

Engcobo Local Municipality



**Annual Financial Statements for the year ended
30 June 2010**

Engcobo Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

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Annual Financial Statements

for

Engcobo Local 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. Mandlonke Giqo (Acting) |
| Name of Chief Financial Officer: | Mrs. H.B. Mlamli |
| Contact telephone number: | (047) 548 5600 |
| Contact e-mail address: | mlamlih@engcobolm.org.za |
| Name of contact at provincial treasury: | Mr. H.T Hlazo |
| Contact telephone number: | (045) 838 7530 |
| Contact e-mail address: | tshaka.hlazo@treasury.ecprov.gov.za |
| Name of relevant Auditor: | Mrs. D Pillay (Auditor General) |
| Contact telephone number: | (043) 709 7300 |
| Contact e-mail address: | deleenp@aqsa.co.za / natasha@aqsa.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 |

Engcobo Local Municipality
ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2010

General information

Members of the Council

Lamla Jiyose

Sikhosana Mbolo

Mhlangabezi Mbhenyana

Nobantu Macingwane

Nokhaya Gedeni

Nomnikelo Noludwe

Sthembiso Marenene

Y. Ponoshe

A.T. Sobuza

Z. Makhasi

S. Ndude

T. Mbekeni

S.C Dotwana

S. Guma

N.F. Qina

M. Sakhi

M. Nyalaba

T. Dangazele

N.P.B. Ntsodo

M. Mayekiso

D.M.Xauka

N. Singama

M.G. Dyani

N. Tolbadi

N. Ngwangwa

N.V. Qhaziyana

Gedeni C.N

S. Nonkavithi

Dyani G.M

D.N. Mgudlwa

Songo B.B

Sigwela N. S

Madyolo N

Daniel T

Mayor

Speaker

Member of the Executive Committee

Member of the Executive Committee

Member of the Executive Committee

Member of the Executive Committee

Member of the Executive Committee

PR Councillor ANC & Chief Whip

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

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Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Councillor

Municipal Manager

Mr. M Giqo

Chief Financial Officer

Mrs. H.B. Mlamli

Grading of Local Authority

Grade 2

Auditors

Office of the Auditor-General

Bankers

First National Bank / Meeg Bank / ABSA

Engcobo Local Municipality
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General information (continued)

| | |
|---------------------------|--|
| Registered Office: | N/A |
| Physical address: | 54 Union Street Engcobo 5050 |
| Postal address: | P.O. Box 24 Engcobo 5050 |
| Telephone number: | (047) 548 1221 |
| Fax number: | (047) 548 1078 |
| E-mail address: | mlamlih@engcobolm.org.za |

Engcobo Local 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 5 to 36, 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 17 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 determination in accordance with this Act.

Municipal Manager:

31 August 2010

Engcobo Local Municipality
STATEMENT OF FINANCIAL POSITION
as at 30 June 2010

| | Note | 2010 R | 2009 R |
|--|------|-------------------|-------------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 1 | 13 435 244 | 9 274 707 |
| Trade and other receivables from exchange transactions | 2 | 148 920 | 433 563 |
| Other receivables from non-exchange transactions | 3 | 71 080 | 160 078 |
| Current portion of receivables | 4 | - | 54 079 |
| VAT receivable | 7 | 3 934 697 | 3 133 931 |
| Total assets | | 17 589 941 | 13 056 358 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables from exchange transactions | 6 | 1 009 922 | - |
| Bank overdraft | 1 | - | 833 885 |
| Current portion of unspent conditional grants and receipts | 8 | 14 314 322 | 9 009 169 |
| Current portion of borrowings | 9 | 26 364 | 1 333 333 |
| Total liabilities | | 15 350 609 | 11 176 387 |
| Net assets | | 2 239 332 | 1 879 971 |
| NET ASSETS | | | |
| Reserves | | - | - |
| Accumulated surplus / (deficit) | | 2 239 332 | 1 879 971 |
| Total net assets | | 2 239 332 | 1 879 971 |

Engcobo Local Municipality
STATEMENT OF FINANCIAL PERFORMANCE
for the year ending 30 June 2010

| | Note | 2010 R | 2009 R |
|---|------|--------------------|-------------------|
| Revenue | | | |
| Property rates | 10 | 3 446 589 | 1 451 388 |
| Service charges | 11 | 587 933 | 829 237 |
| Rental of facilities and equipment | 12 | 79 498 | 107 332 |
| Interest earned - external investments | 13 | 1 266 843 | 497 674 |
| Fines | | 254 176 | 45 650 |
| Licences and permits | | 1 699 202 | 1 634 582 |
| Government grants and subsidies | 14 | 117 698 097 | 39 741 790 |
| Public contributions and donations | 32 | - | 500 |
| Other income | 15 | 2 959 005 | 2 715 185 |
| Total revenue | | 127 991 342 | 47 023 337 |
| Expenses | | | |
| Employee related costs | 16 | 18 411 584 | 15 347 525 |
| Remuneration of councillors | 17 | 6 772 962 | 5 941 971 |
| Repairs and maintenance | | 2 322 519 | 1 062 443 |
| General expenses | 18 | 85 853 698 | 16 313 717 |
| Total expenses | | 113 360 762 | 38 665 656 |
| Gain / (loss) on sale of assets | 19 | - | (7 952 030) |
| Surplus / (deficit) for the period | | 14 630 580 | 405 651 |

Engcobo Local Municipality
CASH FLOW STATEMENT
as at 30 June 2010

| | Note | 2010 R | 2009 R |
|---|------|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts | | 133 958 136 | 49 403 558 |
| Taxation | | 3 446 589 | 1 451 388 |
| Sales of goods and services | | 587 933 | 829 237 |
| Grants | | 123 003 250 | 39 741 790 |
| Interest received | | 1 266 843 | 497 674 |
| Other receipts | | 5 653 521 | 6 883 470 |
| Payments | | 113 124 644 | 45 628 634 |
| Employee costs | | 25 184 545 | 21 289 496 |
| Suppliers | | 85 853 698 | 16 313 717 |
| Interest paid | | - | - |
| Other payments | | 2 086 401 | 8 025 421 |
| Net cash flows from operating activities | 20 | 20 833 491 | 3 774 924 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of fixed assets | | - | - |
| Proceeds from sale of fixed assets | | (14 271 219) | 75 651 081 |
| Proceeds from sale of investments | | - | - |
| Purchase of foreign currency securities | | - | - |
| Net cash flows from investing activities | | (14 271 219) | 75 651 081 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from borrowings | | - | - |
| Repayment of borrowings | | - | - |
| Proceeds from finance lease liability | | - | - |
| Increase/(decrease) in accumulated surplus and funds | | - | (80 129 606) |
| Net cash flows from financing activities | | - | (80 129 606) |
| Net increase / (decrease) in net cash and cash equivalents | | 6 562 273 | (703 601) |
| Net cash and cash equivalents at beginning of period | | 8 440 821 | 9 144 422 |
| Net cash and cash equivalents at end of period | 21 | 15 003 094 | 8 440 821 |

Engcobo Local Municipality
STATEMENT OF CHANGES IN NET ASSETS
as at 30 June 2010

| | Revaluation Reserve | Other reserves | Total: Reserves | Accumulated Surplus/(Deficit) | Total: Net Assets |
|---|------------------------|----------------|-----------------|----------------------------------|-------------------|
| Note | R | R | R | R | R |
| Balance at 30 June 2008 | - | | - | 81 603 926 | 81 603 926 |
| Changes in accounting policy - Directive 4 | | | | (83 674 557) | (83 674 557) |
| Correction of prior period error | | | | 4 497 701 | 4 497 701 |
| Restated balance | - | - | - | 2 427 070 | 2 427 070 |
| Other items | | | | (952 750) | (952 750) |
| Surplus / (deficit) for the period | | | | 405 651 | 405 651 |
| Balance at 30 June 2009 | - | - | - | 1 879 971 | 1 879 971 |
| Other items - effect of Directive 4 on the current year | | | | (14 271 219) | (14 271 219) |
| Surplus / (deficit) for the period | | | | 14 630 580 | 14 630 580 |
| Balance at 30 June 2010 | - | - | - | 2 239 332 | 2 239 332 |

Engcobo Local 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).

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 EXEMPTIONS TAKEN ACCORDING TO DIRECTIVE 4 - TRANSITIONAL PROVISIONS FOR MEDIUM AND LOW CAPACITY MUNICIPALITIES

The following are the principle accounting policies affected by the Directive 4 which are, in all material respects, consistent with the deviation in applying some standards of Generally Recognised Accounting Practices (GRAP).

a) GRAP 19 -Provisions, Contingent Liabilities and Contingent Assets

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in February 2008. The municipality did not measure provisions, contingent liabilities or contingent assets. Similarly as per directive 4 the Municipality has not complied with the presentation and disclosure requirements of GRAP 19.

The municipality is currently in a process of identifying all provisions which must be measured in terms of GRAP 19 and it is expected that this process will be completed for inclusion in the 2011 financial statements.

b) GRAP 100 -Non-current assets and discontinued operations

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in February 2008. The municipality did not recognise non-current assets held for sale and discontinued operations relating to Inventories, Investment Properties, Property, Plant and Equipment, Agriculture and Intangible Assets which are not recognised in terms of the transitional provisions relating to those standards.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

c) GRAP 17 -Property, Plant and Equipment

The Municipality has taken an advantage of the transitional provisions set out in Directive 4. As the Municipality has taken advantage of GRAP 17 transitional provision regarding the recognition of Property Plant and Equipment. This transitional provision is still available in terms of Directive 4. Furthermore the Municipality has taken advantage of the measurement of transitional provision of Directive 4 and further more presentation and disclosure transitional provisions set out in the said Directive.

This transitional provision impacts on the measurement; recognition and disclosure of following classes of Property Plant and Equipment:

- Land and Building
- Community Assets
- Heritage Assets
- Other

The Municipality is in the process of identifying and itemizing all infrastructure and community assets and other property, plant and equipment and will recalculate depreciation once this exercise has been completed by 30 June 2011. We will also address the following:

- Review of useful life of item of PPE recognized in the Annual Financial Statements.
- Review of the depreciation method applied to PPE recognized in the Annual Financial
- Impairment of non-cash generating assets.
- Impairment of cash-generating assets.

d) GRAP 16 - Investment Properties

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in February 2008. The municipality did not measure the Investment Properties, including land for undetermined use and property plant and Equipment held for capital appreciation or rental income. Similarly the municipality has taken advantage of presentation and disclosure of transitional provision in Directive 4

The municipality is currently in a process of identifying all Investment Properties and have it valued in terms of GRAP 16 and it is expected that this process will be completed for inclusion in the subsequent financial statements.

e) GRAP 102 - Intangible Assets

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in February 2008. The municipality did not measure all the Intangible Assets in accordance with the standard, including the following:

- Computer Software;
- Intangible assets financed by way of finance leases;
- Intangible assets transferred as a result of the transfer of functions;
- and

The municipality is currently in a process of identifying all Intangible Assets and have it valued in terms of GRAP 102 and it is expected that this process will be completed for inclusion in the 2011 financial statements. It is possible that certain intangible assets are currently being recognised as Property, Plant and Equipment.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

f) GRAP 12 - Inventories

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in February 2008. The municipality

- Stationeries, Maintenance materials and Cleaning materials
- Land held for sale; and any other inventory item.

The municipality is currently in a process of identifying all inventories which must be measured in terms of GRAP 12 and it is expected that this process will be completed for inclusion in the subsequent financial statements.

1.3 PRESENTATION CURRENCY

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

1.4 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.

1.5 COMPARATIVE INFORMATION

Budget information in accordance with GRAP 1 and 24, 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.

1.6 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

GRAP 18 Segment Reporting - issued March 2005

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued

GRAP 24 Presentation of Budget Information in Financial Statements - issued November

GRAP 103 Heritage Assets - issued July 2008

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

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

GRAP 18 Segment Reporting - issued March 2005

Nature of impending changes in accounting policy:

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the entity. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the entity's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Impact on the municipality's financial statements once implemented:

It is unlikely that the standard will have a material impact on the municipality's financial statements.

GRAP 21 Impairment of Non-Cash Generating Assets - issued March 2009

Nature of impending changes in accounting policy:

The method of measurement of value in use of a non-cash-generating asset under this Standard is different to that applied to a cash generating asset.

Asset should be measured by reference to the present value of the remaining service potential of the asset.

Determining value in use (present value of remaining service potential) of a non-cash-generating asset, may be the depreciated replacement cost approach, restoration cost approach and service units approach.

This Standard does not require entities to apply an impairment test to property, plant and equipment carried at revalued amounts.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

This Standard does not include a decrease in market value significantly greater than would be expected as a result of the passage of time or normal use as a minimum indication of impairment. This indication is included as an additional indication that impairment may exist.

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Impact on the municipality's financial statements once implemented:

The municipality is unable to reliably estimate the impact of the standard on the financial statements.

GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued

Nature of impending changes in accounting policy:

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Impact on the municipality's financial statements once implemented:

The municipality is unable to reliably estimate the impact of the standard on the financial statements.

GRAP 24 Presentation of Budget Information in Financial Statements - issued

Nature of impending changes in accounting policy:

budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;

Where an entity prepares its budget and financial statements on a comparable basis, it includes the comparison as an additional column in the primary financial statements. Where the budget and financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the financial statements adjusted to be comparable to the budget.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

A comparable basis means that the budget and financial statements:

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Impact on the municipality's financial statements once implemented:

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the financial statements.

GRAP 26 Impairment of Cash Generating Assets - issued March 2009

Nature of impending changes in accounting policy:

The objective of this Standard is to prescribe the procedures that an entity applies to determine whether a cash-generating asset is impaired and to ensure that impairment losses are recognised. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Impact on the municipality's financial statements once implemented:

The municipality is unable to reliably estimate the impact of the standard on the financial statements.

GRAP 103 Heritage Assets - issued July 2008

Nature of impending changes in accounting policy:

Grap 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets. hat have been impaired, lost or given up, shall be included in surplus or deficit when the compensation becomes receivable.

Grap 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

Grap 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Grap 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus o

The carrying amount of a heritage asset should be derecognised:

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after a date to be determined by the Minister of Finance.

The municipality expects to adopt the standard for the first time when it is effective.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

Impact on the municipality's financial statements once implemented:

The municipality is unable to reliably estimate the impact of the standard on the financial statements.

IAS 19 Employee Benefits - effective 1 January 2009

Nature of impending changes in accounting policy:

With regards to curtailments and negative past service costs clarification has been made that:

- When a plan amendment reduces benefits, the effect of the reduction for future service is a curtailment and the effect of any reduction for past service is a negative past service cost;
- Negative past service cost arises when a change in the benefits attributable to past service results in a reduction in the present value of the defined benefit obligation; and
- A curtailment may arise from a reduction in the extent to which future salary increases are linked to the benefits payable for past service.

The definition of 'return on plan assets' has also been amended to require the deduction of plan administration costs only to the extent that such costs have not been reflected in the actuarial assumptions used to measure the defined benefit obligation.

The term "fall due" in the definition of "short term employee benefits" has been replaced with "due to be settled"

The effective date of the amendment is for years beginning on or after 1 January 2009.

The municipality expects to adopt the amendment for the first time in the 2011 financial statements.

Impact on the municipality's financial statements once implemented:

It is unlikely that the amendment will have a material impact on the municipality's financial statements.

IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009

Nature of impending changes in accounting policy:

IFRIC 17 clarifies that:

The Interpretation also requires an entity to provide additional disclosures if the net assets being held for distribution to owners meet the definition of a discontinued operation.

The effective date of the amendment is for years beginning on or after 1 July 2009.

It is unlikely that the interpretation will have an impact on the municipality's financial statements.

Impact on the municipality's financial statements once implemented:

The municipality is unable to reliably estimate the impact of the standard on the financial statements.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

2 PROPERTY, PLANT AND EQUIPMENT

The Municipality has applied the provisions of Directive 4 relating to property, plant and equipment. All items of property, plant and equipment have thus been measured at Rnil in the current year financial statements. Comparative figures have been adjusted

3 INTANGIBLE ASSETS

The Municipality has applied the provisions of Directive 4 relating to intangible assets. All intangibles have thus been measured at Rnil in the current year financial statements. Comparative figures have been adjusted accordingly.

4 INVESTMENT PROPERTY

The Municipality has applied the provisions of Directive 4 relating to investment property. All investment properties have thus been measured at Rnil in the current year financial statements. Comparative figures have been adjusted accordingly.

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 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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

5.2.2 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.

5.2.3 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.

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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

9 REVENUE

9.1 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 electricity and water are based on consumption. Meters are read on a quarterly 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 average consumption.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

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

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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

9.2 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. Collection charges are recognised when such amounts are legally enforceable. 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.

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.

9.3 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.

10 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.

Engcobo Local Municipality
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
for the year ending 30 June 2010

11 RETIREMENT BENEFITS

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable.

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

The Municipality contributes to the SAMWU Provident Fund and the Cape Joint Pension Fund on behalf of its employees, and to the Councillors' Pension Fund on behalf of its councillors. The funds are all Defined Contribution Plans as defined.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|---|------------|-----------|
| 1 CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents consist of the following: | | |
| Cash on hand | - | - |
| Cash at bank | - | (833 885) |
| Call deposits | 13 413 153 | 9 274 707 |
| | 13 413 153 | 8 440 821 |

The Municipality has the following bank accounts: -

Current Account (Primary Bank Account)

First National Bank Limited - Engcobo Branch: Account Number 52171242061

| | | |
|---|-----------|-----------|
| Cash book balance at beginning of year | (829 386) | 98 299 |
| Cash book balance at end of year | 22 091 | (829 386) |
| Bank statement balance at beginning of year | 2 623 485 | 2 236 775 |
| Bank statement balance at end of year | 146 279 | 2 623 485 |

Current Account (Other Account)

Meeg Bank Limited - Engcobo Branch: Account Number 40-5537-0884

Meeg Bank Limited - Engcobo Branch: Account Number 40-6890-4505

| | | |
|---|------------|-----------|
| Cash book balance at beginning of year | (4 499) | 725 686 |
| Cash book balance at end of year | - | (4 499) |
| Bank statement balance at beginning of year | 1 | 113 637 |
| Bank statement balance at end of year | 1 | 1 |
| | 13 413 153 | 9 274 707 |

Call Deposits

All deposits are held at ABSA Bank and First National Bank, and earn interest at rates linked to prime.

Cash on hand

| | | |
|---------------------------------|------------|-----------|
| Total cash and cash equivalents | 13 435 244 | 9 274 707 |
| Total bank overdraft | - | (833 885) |

2 TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Trade receivables

as at 30 June 2010

Service debtors

Rates

Refuse

Total

Rental Debtors

Total

as at 30 June 2009

Service debtors

Rates

Refuse

Total

Rental Debtors

Total

| | Gross Balances R | Provision for Doubtful Debts R | Net Balance R |
|--|---------------------|--------------------------------------|------------------|
| | 2 020 275 | (2 012 288) | 7 987 |
| | 621 465 | (500 639) | 120 826 |
| | 2 641 740 | (2 512 927) | 128 813 |
| | 223 539 | (203 432) | 20 107 |
| | 2 865 279 | (2 716 359) | 148 920 |
| | 1 117 845 | (1 022 258) | 95 588 |
| | 546 410 | (212 034) | 334 375 |
| | 1 664 255 | (1 234 292) | 429 963 |
| | 207 032 | (203 432) | 3 600 |
| | 1 871 287 | (1 437 724) | 433 563 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|-----------------------|------------------|------------------|
| Rates: Ageing | | |
| Current (0 – 30 days) | 7 987 | - |
| 31 - 60 Days | - | - |
| 61 - 90 Days | - | - |
| 91 - 120 Days | 3 811 | - |
| 121 - 365 Days | 2 008 477 | 1 117 845 |
| + 365 Days | - | - |
| Total | 2 020 275 | 1 117 845 |

| | | |
|-----------------------|----------------|----------------|
| Refuse: Ageing | | |
| Current (0 – 30 days) | 77 859 | 85 326 |
| 31 - 60 Days | 24 469 | 19 440 |
| 61 - 90 Days | 18 498 | 17 642 |
| 91 - 120 Days | 16 705 | 15 586 |
| 121 - 365 Days | 483 934 | 408 416 |
| + 365 Days | - | - |
| Total | 621 465 | 546 410 |

Summary of Debtors by Customer Classification

| | Consumers R | Industrial / Commercial R | National and Provincial Government R |
|---|--------------------|-------------------------------------|---|
| as at 30 June 2010 | | | |
| Current (0 – 30 days) | 131 744 | 132 831 | 45 699 |
| 31 - 60 Days | 60 695 | 44 140 | 18 392 |
| 61 - 90 Days | 48 041 | 27 112 | 5 463 |
| 91 - 120 Days | 41 390 | 29 340 | 5 798 |
| 121 - 365 Days | 2 221 067 | 1 443 156 | 319 608 |
| + 365 Days | - | - | - |
| Sub-total | 2 502 937 | 1 676 579 | 394 960 |
| Less: Provision for doubtful debts | (1 374 955) | (921 006) | (216 966) |
| Total debtors by customer classification | 1 127 982 | 755 573 | 177 994 |
| as at 30 June 2009 | | | |
| Current (0 – 30 days) | 39 657 | 39 766 | 5 903 |
| 31 - 60 Days | 10 507 | 7 436 | 1 496 |
| 61 - 90 Days | 9 738 | 6 939 | 965 |
| 91 - 120 Days | 8 582 | 6 211 | 794 |
| 121 - 365 Days | 1 049 083 | 430 171 | 47 008 |
| + 365 Days | - | - | - |
| Sub-total | 1 117 567 | 490 522 | 56 166 |
| Less: Provision for doubtful debts | (953 887) | (280 405) | - |
| Total debtors by customer classification | 163 680 | 210 118 | 56 166 |

The Municipality's policy with regards to doubtful debts is to provide for all debts that are older than 90 days.

2 Reconciliation of the doubtful debt provision

| | | |
|--|------------------|------------------|
| Balance at beginning of the year | 1 234 292 | 1 022 258 |
| Contributions to provision | 3 041 614 | 859 241 |
| Doubtful debts written off against provision | - | - |
| Reversal of provision | - | (443 775) |
| Balance at end of year | 4 275 906 | 1 437 724 |

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2010, no debtors (2009: R 141,205) were past due but not impaired.

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

| | | |
|-------------------|---|---------|
| 1 month past due | - | 19 440 |
| 2 months past due | - | 17 642 |
| 3 months past due | - | 104 123 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|--|-----------|-----------|
| <u>Trade and other receivables impaired</u> | | |
| As of 30 June 2010, trade and other receivables of R 4,275,906 (2009: R 1,437,724) were impaired and provided for. | | |
| The amount of the provision was R 4,275,906 as of 30 June 2010 (2009: R 1,437,724). | | |
| The ageing of these receivables is as follows: | | |
| 3 to 6 months | 4 275 906 | 1 437 724 |
| Over 6 months | - | - |

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

3 OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

| | | |
|-------------------------------|---------------|----------------|
| Other debtors | - | - |
| Creditors with debit balances | 71 080 | 160 078 |
| Total Other Debtors | 71 080 | 160 078 |

4 NON-CURRENT RECEIVABLES

| | | |
|---|----------|----------|
| Car loans | - | 54 079 |
| | - | 54 079 |
| Less : Current portion transferred to current receivables | - | (54 079) |
| Car loans | - | (54 079) |
| Total | - | - |

CAR LOANS

Senior staff was entitled to car loans which attracted interest at 19% per annum and which were repayable over a maximum period of 4 years. These loans were repayable in 2008/09 financial year.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

5 PROPERTY, PLANT AND EQUIPMENT

| | Land | Buildings | Infrastructure | Community | Heritage | Other Assets | Finance lease assets | Total |
|--|-----------|-------------|----------------|-------------|----------|--------------|----------------------|---------------|
| | R | R | R | R | R | R | R | R |
| 5.1 Reconciliation of Carrying Value | | | | | | | | |
| as at 1 July 2009 | - | - | - | - | - | - | - | - |
| Cost/Revaluation | 510 000 | 8 370 303 | 74 753 697 | 9 307 497 | - | 18 848 326 | - | 111 789 823 |
| Change in accounting policy (note 22) | (510 000) | (8 370 303) | (74 753 697) | (9 307 497) | - | (18 848 326) | - | (111 789 823) |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - | - | - |
| Capital under Construction | - | - | - | - | - | - | - | - |
| Depreciation | - | - | - | - | - | - | - | - |
| Carrying value of disposals | - | - | - | - | - | - | - | - |
| Cost/Revaluation | - | - | - | - | - | - | - | - |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |
| Impairment loss/Reversal of impairment loss | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - |
| Other movements* | - | - | - | - | - | - | - | - |
| as at 30 June 2010 | - | - | - | - | - | - | - | - |
| Cost/Revaluation | - | - | - | - | - | - | - | - |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |

| | Land | Buildings | Infrastructure | Community | Heritage | Other Assets | Finance lease assets | Total |
|--|-----------|-------------|----------------|-------------|----------|--------------|----------------------|---------------|
| | R | R | R | R | R | R | R | R |
| 5.1 Reconciliation of Carrying Value | | | | | | | | |
| as at 1 July 2008 | - | - | - | - | - | - | - | - |
| Cost/Revaluation | 510 000 | 8 274 286 | 77 727 495 | 9 258 601 | - | 20 562 910 | - | 116 333 292 |
| Correction of error (note 23) | - | - | - | - | - | 18 289 | - | 18 289 |
| Change in accounting policy (note 22) | (510 000) | (8 274 286) | (77 727 495) | (9 258 601) | - | (20 581 199) | - | (116 351 581) |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | - | - | - |
| Capital under Construction | - | - | - | - | - | - | - | - |
| Depreciation | - | - | - | - | - | - | - | - |
| Carrying value of disposals | - | - | - | - | - | - | - | - |
| Cost/Revaluation | - | - | - | - | - | - | - | - |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |
| Impairment loss/Reversal of impairment loss | - | - | - | - | - | - | - | - |
| Transfers | - | - | - | - | - | - | - | - |
| *Other movements | - | - | - | - | - | - | - | - |
| as at 30 June 2009 | - | - | - | - | - | - | - | - |
| Cost/Revaluation | - | - | - | - | - | - | - | - |
| Accumulated depreciation and impairment losses | - | - | - | - | - | - | - | - |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|--|------------------|-----------|
| 6 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS | | |
| Other creditors | 938 756 | - |
| Debtors with credit balances | 71 166 | - |
| Total creditors | 1 009 922 | - |

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

Accruals totalling R 648,340.63 (2009: R 21,242,948.27) were in existence at year end.

7 VAT RECEIVABLE

| | | |
|----------------|-----------|-----------|
| VAT receivable | 3 934 697 | 3 133 931 |
|----------------|-----------|-----------|

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

8 UNSPENT CONDITIONAL GRANTS AND RECEIPTS

8.1 Unspent Conditional Grants from other spheres of Government

| | | |
|--|-------------------|------------------|
| MIG Grants | 12 069 192 | 5 664 973 |
| Other | 2 245 130 | 3 344 196 |
| Total Unspent Conditional Grants and Receipts | 14 314 321 | 9 009 169 |

Non-current unspent conditional grants and receipts

| | | |
|---|-------------------|------------------|
| | - | - |
| Current portion of unspent conditional grants and receipts | 14 314 322 | 9 009 169 |

See Note 14 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.

9 BORROWINGS

| | | |
|------------------|---------------|------------------|
| Other borrowings | 26 364 | 1 333 333 |
| | 26 364 | 1 333 333 |

Less : Current portion transferred to current liabilities

| | | |
|------------------|----------|-------------|
| Other borrowings | (26 364) | (1 333 333) |
| | - | - |

Total borrowings

Refer to Appendix A for more detail on borrowings.

10 PROPERTY RATES

Actual

| | | |
|---|------------------|------------------|
| Residential | 1 250 712 | 714 971 |
| Commercial | 1 588 212 | 732 542 |
| State | 607 664 | 3 874 |
| Total property rates | 3 446 589 | 1 451 388 |
| Property rates - penalties imposed and collection charges | - | - |
| Total | 3 446 589 | 1 451 388 |

Valuations

| | | |
|----------------------------------|--------------------|--------------------|
| Residential | 108 467 780 | 52 445 750 |
| Commercial | 137 737 400 | 53 611 863 |
| State | 52 699 560 | 354 447 |
| Municipal | 13 517 423 | 10 785 380 |
| Total Property Valuations | 312 422 163 | 117 197 440 |

Valuations on land and buildings are performed every four years. The last valuation came into effect on 2 July 2008.

A general rate of R0.0132 (2008: R0.01391282) is applied to property valuations to determine assessment rates. Rebates of 20% are granted to state property owners. Rates are levied on an annual basis on property owners.

Rates are levied on an annual basis with the final date of payment being 30 June 2010 (2009: 30 June).

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

2010
R

2009
R

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|--|--------------------|-------------------|
| 11 SERVICE CHARGES | | |
| Refuse removal | 587 933 | 608 537 |
| Total Service Charges | <u>587 933</u> | <u>829 237</u> |
| 12 RENTAL OF FACILITIES AND EQUIPMENT | | |
| Rental of facilities | 79 498 | 107 332 |
| Total rentals | <u>79 498</u> | <u>107 332</u> |
| 13 INTEREST EARNED - EXTERNAL INVESTMENTS | | |
| Bank | 1 266 843 | 497 674 |
| Total interest | <u>1 266 843</u> | <u>497 674</u> |
| 14 GOVERNMENT GRANTS AND SUBSIDIES | | |
| Equitable share | 38 441 250 | 28 890 412 |
| MIG Grant | 11 657 780 | 8 098 506 |
| Other Government Grants and Subsidies | 67 599 066 | 2 752 872 |
| Total Government Grant and Subsidies | <u>117 698 097</u> | <u>39 741 790</u> |
| 14.1 Equitable Share | | |
| <p>In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy of 50% of basic charge for water and sanitation and 6 kilolitres of free water, which is funded from the grant.</p> | | |
| 14.2 MIG Grant | | |
| Balance unspent at beginning of year | 5 664 973 | 245 503 |
| Current year receipts | 18 062 000 | 13 517 976 |
| Conditions met - transferred to revenue | (11 657 780) | (8 098 506) |
| Conditions still to be met - remain liabilities (see note 8) | <u>12 069 192</u> | <u>5 664 973</u> |
| 14.3 Other Government Grants and Subsidies | | |
| Balance unspent at beginning of year | 3 344 196 | 3 802 068 |
| Current year receipts | 66 500 000 | 2 235 000 |
| Conditions met - transferred to revenue | (67 599 066) | (2 692 872) |
| Conditions still to be met - remain liabilities (see note 8) | <u>2 245 130</u> | <u>3 344 196</u> |
| 14.4 Changes in levels of government grants | | |
| <p>Based on the allocations set out in the Division of Revenue Act, (Act 2 of 2008), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.</p> | | |
| 15 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS | | |
| 15.1 Other income | 2 959 005 | 2 715 185 |
| Total Other Income | <u>2 959 005</u> | <u>2 715 185</u> |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|---|-------------------|-------------------|
| 16 EMPLOYEE RELATED COSTS | | |
| Employee related costs - Salaries and Wages | 10 507 936 | 8 915 093 |
| Employee related costs - Contributions for UIF, pensions and medical aids | 2 433 592 | 2 157 220 |
| Travel, motor car, accommodation, subsistence and other allowances | 1 785 753 | 874 144 |
| Housing benefits and allowances | 48 740 | 38 060 |
| Overtime payments | 159 730 | 143 050 |
| Performance and other bonuses | 937 981 | 695 476 |
| Other employee related costs | 27 515 | 71 570 |
| Total Employee Related Costs | 15 901 247 | 12 894 613 |
| Remuneration of the Municipal Manager | | |
| Annual Remuneration | 191 465 | 407 828 |
| Performance- and other bonuses | - | - |
| Travel, motor car, accommodation, subsistence and other allowances | 37 779 | 100 657 |
| Contributions to UIF, Medical and Pension Funds | 11 169 | 1 497 |
| Total | 240 413 | 509 983 |
| Remuneration of the Chief Finance Officer | | |
| Annual Remuneration | 421 036 | 376 487 |
| Performance- and other bonuses | - | - |
| Travel, motor car, accommodation, subsistence and other allowances | 119 963 | 95 691 |
| Contributions to UIF, Medical and Pension Funds | 1 497 | 1 497 |
| Total | 542 496 | 473 675 |

| | Remuneration of Individual Executive Directors | | |
|--|---|-----------------------------|--------------------------------|
| | Technical Services R'000 | Corporate Services R'000 | Community Services R'000 |
| 2010 | | | |
| Annual Remuneration | 426 773 | 424 740 | 421 036 |
| Performance- and other bonuses | - | - | - |
| Travel, motor car, accommodation, subsistence and other allowances | 200 038 | 113 636 | 92 065 |
| Contributions to UIF, Medical and Pension Funds | 1 547 | 3 433 | 44 161 |
| Total | 628 359 | 541 808 | 557 262 |
| 2009 | | | |
| Annual Remuneration | 376 487 | 376 487 | 376 487 |
| Performance- and other bonuses | - | - | - |
| Travel, motor car, accommodation, subsistence and other allowances | 144 573 | 106 258 | 84 471 |
| Contributions to UIF, Medical and Pension Funds | 1 497 | 1 497 | 1 497 |
| Total | 522 557 | 484 242 | 462 455 |

17 REMUNERATION OF COUNCILLORS

| | | |
|--|------------------|------------------|
| Executive Mayor | 536 781 | 492 630 |
| Speaker | 490 325 | 420 489 |
| Executive Committee Members | 1 407 980 | 1 349 969 |
| Councillors' pension and medical aid contributions | 721 491 | 7 732 |
| Councillors' allowances | 3 616 385 | 3 671 151 |
| Total Councillors' Remuneration | 6 772 962 | 5 941 971 |

In-kind Benefits

The Mayor, Speaker and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by the Council at no cost. The Mayor has use of the Council owned vehicle for official duties.

Engcobo Local Municipality
NOTES TO THE FINANANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|--|-------------------|--------------------|
| 18 GENERAL EXPENSES | | |
| Included in general expenses are the following:- | | |
| Advertising | 81 093 | 66 909 |
| Admin fees | 240 963 | 232 694 |
| Audit fees | 2 718 725 | 2 052 275 |
| Bank charges | 83 608 | 85 718 |
| Cleaning | 83 454 | 39 038 |
| Conferences and delegations | 553 323 | 122 222 |
| Consulting fees | 161 972 | 345 346 |
| Entertainment | 199 055 | 87 422 |
| Electrification expense | 65 766 668 | - |
| Financial management grant | 2 049 559 | 463 583 |
| Fuel and oil | 790 507 | 801 180 |
| Insurance | 136 026 | 290 794 |
| Legal expenses | 656 816 | 407 157 |
| Levies paid | 7 175 | 5 308 |
| Licence fees - vehicles | 620 | 202 951 |
| Licence fees - computers | 152 334 | 204 022 |
| Postage | 5 504 | 5 820 |
| Printing and stationery | 418 096 | 329 927 |
| Rental of office equipment | 531 840 | 336 718 |
| Other rentals | 86 955 | 14 600 |
| Security costs | 744 503 | 583 488 |
| Skills development levies | 294 261 | 181 076 |
| Stocks and material | 139 298 | 448 028 |
| Subscription & publication | 8 850 | 6 200 |
| Telephone cost | 657 026 | 475 982 |
| Training | 151 640 | 70 233 |
| Transport claims | - | 1 900 |
| Travel and subsistence | 568 603 | 447 926 |
| Valuation costs | 214 946 | 220 000 |
| Other | 8 236 013 | 7 785 200 |
| | 85 853 698 | 16 313 717 |
| 19 GAIN / (LOSS) ON SALE OF ASSETS | | |
| Property, plant and equipment - Includes loss on transfer of assets to the District Municipality | - | (7 952 030) |
| Total Gain / (Loss) on Sale of Assets | - | (7 952 030) |
| 20 CASH GENERATED BY OPERATIONS | | |
| Surplus/(deficit) for the year | 14 630 580 | 405 651 |
| Adjustment for:- | | |
| Depreciation and amortisation | - | - |
| (Gain) / loss on sale of assets | - | 7 952 030 |
| Finance costs | - | - |
| Fair value adjustments | - | - |
| Impairment loss / (reversal of impairment loss) | - | - |
| Interest earned | (1 266 843) | (497 674) |
| Operating surplus before working capital changes: | 13 363 737 | 7 860 008 |
| (Increase)/decrease in trade receivables | 284 643 | 1 189 367 |
| (Increase)/decrease in other receivables | 143 077 | 4 061 725 |
| (Increase)/decrease in VAT receivable | (800 766) | (695 855) |
| Increase/(decrease) in conditional grants and receipts | 5 305 153 | 4 961 598 |
| Increase/(decrease) in trade payables | (297 047) | (14 099 592) |
| Increase/(decrease) in consumer deposits | - | - |
| Cash generated by/(utilised in) operations | 17 998 799 | 3 277 250 |
| Interest received/Finance cost | 1 266 843 | 497 674 |
| Net cash flows from operating activities | 19 265 641 | 3 774 924 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|---|-------------------|------------------|
| 21 CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents included in the cash flow statement comprise the following: | | |
| Bank balances and cash | 13 435 244 | 9 274 707 |
| Bank overdrafts | 22 091 | (833 885) |
| Net cash and cash equivalents (net of bank overdrafts) | 13 457 335 | 8 440 821 |

22 CHANGE IN ACCOUNTING POLICY

The Municipality has elected to adopt Directive 4, resulting in changes to the following transactions and account balances:

Statement of Financial Position

| | | |
|--|--------------|---------------|
| Property, Plant and Equipment | (14 271 219) | (76 537 507) |
| - Cost | (14 271 219) | (111 789 823) |
| - Accumulated Depreciation | - | 35 252 316 |
| <i>Net effect on the Statement of Financial Position</i> | (14 271 219) | (76 537 507) |

Statement of Financial Performance

| | | |
|---|---|-------------|
| Depreciation expense | - | (7 137 049) |
| <i>Net effect on the Statement of Financial Performance</i> | - | (7 137 049) |

23 CORRECTION OF ERROR

During the year ended 30 June 2009, amounts owing by consumers in respect of Sewerage and Water charges were incorrectly written off against Gains/Losses on disposal of assets to the amount of R 1,611,797. During the year ended 30 June 2010, an amount of R54,079 was written off against accumulated surplus as these accounts were paid in prior years already.

The effect of the correction is as follows:

| | 2010 | 2009 |
|--|----------|-----------|
| Gain / (loss) on sale of assets | - | 1 611 797 |
| <i>Net effect on surplus/(deficit) for the year</i> | - | 1 611 797 |
| Assets | - | 1 611 797 |
| Debtors | (54 079) | |
| Liabilities | - | - |
| <i>Net effect on Statement of Financial Position</i> | (54 079) | 1 611 797 |
| <i>Net effect on Accumulated surplus opening balance</i> | (54 079) | 1 611 797 |

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

24 DISALLOWED

24.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

| | | |
|---|-------------------|------------------|
| Opening balance | 8 414 302 | - |
| Unauthorised expenditure current year | 7 004 503 | 8 414 302 |
| Approved by Council or condoned | - | - |
| Unauthorised expenditure awaiting authorisation | 15 418 805 | 8 414 302 |

Incident

Disciplinary steps/criminal proceedings

| | | | |
|-----------------------------|------|------------------|------------------|
| Executive & Council | None | 507 464 | 102 095 |
| Finance & Admin | None | 4 024 539 | 7 821 554 |
| Community & Social Services | None | 2 472 500 | 160 416 |
| Waste Management | None | - | 330 238 |
| | | 7 004 503 | 8 414 302 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R | | | | | | | | | |
|---|---|-------------------|----------|---|--|---|-------------|--------|--|-------------|--|
| 24.2 Fruitless and wasteful expenditure | | | | | | | | | | | |
| Reconciliation of fruitless and wasteful expenditure | | | | | | | | | | | |
| Opening balance - | 16 643 | - | | | | | | | | | |
| Fruitless and wasteful expenditure current year | - | 16 643 | | | | | | | | | |
| Condoned or written off by Council | - | - | | | | | | | | | |
| Fruitless and wasteful expenditure awaiting condonement | <u>16 643</u> | <u>16 643</u> | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: left;">Incident</th> <th style="width: 40%; text-align: left;">Disciplinary steps/criminal proceedings</th> <th style="width: 30%;"></th> </tr> </thead> <tbody> <tr> <td>Late payment of PAYE</td> <td></td> <td style="text-align: right;">16 643</td> </tr> </tbody> </table> | | | Incident | Disciplinary steps/criminal proceedings | | Late payment of PAYE | | 16 643 | | | |
| Incident | Disciplinary steps/criminal proceedings | | | | | | | | | | |
| Late payment of PAYE | | 16 643 | | | | | | | | | |
| 24.3 Irregular expenditure | | | | | | | | | | | |
| Reconciliation of irregular expenditure | | | | | | | | | | | |
| Opening balance | - | 15 700 000 | | | | | | | | | |
| Irregular expenditure current year | - | 229 980 | | | | | | | | | |
| Condoned or written off by Council | - | - | | | | | | | | | |
| Irregular expenditure awaiting condonement | <u>-</u> | <u>15 929 980</u> | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 30%; text-align: left;">Incident</th> <th style="width: 40%; text-align: left;">Disciplinary steps/criminal proceedings</th> <th style="width: 30%;"></th> </tr> </thead> <tbody> <tr> <td>Rental income forgone due to provision of free residence to official.</td> <td style="text-align: center;"><i>None</i></td> <td></td> </tr> <tr> <td>Non-compliance with supply chain management policy regarding obtaining of quotes</td> <td style="text-align: center;"><i>None</i></td> <td></td> </tr> </tbody> </table> | | | Incident | Disciplinary steps/criminal proceedings | | Rental income forgone due to provision of free residence to official. | <i>None</i> | | Non-compliance with supply chain management policy regarding obtaining of quotes | <i>None</i> | |
| Incident | Disciplinary steps/criminal proceedings | | | | | | | | | | |
| Rental income forgone due to provision of free residence to official. | <i>None</i> | | | | | | | | | | |
| Non-compliance with supply chain management policy regarding obtaining of quotes | <i>None</i> | | | | | | | | | | |
| ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE | | | | | | | | | | | |
| 25 MANAGEMENT ACT | | | | | | | | | | | |
| 25.1 Contributions to organised local government | | | | | | | | | | | |
| Opening balance | - | - | | | | | | | | | |
| Council subscriptions | 8 850 | 11 598 | | | | | | | | | |
| Amount paid - current | (8 850) | (11 598) | | | | | | | | | |
| Amount paid - previous years | - | - | | | | | | | | | |
| Balance unpaid (included in payables) | <u>-</u> | <u>-</u> | | | | | | | | | |
| 25.2 Audit fees | | | | | | | | | | | |
| Opening balance | - | 86 370 | | | | | | | | | |
| Current year audit fee | 2 718 955 | 2 052 275 | | | | | | | | | |
| Amount paid - current year | (2 718 955) | (2 138 645) | | | | | | | | | |
| Amount paid - previous years | - | - | | | | | | | | | |
| Balance unpaid (included in payables) | <u>-</u> | <u>-</u> | | | | | | | | | |
| 25.3 VAT | | | | | | | | | | | |
| VAT input receivables and VAT output payables are shown in note 18. All VAT returns have been submitted by the due date throughout the year. | | | | | | | | | | | |
| 25.4 PAYE and UIF | | | | | | | | | | | |
| Opening balance | 809 | - | | | | | | | | | |
| Current year payroll deductions | 1 889 261 | 2 376 405 | | | | | | | | | |
| Amount paid - current year | (1 889 261) | (2 375 595) | | | | | | | | | |
| Amount paid - previous years | (809) | - | | | | | | | | | |
| Balance unpaid (included in payables) | <u>-</u> | <u>809</u> | | | | | | | | | |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|---|-------------|---------------|
| 25.5 Pension and Medical Aid Deductions | | |
| Opening balance | 19 779 | 10 080 |
| Current year payroll deductions and Council Contributions | 4 112 733 | 3 480 939 |
| Amount paid - current year | (4 112 733) | (3 471 239) |
| Amount paid - previous years | (19 779) | - |
| Balance unpaid (included in payables) | - | 19 779 |

25.6 Councillor's arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days as at: -

as at 30 June 2010

| | Total R | Outstanding less than 90 days R | Outstanding more than 90 days R |
|--|---------------|---------------------------------------|---------------------------------------|
| Councillor MM Sigwela | 10 696 | 981 | 9 715 |
| Total Councillor Arrear Consumer Accounts | 10 696 | 981 | 9 715 |

as at 30 June 2009

| | | | |
|--|--------------|--------------|--------------|
| Councillor MM Sigwela | 4 838 | 1 021 | 3 817 |
| Total Councillor Arrear Consumer Accounts | 4 838 | 1 021 | 3 817 |

During the year the following Councillors had arrear accounts outstanding for more than 90 days.

| | Highest Amount Outstanding R | Ageing Days |
|---------------------------|------------------------------------|-------------|
| as at 30 June 2010 | | |
| Councillor MM Sigwela | 4 838 | + 90 days |
| as at 30 June 2009 | | |
| Councillor MM Sigwela | 3 817 | + 90 days |

26 CAPITAL COMMITMENTS

26.1 Commitments in respect of capital expenditure

| | | |
|--|--------------------|--------------------|
| - Approved and contracted for Infrastructure | 138 696 106 | 210 901 437 |
| | 138 696 106 | 210 901 437 |
| Total | 138 696 106 | 210 901 437 |

This expenditure will be financed from:

| | | |
|---------------------|--------------------|--------------------|
| - Government Grants | 138 696 106 | 210 901 437 |
| | 138 696 106 | 210 901 437 |
| | 138 696 106 | 210 901 437 |

27 RETIREMENT BENEFIT INFORMATION

27.1 Defined contribution plan

The following are defined contribution plans: SAMWU Provident Fund, Cape Joint Pension Fund and Councillors' Pension Fund. These contributions have been expensed.

There are 103 employees that belong to the SAMWU Provident Fund (2009: 116), 18 employees that belong to the Cape Joint Pension Funds (2009: 28) and there are 29 councillors that belong to the Councillors' Pension Fund (2009: 28).

Amounts contributed to the plans are as follows:

| | 2010 | 2009 |
|---------------------------|-----------|-----------|
| SAMWU Provident Fund | 2 014 420 | 2 263 711 |
| - employer | 671 474 | 754 569 |
| - employees | 1 342 947 | 1 509 142 |
| Cape Joint Pension Fund | 586 177 | 160 140 |
| - employer | 187 059 | 53 380 |
| - employees | 399 117 | 106 760 |
| Councillors' Pension Fund | 1 171 952 | 1 097 101 |
| - employer | 2 738 | - |
| - councillors | 1 169 215 | 1 097 101 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 R | 2009 R |
|--|-----------|-------------------|
| 28 CONTINGENT LIABILITY | | |
| 28.1 Claims for damages/loss suffered | | <u>25 416 341</u> |
| <p>The Council is currently defending the following cases lodged by its suppliers and a member of the community. All these cases are defended by the Municipality.</p> <p>Jongisizwe Traffic Solutions - In this case the Municipality signed a contract with this company, but did not allow them to perform the duties agreed on. Then they agreed on repudiation. The total claim intimated is R22,369,000 for expenses.</p> <p>Qhamani Plant Hire - The company was hired by the Municipality to construct a road. The Municipality then refused to pay a balance which related to the hire of plant and machinery. The supplier is claiming an amount of R2,291,341.20.</p> <p>Zama Buka - This community member's car was hit by a Municipal vehicle. He is now claiming for repairs to be made to his car.</p> <p>Noxolo Palmer Mahlanyana - The Municipality has been threatened to be sued by an employee for a housing benefit.</p> <p>Aluvo Construction - the Municipality has been threatened to be sued by the company for non-payment in respect of services rendered.</p> <p>Noxolo Palmer Mahlanyana - The Municipality has been threatened to be sued by an employee for a housing benefit.</p> <p>Portia Tyanikazi Magwentshu - the Municipality is being sued for refuse services charged for but were not performed.</p> <p>Phumzile Kilwa - the Municipality is being sued by the employee for an alleged unlawful suspension.</p> | | |
| 28.2 Assault charge - Municipal employee | | <u>2 000</u> |
| <p>State/Thembinkosi Nete - The state has instructed the Municipality to defend a Municipal employee in a case of assault.</p> | | |

29 RELATED PARTIES

| | |
|---|------------------------|
| Joint Ventures | <i>None identified</i> |
| Associates | <i>None identified</i> |
| Members of key management | <i>None identified</i> |
| Close family member of key management | <i>None identified</i> |
| Post employment benefit plan for employees of municipality and/or other related parties | <i>None identified</i> |
| Other related party relationships | <i>None identified</i> |
| Compensation to councillors and other key management (refer to note 17) | <i>None identified</i> |

30 EVENTS AFTER THE REPORTING DATE

There are no events subsequent to the reporting date which require reporting on.

31 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS

The following areas involve a significant degree of estimation uncertainty:

Provision for doubtful debts

32 RISK MANAGEMENT

32.1 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.

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 | 2009 |
|---|-------------|-------------|
| | R | R |
| 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. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate. | | |
| Financial assets exposed to credit risk at year end were as follows: | | |
| Call Deposits | 13 413 153 | 9 274 707 |
| Trade and other receivables | 220 000 | 647 721 |

These balances represent the maximum exposure to credit risk.

32.2 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.

| | Not later than one month | Later than one month and not later than three months |
|---------------------------------|--|---|
| 2010 | | |
| Bank overdraft | - | - |
| Borrowings | 26 364 | - |
| Trade and other payables | 1 009 922 | - |
| | | |
| | Later than three months and not later than one year | Later than one year and not later than five years |
| 2010 | | |
| Gross finance lease obligations | - | - |
| Borrowings | - | - |
| Trade and other payables | - | - |
| | | |
| | Not later than one month | Later than one month and not later than three months |
| 2009 | | |
| Bank overdraft | 833 885 | - |
| Borrowings | - | - |
| Trade and other payables | - | - |
| | | |
| | Later than three months and not later than one year | Later than one year and not later than five years |
| 2009 | | |
| Bank overdraft | - | - |
| Borrowings | 1 333 333 | - |
| Trade and other payables | - | - |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 | 2009 |
|---|-------------|-------------|
| | R | R |
| 32.3 Interest rate risk | | |
| <p>The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.</p> <p>At year end, financial instruments exposed to interest rate risk were as follows:</p> | | |
| - Call deposits | 13 413 153 | 9 274 707 |
| - Bank overdraft | - | 833 885 |
| - Borrowings | - | 1 333 333 |

32.4 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.

As the entity does not have any instruments that effect net assets directly, the disclosure only indicates the effect of the change in interest rates on surplus.

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

| | 2010 | 2009 |
|---|-------------|-------------|
| Increase (decrease) in interest rates | | |
| The estimated increase (decrease) in basis points | (100) | (200) |
| Effect on surplus | - | 166 777 |

Engcobo Local Municipality
NOTES TO THE FINANCIAL STATEMENTS
for the year ended 30 June 2010

| | 2010 | 2009 |
|--|---------------------|------|
| | R | R |
| 33 RECONCILIATION OF BUDGET SURPLUS WITH THE DEFICIT IN THE STATEMENT OF FINANCIAL PERFORMANCE | | |
| | 30 June 2010 | |
| The comparison of the Municipality's actual financial performance with that budgeted is set out in Annexures E(1) and E(2) | | |
| Net surplus/deficit per the statement of financial performance: | 14 630 580 | |
| Adjusted for: | | |
| Property rates | (58 659) | |
| Service charges | 26 037 | |
| Rental of facilities and equipment | 24 842 | |
| Interest earned - external investments | (666 843) | |
| Fines | (54 176) | |
| Licences and permits | (290 202) | |
| Government grants and subsidies | 81 185 | |
| Other income | (1 904 451) | |
| Employee related costs | (985 773) | |
| Remuneration of councillors | 1 919 968 | |
| Repairs and maintenance | (818 242) | |
| General expenses | 1 191 253 | |
| Gain / (loss) on sale of assets | - | |
| Net surplus/deficit per approved budget: | 13 095 519 | |

Engcobo Local 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 |
| LONG-TERM LOANS | | | | | | | | |
| CHDM Loan | | 30 June 2009 | 1 333 333 | 26 364 | (1 333 333) | 26 364 | - | - |
| Total long-term loans | | | 1 333 333 | 26 364 | (1 333 333) | 26 364 | - | - |
| TOTAL EXTERNAL LOANS | | | | | | | | |