



EC 135

Annual Financial Statements

for

Intsika Yethu Municipality

for the year ended 30 June: **2010**

Province:

Eastern Cape

AFS rounding:

R (i.e. only cents)

Contact Information:	
Name of Municipal Manager:	Mr Zamuxolo Shasha
Name of Chief Financial Officer:	Mpumleli Dyushu
Contact telephone number:	047 - 874 5211
Contact e-mail address:	dyshum@intsikayethu.gov.za
Name of contact at provincial treasury:	Tembile Mviko
Contact telephone number:	047 - 874 5211
Contact e-mail address:	tembile.mviko@treasury.ecprov.gov.za
Name of relevant Auditor:	Auditor General - Norman Minaar
Contact telephone number:	043 - 709 7200
Contact e-mail address:	NormanM@agsa.co.za
Name of contact at National Treasury:	Keitumetse Malebye
Contact telephone number:	keitumetse.malebye@treasury.gov.za
Contact e-mail address:	012 315 5989

Intsika Yethu Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

General information

Members of the Council

SD Plata	Mayor
M Sokujika	Speaker
MP Boyana	Member of the Executive Committee
AZ Mbotoloshi	Member of the Executive Committee
WN Mdwayingana	Member of the Executive Committee
S Myataza	Member of the Executive Committee
N Tshangana	Member of the Executive Committee
K Vimbayo	Member of the Executive Committee
N Berana	Member of the Executive Committee
HM Hewu	Member
N Magaga	Member
N Tsomo	Member
MM Mbebe	Member
ML Papiyana	Member
Z Qayiya	Member
D Kapsile	Member
NE Stata	Member
P Nqandela	Member
MN Mkhumbuzi	Member
M Mahali	Member
NS Mafanya	Member
LN Ntshanka	Member
L Mbambiso	Member
TSN Bizana	Member
NT Tayitile	Member
FN Dangazele	Member
MN Rigala	Member
M Yamile	Member
N Giyose	Member
Z Jabanga	Member
NF Kopman	Member
M Kolofana	Member
MG Kuse	Member
VG Matomela	Member
B Mbonisa	Member
J Mdekazi	Member
NE Mdlungu	Member
N Mteli	Member

Intsika Yethu Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

General information

Members of the Council

MG Ntshinka	Member
JN Peter	Member
M Shasha	Member
MT Shugu	Member
S Tame	Member
PN Tukwayo	Member
V Tyhulu	Member
M Yotsi	Member

Municipal Manager

Mr Zamuxolo Shasha

Chief Financial Officer

Mpumleli Dyushu

Grading of Local Authority

Grade 2

Auditors

Auditor-General

Bankers

First National Bank

Intsika Yethu Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

General information (continued)

Registered Office: No. 201 Main Street, Cofimvaba

Physical address:
No. 201 Main Street
Cofimvaba
5380

Postal address:
Private Bag X 1251
Cofimvaba
5380

Telephone number: 047 - 874 5211

Fax number: 047 - 874 0385

E-mail address: shashaz@intsikayethu.gov.za

Intsika Yethu Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

Approval of annual financial statements

I am responsible for the preparation of these annual financial statements, which are set out on pages 6 to 38, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 20 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's

Municipal Manager: Mr Zamuxolo Shasha

31 August 2010

Intsika Yethu Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

Index	Page
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Accounting Policies	10-22
Notes to the Annual Financial Statements	23-36
Appendix A: Schedule of External Loans	37
Appendix B: Analysis of Property, Plant and Equipment	38

Intsika Yethu Municipality
STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

	Note	2010 R	2009 R
ASSETS			
Current assets			
Cash and cash equivalents	1	24 435 640	24 458 515
Trade receivables from exchange transactions	2	3 967 117	2 417 057
Other receivables from exchange transactions	3	4 883 778	5 286 093
Investments	4	2 399 860	2 315 274
VAT receivable	8	2 211 667	10 308 984
Non-current assets			
Investments	5	-	208 995
Property, plant and equipment	6	27 280 205	-
Total assets		65 178 267	44 994 917
LIABILITIES			
Current liabilities			
Trade and other payables from exchange transactions	7	5 768 199	2 799 874
Current provisions	9	2 197 285	795 020
Current portion of borrowings	10	121 795	192 051
Non-current liabilities			
Non-current borrowings	10	3 524 429	3 680 911
Total liabilities		11 611 708	7 467 857
Net assets		53 566 559	37 527 060
NET ASSETS			
Accumulated surplus / (deficit)		53 566 559	37 527 060
Total net assets		53 566 559	37 527 060

Intsika Yethu Municipality
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2010

	Note	2010 R	2009 R
Revenue			
Property rates	12	1 617 990	1 074 372
Service charges	13	1 302 735	292 861
Rental of facilities and equipment	14	495 685	607 880
Interest earned - external investments	15	1 056 695	2 385 883
Interest earned - outstanding receivables	16	90 896	126 608
Fines		70 910	27 133
Licences and permits		667 617	504 054
Government grants and subsidies	17	81 116 840	67 658 106
Other income	18	550 186	393 549
Total revenue		86 969 554	73 070 446
Expenses			
Employee related costs	19	30 682 830	21 327 281
Remuneration of councillors	20	10 269 294	9 639 112
Bad debts		2 819 204	-
Repairs and maintenance		2 950 807	1 474 703
Finance costs	21	185 388	80 036
Bulk purchases	22	503 650	566 672
Contracted services	23	113 229	188 486
General expenses	24	23 492 725	27 334 467
Total expenses		71 017 127	60 610 758
Gain / (loss) on sale of assets	25	87 307	-
Surplus / (deficit) for the period		16 039 734	12 459 688

Intsika Yethu Municipality
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2010

	Note	Accumulated	Total: Net
		Surplus/(Deficit)	Assets
		R	R
Balance at 30 June 2008		37 471 253	37 471 253
Changes in accounting policy	29	(18 327 664)	(18 327 664)
Restated balance		19 143 589	19 143 589
Correction of prior period error	30	5 923 782	5 923 782
Surplus / (deficit) for the period		12 459 688	12 459 688
Balance at 30 June 2009		37 527 060	37 527 060
Correction of prior period error	30	(235)	(235)
Surplus / (deficit) for the period		16 039 734	16 039 734
Balance at 30 June 2010		53 566 559	53 566 559

INFORMATION PURPOSES ONLY - DO NOT PRINT

Examples of operating activities

- a) cash receipts from taxes, levies and fines;
- (b) cash receipts from charges for goods and services provided by the entity;
- (c) cash receipts from grants or transfers and other appropriations or other budget authority made by national government or other entities;
- (d) cash receipts from royalties, fees, commissions and other revenue;
- (e) cash payments to other entities to finance their operations (not including loans);
- (f) cash payments to suppliers for goods and services;
- (g) cash payments to and on behalf of employees;
- (h) cash receipts and cash payments of an insurance entity for premiums and claims, annuities and other policy benefits;
- (i) cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities;
- (j) cash receipts and payments from contracts held for dealing or trading purposes;
- (k) cash receipts or payments from discontinuing operations; and
- (l) cash receipts or payments in relation to litigation settlements.

Examples of Investing Activities

- (a) cash payments to acquire property, plant and equipment, intangibles and other long-term assets. These payments include those relating to capitalised development costs and self-constructed property plant and equipment;
- (b) cash receipts from sales of property, plant and equipment, intangibles and other long-term assets;
- (c) cash payments to acquire equity or debt instruments of other entities and interests in joint ventures (other than payments for those instruments considered to be cash equivalents or those held for dealing or trading purposes);
- (d) cash receipts from sales of equity or debt instruments of other entities and interests in joint ventures (other than receipts for those instruments considered to be cash equivalents and those held for dealing or trading purposes);
- (e) cash advances and loans made to other parties (other than advances and loans made by a public financial institution);
- (f) cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution);
- (g) cash payments for futures contracts, forward contracts, option contracts and swap contracts, except
- (h) cash receipts from futures contracts, forward contracts, option contracts and swap contracts, except

Examples of Financing Activities

- a) cash proceeds from issuing debentures, loans, notes, bonds, mortgages and other short or long-term borrowings;
- (b) cash repayments of amounts borrowed; and
- (c) cash payments by a lessee for the reduction of the outstanding liability relating to a finance lease.

Intsika Yethu Municipality

CASH FLOW STATEMENT

as at 30 June 2010

	Note	2010 R	2009 R
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from ratepayers, government and others		92 702 502	66 281 904
Cash paid to suppliers and employees		(66 267 944)	(54 788 781)
	26	<u>26 434 558</u>	<u>11 493 123</u>
Interest received		1 147 591	2 512 491
Interest paid		(185 388)	(80 036)
Net cash flows from operating activities		<u>27 396 761</u>	<u>13 925 578</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of fixed assets		(27 280 205)	(19 651 610)
Proceeds from sale of fixed assets		87 307	-
Proceeds from sale of investments			16 666 484
Net cash flows from investing activities		<u>(27 192 898)</u>	<u>(2 985 126)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	3 872 962
Repayment of borrowings		(226 738)	-
Net cash flows from financing activities		<u>(226 738)</u>	<u>3 872 962</u>
Net increase / (decrease) in net cash and cash equivalents		(22 876)	14 813 415
Net cash and cash equivalents at beginning of period		24 458 515	9 645 101
Net cash and cash equivalents at end of period	27	<u>24 435 640</u>	<u>24 458 515</u>

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

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.

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

In accordance with section 122(3) of the Municipal Finance Management Act (Act No.56 of 2003), the Municipality has adopted Standards Of GRAP issued by the Accounting Standards Board during the financial year, which are fundamentally different to the fund accounting policies adopted in previous financial years. Comparative amounts have been restated retrospectively to the extent possible.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

Assets, liabilities, revenues and expenses have not been offset except when offsetting is 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 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 the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, has been provided in the notes 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

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

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 March 2005
GRAP 21 Impairment of non cash generating assets - issued March 2009
GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February
GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 25 Employee benefits - issued November 2009
GRAP 26 Impairment of cash generating assets - issued March 2009
GRAP 103 Heritage Assets - issued July 2008
GRAP 104 Financial Instruments - issued October 2009

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

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

IAS 19 Employee Benefits - effective 1 January 2009
IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009
IAS 39 Financial Instruments: Recognition and Measurement - portions of standard effective 1
IFRS 7 Financial Instrument Disclosure - issued August 2009

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

2 PROPERTY, PLANT AND EQUIPMENT

2.1 INITIAL RECOGNITION

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

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.

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

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

2.2 SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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.

2.3 DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation only commences when the asset is available for use, unless stated otherwise. 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:

Infrastructure		Other	
Roads and Paving	10 years	Buildings	30 years
Sewerage	15 years	Office equipment	3- 5 years
		Furniture and fittings	10 years
		Bins and containers	5-10 years
		Landfill sites	30 years
Community		Computer equipment	4 years
Buildings	30 years		
Halls	30 years		
Libraries	30 years		
Other assets	30 years		

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.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

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 amount 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.

2.4 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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

3 INTANGIBLE ASSETS

3.1 INITIAL RECOGNITION

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

3.2 SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

3.3 AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 5 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 (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.

3.4 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.

4 INVESTMENT PROPERTY

4.1 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.

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

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

4.2 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

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
---------------------	----------

5 FINANCIAL INSTRUMENTS

5.1 INITIAL RECOGNITION

Financial instruments are initially recognised at fair value.

5.2 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 ("other"). 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.

5.2.1 INVESTMENTS

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, 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. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. 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.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

5.2.2 TRADE AND OTHER RECEIVABLES

Trade and other receivables are categorised 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 or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date 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.

5.2.3 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.

5.2.4 CASH AND CASH EQUIVALENTS

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

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

6 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

7 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's 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.

8 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.

9 PROVISIONS AND CONTINGENCIES

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at 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.

The municipality does not recognise a contingent liability or contingent asset. 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.

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

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

- (a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for terminating their services;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

10 LEASES

10.1 MUNICIPALITY AS LESSEE

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

10.2 MUNICIPALITY AS LESSOR

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

11 REVENUE

11.1 REVENUE FROM EXCHANGE TRANSACTIONS

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

Service charges relating to water 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. These adjustments are recognised as revenue in the invoicing period. The estimates of consumption between meter readings are based on the previous three months average usage.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements.

Service charges from sewerage and sanitation are based on the number of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

Interest revenue is recognised on a time proportion basis.

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

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

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

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

11.2 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 property rates is recognised when the legal entitlement to this revenue arises. Penalty interest on unpaid rates is recognised on a time proportionate basis.

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

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.

11.3 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 an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

12 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.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

13 EMPLOYEE BENEFITS

13.1 SHORT TERM EMPLOYEE BENEFITS

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

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

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related services. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision. The municipality recognised the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

13.2 DEFINED CONTRIBUTION PLANS

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

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

14 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.

Intsika Yethu Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

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.

15 VALUE ADDED TAX

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

16 TRANSITIONAL PROVISIONS

The Municipality has taken advantage of the transitional provisions for Medium and Low Capacity Municipalities as set out in Directive 4 paragraph .63 to .70 (Investment property), .73 to .83 (Property, plant and equipment) and .110 to .118 (Intangible assets) issued by the Accounting Standards Board. This further brings into effect paragraph .94E of Directive 4 which indicates that municipalities are not required to recognise provisions (which form part of the cost of an asset) in their financial statements as a result of applying the transitional provisions in other Standards of GRAP and are required to apply the disclosure requirements about the provisions related to those assets in accordance with the relevant GRAP standard.

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
1 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents consist of the following:			
Cash at bank		24 434 756	24 457 632
		24 434 756	24 457 632
The Municipality has the following bank accounts: -			
<u>Current Account (Primary Bank Account)</u>			
First National Bank - Cofimvaba Branch: Account Number 62022331003			
Cash book balance at beginning of year		14 162 708	9 645 101
Cash book balance at end of year		16 988 998	14 162 708
Bank statement balance at beginning of year		15 583 139	18 197 593
Bank statement balance at end of year		17 586 189	15 583 139
<u>Current Account (Other Account)</u>			
First National Bank - Cofimvaba Branch: Account Number 62101651398			
First National Bank - Cofimvaba Branch: Account Number 62090678320			
First National Bank - Cofimvaba Branch: Account Number 62022332316			
Cash book balance at beginning of year		10 294 923	7 807 935
Cash book balance at end of year		7 445 758	10 294 923
Bank statement balance at beginning of year		10 695 880	2 410 157
Bank statement balance at end of year		7 680 392	10 695 880
<u>Cash on hand</u>			
		884	884
Total cash and cash equivalents		24 435 640	24 458 515
2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS			
<u>Trade receivables</u>	Gross Balances	Provision for	Net Balance
as at 30 June 2010	R	Doubtful Debts	R
Service debtors			
Rates	3 777 547	(1 888 858)	1 888 689
Water	1 464 932	(732 499)	732 433
Sewerage	280 004	(140 008)	139 996
Refuse	624 181	(312 105)	312 076
Other services	1 787 927	(894 003)	893 923
Total	7 934 591	(3 967 473)	3 967 117
as at 30 June 2009			
Service debtors			
Rates	2 363 756	(793 223)	1 215 487
Water	791 041	(223 848)	791 041
Sewerage	95 428	(27 004)	95 428
Refuse	315 101	(104 194)	315 101
Total	3 565 326	(1 148 269)	2 417 057
<u>Rates: Ageing</u>			
Current (0 – 30 days)		125 485	78 521
31 - 60 Days		117 616	73 597
61 - 90 Days		108 034	67 601
91 - 120 Days		3 426 412	2 144 037
Total		3 777 547	2 363 756

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
<u>Electricity, Water and Sewerage: Ageing</u>			
31 - 60 Days		336 313	97 209
61 - 90 Days		3 044 592	880 022
91 - 120 Days		776 140	224 339
Total		<u>4 157 045</u>	<u>1 201 570</u>

Reconciliation of the doubtful debt provision

Balance at beginning of the year		1 148 269	3 753 753
Contributions to provision		2 819 204	1 148 269
Doubtful debts written off against provision		-	(3 753 753)
Balance at end of year		<u>3 967 473</u>	<u>1 148 269</u>

Trade receivables impaired

As of 30 June 2010, trade receivables of R 2,8 million (2009: R 1,1 million) were impaired and provided for.

The amount of the provision was R 3,9 million as of 30 June 2010 (2009: R 1,1 million).

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

3 OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Other debtors		4 883 778	5 286 093
Total Other Debtors		<u>4 883 778</u>	<u>5 286 093</u>

4 INVESTMENTS

Deposits		-	-
Call investments		381 942	590 138
Other investments		2 017 918	1 725 136
		<u>2 399 860</u>	<u>2 315 274</u>

5 NON CURRENT INVESTMENTS

Financial Instruments

Other investments		-	208 995
		<u>-</u>	<u>208 995</u>

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

6 PROPERTY, PLANT AND EQUIPMENT

6.1 Reconciliation of Carrying Value

	Land R	Buildings R	Infrastructure R	Community R	Other Assets R	Total R
as at 1 July 2009	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-
Acquisitions	537 739	8 365 712	13 396 091	3 150 214	1 830 448	27 280 205
Capital under Construction	-	-	-	-	-	-
as at 30 June 2010	537 739	8 365 712	13 396 091	3 150 214	1 830 448	27 280 205
Cost/Revaluation	537 739	8 365 712	13 396 091	3 150 214	1 830 448	27 280 205
Accumulated depreciation and impairment losses	-	-	-	-	-	-

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

6.2 Other information

The Municipality has taken advantage of the transitional provisions for Medium and Low Capacity Municipalities as set out in Directive 4 paragraph .73 to .83 issued by the Accounting Standards Board. Municipalities who take advantage of the transitional provisions are not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment.

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
7 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS			
Trade creditors		3 943 188	1 607 763
Payments received in advance		289 295	208 739
Other creditors		1 535 716	983 373
Total creditors		5 768 199	2 799 874

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

8 VAT RECEIVABLE

VAT receivable		2 211 667	10 308 984
----------------	--	-----------	------------

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

9 PROVISIONS

Provision for leave		2 197 285	795 020
Total Provisions		2 197 285	795 020

The movement in current provisions are reconciled as follows: -

			Provision for leave
as at 1 July 2009			795 020
Contributions to provision			(119 155)
Expenditure incurred			1 521 420
as at 30 June 2010			2 197 285
as at 1 July 2008			1 032 641
Contributions to provision			(1 032 641)
Expenditure incurred			795 020
as at 30 June 2009			795 020

10 BORROWINGS

Government Loans : Other		3 646 224	3 872 962
		3 646 224	3 872 962
Less : Current portion transferred to current liabilities		(121 795)	(192 051)
Government Loans : Other		(121 795)	(192 051)
Total borrowings		3 524 429	3 680 911

Refer to Appendix A for more detail on borrowings.

11 NON-CURRENT PROVISIONS

The Municipality has taken advantage of the transitional provisions for Medium and Low Capacity Municipalities as set out in Directive 4 paragraph .73 to .83 issued by the Accounting Standards Board. This further brings into effect paragraph .94E of Directive 4 which indicates that municipalities are not required to recognise provisions (which form part of the cost of an asset) in their financial statements as a result of applying the transitional provisions in other Standards of GRAP and are required to apply the disclosure requirements about the provisions related to those assets in accordance with the relevant GRAP standard.

		309 037	234 213
--	--	----------------	----------------

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 8,27% over an average period of 1 year of old landfill sites and 5 years for new landfill sites.

It has been assumed that the old landfill sites will be rehabilitated in the 2010/11 financial year. The new landfill site has been divided into cells. It has been assumed that each cell has a useful life of 5 years after which time the cell will be rehabilitated. It has been assumed based on the current assessment that cell 1 will be fully utilised by 2013 and therefore for the 2008/09 financial year 20% of cell 1 and for the 2009/10 financial year 40% of cell 1 has been utilised respectively.

The movement in the non-current provision is reconciled as follows: -

Provision for rehabilitation of landfill sites:

	2010 R	2009 R
Balance at the beginning of year	234 213	-
Contributions to provision	40 701	234 213
Increase in provision due to discounting	15 914	-
Transfer to current provisions	(209 275)	-
Balance at the end of year	81 552	234 213

12 PROPERTY RATES

Actual

Residential / Commercial / State	1 617 990	1 074 372
Total	1 617 990	1 074 372

Valuations

Residential / Commercial / State	705 603 715	661 575 015
Total Property Valuations	705 603 715	661 575 015

Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2009. Supplementary valuations may be done on a continual basis but at least on an annual basis.

A general rate of R0.012 (2010) is applied to Government, a rate of R0.008 (2010) is applied to business and a rate of R0.004 (2010) is applied to residential property valuations to determine assessment rates. Rates are levied on an annual basis on property owners.

Rates are levied on an annual basis with the final date of payment being 31 September of each year. Standard interest plus 2% interest per annum is levied on outstanding rates.

13 SERVICE CHARGES

Sale of water	843 023	-
Refuse removal	273 498	199 314
Sewerage and sanitation charges	186 215	93 547
Total Service Charges	1 302 735	292 861

14 RENTAL OF FACILITIES AND EQUIPMENT

Rental of equipment	42 937	37 375
Other rentals	452 749	570 505
Total rentals	495 685	607 880

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
15 INTEREST EARNED - EXTERNAL INVESTMENTS			
Banks		1 056 695	2 385 883
Total interest		1 056 695	2 385 883
16 INTEREST EARNED - OUTSTANDING RECEIVABLES			
Assessment rates		90 896	126 608
Total interest		90 896	126 608
17 GOVERNMENT GRANTS AND SUBSIDIES			
Equitable share		56 857 916	42 464 013
MIG Grant		17 032 518	16 114 774
MSIG Grant		500 000	735 000
FMG Grant		1 000 000	250 000
Local Government Grants (St Marks and IEC project)		-	5 586 319
Chris Hanani DM Grants		4 828 898	2 008 000
LED Grant		736 408	500 000
EPWP Grant		161 100	-
Total Government Grant and Subsidies		81 116 840	67 658 106
17.1 MIG Grant			
Balance unspent at beginning of year		-	-
Current year receipts		17 032 518	16 114 774
Conditions met - transferred to revenue		(17 032 518)	(16 114 774)
Conditions still to be met - remain liabilities (see note21)		-	-
17.2 MSIG Grant			
Balance unspent at beginning of year		-	-
Current year receipts		500 000	735 000
Conditions met - transferred to revenue		(500 000)	(735 000)
Conditions still to be met - remain liabilities		-	-
17.3 FMG Grant			
Balance unspent at beginning of year		-	-
Current year receipts		1 000 000	250 000
Conditions met - transferred to revenue		(1 000 000)	(250 000)
Conditions still to be met - remain liabilities		-	-
17.4 Local Government Grants (St Marks and IEC project)			
Balance unspent at beginning of year		-	-
Current year receipts		-	5 586 319
Conditions met - transferred to revenue		-	(5 586 319)
Conditions still to be met - remain liabilities		-	-
17.5 Chris Hanani DM Grants			
Balance unspent at beginning of year		-	-
Current year receipts		4 828 898	2 008 000
Conditions met - transferred to revenue		(4 828 898)	(2 008 000)
Conditions still to be met - remain liabilities		-	-
17.6 LED Grant			
Balance unspent at beginning of year		-	-
Current year receipts		736 408	500 000
Conditions met - transferred to revenue		(736 408)	(500 000)
Conditions still to be met - remain liabilities		-	-

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
17.7 EPWP Grant			
Balance unspent at beginning of year		-	-
Current year receipts		161 100	-
Conditions met - transferred to revenue		(161 100)	-
Conditions still to be met - remain liabilities		<u>-</u>	<u>-</u>

17.8 Changes in levels of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No. 1 of 2010), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

18 OTHER INCOME

Other income	550 186	393 549
Total Other Income	<u>550 186</u>	<u>393 549</u>

19 EMPLOYEE RELATED COSTS

Employee related costs - Salaries and Wages	20 978 152	17 727 924
Employee related costs - Contributions for UIF, pensions and medical aids	4 532 128	2 134 718
Housing benefits and allowances	326 756	-
Overtime payments	384 141	452 732
Performance and other bonuses	1 165 939	1 011 907
Long-service awards	119 155	-
Other employee related costs	3 176 558	-
Total Employee Related Costs	<u>30 682 830</u>	<u>21 327 281</u>

Included in the table above are employee related costs for the following employees:

Remuneration of the Municipal Manager

Annual Remuneration	497 083	440 694
Performance- and other bonuses	43 512	60 553
Travel, motor car, accommodation, subsistence and other allowances	244 881	219 012
Total	<u>785 476</u>	<u>720 259</u>

Remuneration of the Chief Finance Officer

Annual Remuneration	365 841	294 825
Performance- and other bonuses	-	49 852
Travel, motor car, accommodation, subsistence and other allowances	234 523	95 274
Total	<u>600 364</u>	<u>439 951</u>

Remuneration of Individual Executive Directors

	Corporate Services R	Community Services R
2010		
Annual Remuneration	376 920	374 289
Performance- and other bonuses	39 170	27 979
Travel, motor car, accommodation, subsistence and other allowances	254 655	248 375
Total	<u>670 745</u>	<u>650 643</u>

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
Remuneration of Individual Executive Directors			
		Technical Services R	Local Economic Development R
2010			
Annual Remuneration		401 026	322 830
Performance- and other bonuses		27 979	-
Travel, motor car, accommodation, subsistence and other allowances		254 702	212 000
Total		683 707	534 830
		Corporate Services R	Community Services R
2009			
Annual Remuneration		345 381	339 817
Performance- and other bonuses		34 896	49 852
Travel, motor car, accommodation, subsistence and other allowances		235 196	225 561
Total		615 473	615 230
		Technical Services R	Local Economic Development R
2009			
Annual Remuneration		365 607	399 843
Performance- and other bonuses		34 896	34 896
Travel, motor car, accommodation, subsistence and other allowances		228 914	153 013
Total		629 417	587 752
20 REMUNERATION OF COUNCILLORS			
Executive Mayor		660 423	390 337
Speaker		173 643	173 937
Executive Committee Members		1 951 287	1 624 376
Councillors		4 439 962	4 888 547
Councillors' allowances		3 043 978	2 561 914
Total Councillors' Remuneration		10 269 294	9 639 112
21 FINANCE COSTS			
Borrowings		185 388	80 036
Total Finance Costs		185 388	80 036
22 BULK PURCHASES			
Electricity		420 077	275 581
Water		83 574	291 091
Total Bulk Purchases		503 650	566 672
23 CONTRACTED SERVICES			
Red Guard Security		113 229	188 486
		113 229	188 486

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
24 GENERAL EXPENSES			
Included in general expenses are the following:-			
Advertising		165 362	311 238
Audit fees		1 276 749	1 808 922
Bank charges		184 242	239 765
Cleaning		14 158	48 567
Conferences and delegations		149 179	108 949
Consulting fees		615 397	25 834
Entertainment		134 950	198 386
Fuel and oil		1 153 367	734 787
Insurance		253 555	659 916
Legal expenses		1 242 276	408 504
Levies paid		23 193	166 139
Licence fees - vehicles		62 643	89 064
Membership fees		154	13 079
Postage		5 114	452
Printing and stationery		364 662	221 152
Professional fees		-	157 971
Rental of office equipment		325 032	746 578
Other rentals		286 810	85 710
Stocks and material		68 324	41 618
Subscription & publication		1 060	110 288
Telephone cost		1 012 444	1 041 406
Training		1 635 100	572 529
Travel and subsistence		55 601	49 856
Uniforms & overalls		124 445	81 953
Other		14 338 908	19 411 804
		<u>23 492 725</u>	<u>27 334 467</u>
25 GAIN / (LOSS) ON SALE OF ASSETS			
Investment property		87 307	-
Total Gain / (Loss) on Sale of Assets		<u>87 307</u>	<u>-</u>
26 CASH GENERATED BY OPERATIONS			
Surplus/(deficit) for the year		16 039 734	12 459 688
Adjustment for:-			
(Gain) / loss on sale of assets		(87 307)	-
Contribution to provisions - current		1 402 265	-
Finance costs		185 388	80 036
Interest earned		(1 147 591)	(2 512 491)
Other non-cash item		105 899	3 824 285
Operating surplus before working capital changes:		<u>16 498 388</u>	<u>13 851 518</u>
(Increase)/decrease in inventories		-	46 262
(Increase)/decrease in trade receivables		(1 550 061)	3 778 397
(Increase)/decrease in other receivables		402 315	(4 482 257)
(Increase)/decrease in VAT receivable		8 097 317	(3 600 179)
Increase/(decrease) in conditional grants and receipts		18 274	(18 274)
Increase/(decrease) in trade payables		2 968 325	1 917 656
Cash generated by/(utilised in) operations		<u>26 434 558</u>	<u>11 493 123</u>

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
27 CASH AND CASH EQUIVALENTS			
Cash and cash equivalents included in the cash flow statement comprise the following:			
Bank balances and cash		24 435 640	24 458 515
Net cash and cash equivalents (net of bank overdrafts)		24 435 640	24 458 515
28 UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION			
Long-term liabilities (see Note 10)		3 646 224	3 872 962
Used to finance property, plant and equipment – at cost		(3 792 927)	-
Sub- total		(146 703)	3 872 962
Cash set aside for the repayment of long-term liabilities		-	-
Cash invested for repayment of long-term liabilities		-	-
Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. The loan will be funded annually through the Equitable Share allocation..			
29 CHANGE IN ACCOUNTING POLICY			
The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies:			
29.1 Statutory Funds			
Balance previously reported: -			
Statutory Fund		-	880 643
Loans redeemed, other capital receipts and contributions to reserves		-	(19 208 307)
Total		-	(18 327 664)
Implementation of GRAP			
Transferred to Accumulated Surplus/(Deficit)		-	19 208 307
Transferred to Accumulated Surplus/(Deficit)		-	(880 643)
29.2 Accumulated Surplus/(Deficit)			
Implementation of GRAP			
Transferred from statutory funds		-	18 327 664
Total		-	18 327 664
30 CORRECTION OF ERROR			
During the year ended 30 June 2009, prior year errors identified and corrected.			
The comparative amount has been restated as follows:			
Trade and other payables		-	204 032
Investments		-	(15 134)
Provisions		-	(3 989 841)
Inventory		-	46 262
Statutory funds		-	42 052
Revenue		(235)	(486 233)
Accumulated surplus and deficit		-	(1 724 920)
Net effect on surplus/(deficit) for the year		(235)	(5 923 782)
Assets		-	31 128
Liabilities		-	(3 785 809)
Net effect on Statement of Financial Position		-	(3 754 681)
Net effect on Accumulated surplus opening balance		(235)	(5 923 782)

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R				
31 IRREGULAR EXPENDITURE DISALLOWED							
31.1 Irregular expenditure							
Reconciliation of irregular expenditure							
Opening balance		187 710	-				
Irregular expenditure current year		(187 710)	187 710				
Condoned or written off by Council		-	-				
Irregular expenditure awaiting condonement		-	187 710				
		-	187 710				
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: left;">Incident</th> <th style="text-align: left;">Disciplinary steps/criminal proceedings</th> </tr> </thead> <tbody> <tr> <td><i>Non-adherence legislation</i></td> <td><i>None</i></td> </tr> </tbody> </table>				Incident	Disciplinary steps/criminal proceedings	<i>Non-adherence legislation</i>	<i>None</i>
Incident	Disciplinary steps/criminal proceedings						
<i>Non-adherence legislation</i>	<i>None</i>						
ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE							
32 MANAGEMENT ACT							
32.1 Contributions to organised local government							
Council subscriptions		212 435	124 038				
Amount paid - current		(130 834)	(124 038)				
Balance unpaid (included in payables)		81 601	-				
32.2 Audit fees							
Amount paid - current year		1 276 749	1 808 922				
Total		1 276 749	1 808 922				
32.3 VAT							
VAT input receivables are shown in note 8. All VAT returns have been submitted by the due date throughout the year.							
32.4 PAYE and UIF							
Opening balance		276 681	-				
Current year payroll deductions		4 273 147	3 710 572				
Amount paid - current year		(4 332 816)	(3 433 891)				
Balance unpaid (included in payables)		217 012	276 681				
The balance represents PAYE and UIF deducted from the June 2010 and June 2009 payroll. These amounts were paid during July 2010 and July 2009 respectively.							
32.5 Pension and Medical Aid Deductions							
Current year payroll deductions		(8 838 036)	(8 382 721)				
Amount paid - current year		8 838 036	8 382 721				
Balance unpaid (included in payables)		-	-				

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
33 CAPITAL COMMITMENTS			
33.1 Commitments in respect of capital expenditure			
- Approved and contracted for		44 606 172	43 375 062
Infrastructure		32 951 205	28 832 993
Community		4 216 533	-
Buildings		4 237 074	664 080
Other		3 201 360	13 877 989
- Approved but not yet contracted for		1 444 181	-
Infrastructure		1 444 181	-
Total		46 050 353	43 375 062
This expenditure will be financed from:			
- Government Grants		36 064 074	28 832 993
- Own resources		8 542 097	14 542 069
- District Council Grants		1 444 181	-
		46 050 352	43 375 062

33.2 Operating leases

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

Operating leases - lessee

Within one year	162 571	162 221
In the second to fifth year inclusive	232 848	395 418
Total	395 418	557 639

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of five years and rentals are fixed for the period of the lease. No contingent rent is payable.

Operating leases – as lessor

Minimum lease payments due

Within one year	135 300	144 012
Total	135 300	144 012

Operating Leases consists of the following:

Certain of the municipality's land and buildings are held to generate rental income. Lease agreements are non-cancellable and have terms of 5 years. There are no contingent rents receivable.

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
--	------	-----------	-----------

34 RETIREMENT BENEFIT INFORMATION

Defined contribution plan

The following are defined contribution plans:

- Cape Retirement Fund
- South African Municipal Worker's Union National Provident Fund
- Eastern Cape Group Municipal Gratuity Fund

Contributions to these plans have been expensed.

35 CONTINGENT LIABILITY

35.1 Claim for default		2 121 174	2 499 378
------------------------	--	-----------	-----------

The Municipality is being sued by the Municipal Councillors Pension Fund for the default of contribution payment. Should Council be unsuccessful in defending the claim, there is a possibility that the claim will be settled from Equitable share.

36 RISK MANAGEMENT

36.1 Maximum credit risk exposure

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

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis.

Financial assets exposed to credit risk at year end were as follows:

Cash and cash equivalents		24 435 640	24 458 515
Investments		2 399 860	2 524 269
Trade and other receivables		11 062 562	18 012 133

These balances represent the maximum exposure to credit risk.

36.2 Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

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.

		Later than one months and not later than one year	Later than one year and not later than twenty years
2010			
Borrowings		121 795	3 524 429
Trade and other payables		7 965 484	-

Intsika Yethu Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

	Note	2010 R	2009 R
		Later than one months and not later than one year	Later than one year and not later than twenty years
2009			
Gross finance lease obligations			
Borrowings		192 051	3 680 911
Trade and other payables		3 594 894	-

36.3 Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

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

- Call deposits	2 399 860	-
- Development Bank of South Africa loan	121 795	3 524 429

37 COMPARISON WITH THE BUDGET

Reconciliation of budget surplus / (deficit) with the surplus / (deficit) in the statement of financial performance.

Net surplus / (deficit) per approved budget	-
Adjusted for:	
Deficit of actual revenue and expenditure in comparison to budget	(11 327 778)
Asset capitalised	27 280 205
Profit on sale of assets	87 307
Net surplus per the statement of financial performance	<u><u>16 039 734</u></u>

Intsika Yethu Municipality
APPENDIX A
SCHEDULE OF EXTERNAL LOANS
as at 30 June 2010

EXTERNAL LOANS	Loan number	Redeemable Date	Balance at 30 June 2009	Received during the period	Redeemed / written off during the period	Balance at 30 June 2010	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
			R	R	R	R	R	R
GOVERNMENT LOANS								
- DBSA @ 5%	EC102527	30/09/2028	3 872 962	-	(226 738)	3 646 224	3 792 927	-
Total Government Loans								
TOTAL EXTERNAL LOANS								