	-	-		6 000		-	-	-		-	6 000
Telecommunication Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Motor Vehicles	***1 364 202***	*(133 592)*	*1 230 610*	-	-	-	***1 230 610***	***945 612***	*(945 612)*	**-**	-	-	**-**	***1 230 610***
Motor Vehicles	1 364 202	(133 592)	1 230 610		-		1 230 610	945 612	(945 612)	-	-		-	1 230 610
Fire Engines														
Trucks & Bakkies														

APPENDIX B

INKWANCA MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT

AS AT 30 JUNE 2010

TOTAL	24 494 927	407 637	24 902 564	263 267	-	-	25 165 831	22 889 986	(22 889 986)	-	-	-	-	25 165 831

APPENDIX E (1)

INKWANCA MUNICIPALITY

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE)

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

REVENUE	2009/10 Actual R	2009/10 Budget R	2009/10 Variance R	2009/10 Variance %	Explanation for Significant Variances greater than 10% vs Budget
Service Charges	5 508 037	3 943 246	1 564 791	40%	A significant increase in service charges especially electricity.
Assesment Rates	3 148 526	2 262 341	886 185	39%	An increase in rates tariffs
Rental of facilities & Equipment	-	-	-	0%	
Interest earned - external investments	956	-	956	0%	
Interest earned - outstanding receivables	1 986 198	-	1 986 198	100%	
Conditional grants received	9 071 746	2 485 000	6 586 746	0%	
Government grants & Subsidies	13 272 545	17 814 000	(4 541 455)	-25%	Subsidy budgeted from CHDM not materialised for sanitation
Other income	506 694	602 043	(95 349)	-16%	
Gain on transfer of water infrastructure	-	-	-	0%	
Total Revenue	**33 494 702**	**27 106 630**	**6 388 072**	24%	Water & Sanitation budget included
Less: Budget Water & Sanitation	-	**(7 221 000)**	**(7 221 000)**		
Total Revenue	**33 494 702**	**19 885 630**	**13 609 072**		
EXPENDITURE					
Employee related costs	9 833 922	12 855 997	(3 022 075)	-24%	
Remuneration of Councillors	1 235 150	1 100 091	135 059	0%	
Bad Debt provision	4 863 423	623 115	4 240 308	0%	Only 33% recovery rate on services.
Conditional grants expenditure	9 266 134	735 000	8 531 134	0%	
Contribution to fixed assets	-	-	-	100%	
Repairs & Maintenance	769 907	1 963 122	(1 193 215)	-61%	Under-estimation of repairs and maintenance
Finance costs	190 933	1 165 171	(974 238)	0%	
General expenses- other	6 453 249	8 664 134	(2 210 885)	-26%	
Internal charges - Indigent	771 542	-	771 542	0%	
Total Expenditure	**33 384 260**	**27 106 630**	**6 277 630**	23%	Water & Sanitation budget included
Less: Budget Water & Sanitation	**-**	**(7 221 000)**	**(7 221 000)**		
Total Expenditure	**33 384 260**	**19 885 630**	**13 498 630**		
OPERATING SURPLUS/ (DEFICIT)	**110 442**	**-**	**110 442**		
Gain/(loss) on disposal of assets	-	-	-	100%	
NET SURPLUS/(DEFICIT) FOR THE YEAR	**110 442**	**-**	**110 442**		

Expenditure ***(classified by function)***	
Administration Council	1 930 382
Electricity	6 319 977
Accounting Officer	962 593
BTO	3 169 144
Administration Corporate Services	2 410 934
Housing and Estates	684 559
Roads & Transport	967 418
Community Services	7 673 119
Total Expenditure	24 118 126
Conditional Grants paid	9 266 134
	-
	33 384 260
Surplus for year	110 442

APPENDIX F

INKWANCA MUNICIPALITY

DISCLOSURE OF GRANTS & SUBSIDIES IN TERMS OF MFMA
AS AT 30 JUNE 2010

Name of Grant	Name of Organ of State	QUARTERLY RECEIPTS					QUARTERLY EXPENDITURE					GRANTS & SUBSIDIES DELAYED/WITHHELD					Reason for delay/ withheld	Compliance with DORA	Reason for non-compliance
		March 09	June 09	Sept 09	Dec 09	March 10	March 09	June 09	Sept 09	Dec 09	March 10	March 09	June 09	Sept 09	Dec 09	March 10			
MSIG	DHLG&TA																		
Upgrade Valuation Roll						-						N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Training Area Committees						-			-		-	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Update Fixed Assets						-						N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Mun Performance System				735 000	-	-			16 500	65 872	69 883								
FMG	DHLG&TA																		
Upgrade Financial System				1 750 000	-	-			245 794	209 736	228 437	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
MIG	DHLG&TA			2 356 500	2 356 500	794 500			2 938 525	2 350 937	1 069 074								
Regravelling of Roads					-	-			-	-	-	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Grants	CHDM																		
LED				-	198 314	-	-	-	196 345	55 000	164 598	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A
Community Garden					-	-					-	N/A	N/A	N/A	N/A	N/A	N/A	yes	N/A

INKWANCA MUNICIPALITY
GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2010

CONDITIONAL GRANTS AND RECEIPTS	Balance at 01/07/2009	Error	Contributions during the Year	Transfers	Other Income	Interest on Investments	Expenditure during the Year	Balance at 30/06/2010
MIG Funds	1 273 799		7 507 500				7 396 442	1 384 857
Local Economic Development Fund	457 284		198 314				424 222	231 376
Molteno Community Garden	271 327	0	0				0	271 327
MSIG	260 511		735 000	-194 388			190 267	610 856
FMG	246 384		1 750 000				1 060 815	935 569
PMS	0		0	0			0	0
Other Projects Approved	0		0	0			0	0
	2 509 305	0	10 190 814	-194 388		0	9 071 746	3 433 985