



NDLAMBE LOCAL MUNICIPALITY

**Annual Financial Statements
for the year ended 30 June 2011**

Issued 31 August 2011

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

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Abbreviations

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

The annual financial statements set out on pages 2 to 51, which have been prepared on the going concern basis, were approved on 31 August 2011 and were signed by:

Adv R Dumezweni
Municipal Manager

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	2	637 361	486 027
Trade and other receivables from non-exchange transactions	3	209 891	1 577 014
Trade and other receivables from exchange transactions	4	33 168 516	24 772 545
Cash and cash equivalents	5	19 008 556	14 623 958
Investments	6	2 134 403	724 958
		55 158 727	42 184 502
Non-Current Assets			
Property, plant and equipment	7	96 979 678	65 867 197
Total Assets		152 138 405	108 051 699
Liabilities			
Current Liabilities			
Consumer deposits	8	1 554 479	1 413 870
Trade and other payables	9	16 410 198	12 034 179
Unspent conditional grants and receipts	10	16 517 103	23 818 722
VAT payable	31	3 064 467	4 942 399
Current portion of non-current DBSA liabilities		2 846 172	2 585 021
		40 392 419	44 794 191
Non-Current Liabilities			
Financial liabilities - DBSA	11	30 376 639	33 222 805
Retirement benefit obligation	13	40 306 986	41 505 723
		70 683 625	74 728 528
Total Liabilities		111 076 044	119 522 719
Net Assets		41 062 361	(11 471 020)
Net Assets			
Accumulated surplus		41 062 361	(11 471 020)

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Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue	14	203 005 753	192 664 052
Other income		12 635 407	2 711 741
Operating expenses		(164 386 285)	(178 415 786)
Operating surplus		51 254 875	16 960 007
Investment revenue	22	4 293 868	5 758 129
Fair value adjustments	23	1 409 445	252 235
Finance costs	24	(3 779 869)	(6 926 513)
Surplus for the year		53 178 319	16 043 858

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2008	(27 623 291)	(27 623 291)
Changes in net assets		
Surplus for the year	16 043 858	16 043 858
Unbundling of funds	108 413	108 413
Total changes	16 152 271	16 152 271
Balance at 01 July 2010	(11 471 018)	(11 471 018)
Changes in net assets		
Prior period error	(644 940)	(644 940)
Net income (losses) recognised directly in net assets	(644 940)	(644 940)
Surplus for the year	53 178 319	53 178 319
Total recognised income and expenses for the year	52 533 379	52 533 379
Total changes	52 533 379	52 533 379
Balance at 30 June 2011	41 062 361	41 062 361
Note(s)		

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Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		126 107 088	113 527 060
Grants		62 289 367	77 326 667
Interest income		4 292 545	5 757 402
Dividends received		1 323	727
		<u>192 690 323</u>	<u>196 611 856</u>
Payments			
Employee costs		(65 723 077)	(64 148 804)
Suppliers		(73 133 678)	(73 133 678)
Finance costs		(3 779 869)	(6 926 513)
Other payments		(14 811 176)	(14 811 176)
		<u>(157 447 800)</u>	<u>(159 020 171)</u>
Net cash flows from operating activities	28	<u>35 242 523</u>	<u>37 591 685</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(31 112 481)	(35 238 338)
Proceeds from sale of property, plant and equipment	7	431 677	1 245 189
Proceeds from sale of financial assets		1 409 445	252 235
Purchase of investments		(1 409 445)	(252 235)
Other cash item		2 407 894	-
		<u>(28 272 910)</u>	<u>(33 993 149)</u>
Net cash flows from investing activities		<u>(28 272 910)</u>	<u>(33 993 149)</u>
Cash flows from financing activities			
Repayment of financial liabilities - DBSA		(2 846 166)	(2 657 142)
Current borrowings net proceeds		261 151	498 457
		<u>(2 585 015)</u>	<u>(2 158 685)</u>
Net cash flows from financing activities		<u>(2 585 015)</u>	<u>(2 158 685)</u>
Net increase/(decrease) in cash and cash equivalents		4 384 598	1 439 851
Cash and cash equivalents at the beginning of the year		14 623 958	13 184 107
Cash and cash equivalents at the end of the year	5	<u>19 008 556</u>	<u>14 623 958</u>

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period, except for the changes set out in note 29 Changes in accounting policy

1.1 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.1 Property, plant and equipment (continued)

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

Item	Average useful life
Land	Indefinite
Buildings	50 Years
Plant and machinery	3-10 Years
Furniture and fixtures	5-10 Years
Motor vehicles	3-7 Years
Office equipment	3-5 Years
IT equipment	3 Years
Computer software	3 Years
Infrastructure	20- 80 Years
Community	10-30 Years
Specialised vehicles	10-15 Years
Wastewater network	80 Years
Water network	50 Years

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

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

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

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 7. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

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Accounting Policies

1.2 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised 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.

Intangible assets are initially recognised at cost.

An intangible asset acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

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

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

Transitional provision

The municipality changed its accounting policy for intangible assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

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Accounting Policies

1.2 Intangible assets (continued)

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

Until such time as the measurement period expires and intangible assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Intangible assets implies that any associated presentation and disclosure requirements need not be complied with for intangible assets not measured in accordance with the requirements of the Standard of GRAP on Intangible assets.

1.3 Financial instruments

Classification

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

- Financial assets at fair value through surplus or deficit - designated
- Loans and receivables
- Financial liabilities measured at amortised cost

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

Initial recognition and measurement

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

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

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

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

Subsequent measurement

Financial instruments at fair value through surplus or deficit are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Net gains or losses on the financial instruments at fair value through surplus or deficit dividends and interest.

Dividend income is recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

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Accounting Policies

1.3 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

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Accounting Policies

1.3 Financial instruments (continued)

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Other leases are classified as operating leases.

Finance leases - lessee

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

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

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

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

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

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Accounting Policies

1.5 Inventories (continued)

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

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

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

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.6 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

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Accounting Policies

1.6 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Cash-generating units

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and

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Accounting Policies

1.6 Impairment of cash-generating assets (continued)

- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. 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 (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Useful life is either:

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

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating 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 entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

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An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. 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 (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.8 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

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

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

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

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

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1.8 Employee benefits (continued)

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.9 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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1.9 Provisions and contingencies (continued)

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

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 35.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Until such time as the measurement period expires and provisions, contingent liabilities and contingent assets is recognised and measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets implies that any associated presentation and disclosure requirements need not be complied with for provisions, contingent liabilities and contingent assets not measured in accordance with the requirements of the Standard of GRAP on Provisions, contingent liabilities and contingent assets.

1.10 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.6 and 1.7. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

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1.11 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.12 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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Accounting Policies

1.12 Investment property (continued)

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, and only when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the enterprise, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation less any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	50 years
Lifts	20 years
Air-conditioners	5 years
Other components	x years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

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

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

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1.13 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.14 Construction contracts and receivables

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

Transitional provision

The municipality changed its accounting policy for construction contracts in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 2 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 2 of the GRAP Reporting Framework, where construction contracts was acquired through a transfer of functions, the municipality is not required to measure that construction contracts for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and construction contracts has accordingly been recognised at provisional amounts, as disclosed in .

Until such time as the measurement period expires and construction contracts is recognised and measured in accordance with the requirements of the Standard of GRAP on Construction contracts, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Construction contracts implies that any associated presentation and disclosure requirements need not be complied with for construction contracts not measured in accordance with the requirements of the Standard of GRAP on Construction contracts.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

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1.15 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets..

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Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value without directly giving approximately equal value in exchange, or gives value without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 Fruitless and wasteful expenditure

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

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

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or

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1.21 Irregular expenditure (continued)

- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

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

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

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

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

1.22 Use of estimates

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

1.23 Presentation of currency

These annual financial statements are presented in South African Rand.

1.24 Offsetting

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

1.25 Investments

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

1.26 Conditional grants and receipts

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

1.27 Budget information

Municipalities are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.27 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 40.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
2. Inventories		
Electricity	75 038	154 464
Water	64 155	74 854
Stores, materials and fuels	498 168	256 709
	637 361	486 027
Inventory pledged as security		
No inventory was pledged as security.		
3. Trade and other receivables from non-exchange transactions		
Deposits	70 500	70 500
Recoverable legal expenses	207 437	207 437
Grants suspense	1 174 544	1 186 544
Government subsidies	-	1 471 575
Prepaid expenses	117 530	-
Recoverable fruitless and wasteful expenditure	119 058	119 058
Provision for bad debts	(1 478 100)	(1 478 100)
Accrued income	(1 078)	-
	209 891	1 577 014
4. Trade and other receivables from exchange transactions		
Gross balances		
Rates	17 040 699	14 613 200
Electricity	7 185 926	5 829 667
Water	27 428 028	25 869 349
Waste water	426 746	310 847
Sewerage	9 372 708	8 499 517
Refuse	9 582 092	9 808 928
Housing rental	1 378 632	1 688 215
Service charges and other	17 607 816	23 688 831
	90 022 647	90 308 554
Less: Provision for debt impairment		
Impairment allowance	(56 854 131)	(65 536 009)
Net balance		
Rates	17 040 699	14 613 200
Electricity	7 185 926	5 829 667
Water	27 428 028	25 869 349
Waste water	426 746	310 847
Sewerage	9 372 708	8 499 517
Refuse	9 582 092	9 808 928
Housing rental	1 378 632	1 688 215
Service charges and other	17 607 816	23 688 831
Impairment allowance	(56 854 131)	(65 536 009)
	33 168 516	24 772 545

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
4. Trade and other receivables from exchange transactions (continued)		
Rates		
Current (0 -30 days)	3 888 412	3 576 427
31 - 60 days	1 761 490	1 819 876
61 - 90 days	602 830	831 124
> 90 days	10 787 967	8 385 773
	17 040 699	14 613 200
Electricity		
Current (0 -30 days)	3 003 676	3 578 917
31 - 60 days	1 126 875	865 351
61 - 90 days	307 016	357 804
> 90 days	2 748 359	1 027 595
	7 185 926	5 829 667
Water		
Current (0 -30 days)	952 172	2 509 421
31 - 60 days	840 325	1 068 278
61 - 90 days	996 792	844 878
> 90 days	24 638 739	21 446 772
	27 428 028	25 869 349
Waste water		
Current (0 -30 days)	29 323	14 708
31 - 60 days	36 163	24 852
61 - 90 days	37 048	13 045
> 90 days	324 212	258 242
	426 746	310 847
Sewerage		
Current (0 -30 days)	428 987	350 271
31 - 60 days	378 058	393 327
61 - 90 days	332 799	343 198
> 90 days	8 232 864	7 412 721
	9 372 708	8 499 517
Refuse		
Current (0 -30 days)	479 117	537 581
31 - 60 days	432 776	479 607
61 - 90 days	358 488	404 021
> 90 days	8 311 711	8 387 719
	9 582 092	9 808 928
Service charges and other		
Current (0 -30 days)	(1 254 041)	1 340 851
31 - 60 days	440 977	524 476
61 - 90 days	417 980	514 212
> 90 days	18 002 900	21 309 292
	17 607 816	23 688 831

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010				
4. Trade and other receivables from exchange transactions (continued)						
Housing rental						
Current (0 -30 days)	(30 216)	(36 156)				
31 - 60 days	12 043	13 712				
61 - 90 days	11 909	12 899				
> 90 days	1 384 896	1 697 760				
	1 378 632	1 688 215				
Total						
Current (0 -30 days)	7 497 430	11 872 020				
31 - 60 days	5 028 707	5 189 479				
61 - 90 days	3 064 862	3 321 181				
> 90 days	74 431 648	69 925 874				
	90 022 647	90 308 554				
Reconciliation of debt impairment provision						
Balance at beginning of the year	(65 536 009)	(38 791 603)				
Contributions to provision	(7 551 800)	(29 491 160)				
Debt impairment written off against provision	16 233 678	1 268 654				
Debt impairment for non exchange receivables	-	1 478 100				
	(56 854 131)	(65 536 009)				
5. Cash and cash equivalents						
Cash and cash equivalents consist of:						
Cash on hand	4 550	4 050				
Bank balances	13 778 392	9 608 616				
Short-term deposits	5 225 614	5 011 292				
	19 008 556	14 623 958				
The total amount of undrawn facilities available for future operating activities and commitments	3 077 000	3 077 000				
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
FIRST NATIONAL BANK - General Account - Current	1 411 724	2 352 434	6 346 726	(7 209 513)	(5 381 170)	(5 064 808)
FIRST NATIONAL BANK - Housing Account - Current	1 626 112	874 238	2 213 472	1 626 112	862 587	1 355 199
FIRST NATIONAL BANK - Revolving Account - Current	19 367 025	15 525 940	3 094 101	19 361 793	14 127 199	3 477 535
Total	22 404 861	18 752 612	11 654 299	13 778 392	9 608 616	(232 074)
6. Investments						
These investments are classified financial assets.						
Fair value of investments are as at face value and Old Mutual shares as at quoted market value at 30 June 2011.						
New Republic Bank (under curatorship)	1 398 945	674 936				
Listed shares - Old Mutual (aquired upon demutualisation)	60 522	50 022				
	1 459 467	724 958				

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

2011

2010

6. Investments (continued)

7. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	8 485 749	-	8 485 749	8 485 749	-	8 485 749
Plant and machinery	2 467 852	-	2 467 852	2 411 668	-	2 411 668
Motor vehicles	2 148 976	-	2 148 976	-	-	-
Office equipment	197 938	-	197 938	55 610	-	55 610
Infrastructure	29 218 735	-	29 218 735	14 820 434	-	14 820 434
Wastewater network	34 647 767	-	34 647 767	23 128 572	-	23 128 572
Water network	12 938 111	-	12 938 111	12 867 589	-	12 867 589
Roads	6 625 327	-	6 625 327	4 097 575	-	4 097 575
IT equipment	55 039	-	55 039	-	-	-
Computer software	194 184	-	194 184	-	-	-
Total	96 979 678	-	96 979 678	65 867 197	-	65 867 197

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Buildings	8 485 749	-	8 485 749
Plant and machinery	2 411 668	56 184	2 467 852
Motor vehicles	-	2 148 976	2 148 976
Office equipment	55 610	142 328	197 938
IT equipment	-	55 039	55 039
Computer software	-	194 184	194 184
Infrastructure	14 820 434	14 398 301	29 218 735
Roads	4 097 575	2 527 752	6 625 327
Wastewater network	23 128 572	11 519 195	34 647 767
Water network	12 867 589	70 522	12 938 111
	65 867 197	31 112 481	96 979 678

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Buildings	5 882 310	2 603 439	8 485 749
Plant and machinery	2 411 668	-	2 411 668
Office equipment	-	55 610	55 610
Infrastructure	6 597 565	8 222 869	14 820 434
Roads	515 064	3 582 511	4 097 575
Wastewater network	9 097 230	14 031 342	23 128 572
Water network	6 125 022	6 742 567	12 867 589
	30 628 859	35 238 338	65 867 197

Transitional provisions

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality elected to adopt the transitional provisions for the implementation of GRAP in accordance with the concessions as per Directive 4 of the GRAP reporting framework. Certain property, plant and equipment has been recognised at R1-00 and additions from 2009 to 2011 have been recognised at cost. The municipality is in the process of determining the infrastructure componentisation and values.

Due to the adoption of the transitional provisions, no depreciation was calculated in respect of the 2010 and 2011 financial year.

8. Consumer deposits

Electricity	1 433 790	1 312 367
Water	120 689	101 503
	1 554 479	1 413 870

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
9. Trade and other payables		
Trade payables	84 665	143 177
Payments received in advance	21 082	2 599 978
Retention - valuations	319 200	319 200
Accrued leave pay	3 034 475	1 978 233
Accrued bonus	1 565 340	-
Accrued expense	4 907 287	1 823 087
Deposits received	850 910	842 747
Other payables	43 396	49 595
Unidentified direct deposits	1 347 444	1 068 667
EC Housing	4 236 399	3 209 495
	16 410 198	12 034 179

10. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Unspent grants	16 517 103	23 818 722
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The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. Expenditure on grants was made in terms of the relevant conditions and no grant funding was withheld during the year

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
11. Financial liabilities - DBSA		
Held at amortised cost		
DBSA Loan 102198 10 years @ 10,89%	5 775 969	6 874 030
DBSA Loan 101161/2 20 years @ 12,34%	6 801 536	7 004 664
DBSA Loan 13478/101 20 years @ 17%	4 012 096	4 207 322
DBSA Loan 101855 10 years @ 9,68%	4 616 632	5 521 414
DBSA Loan 102557/1 15 years @ 8,81%	9 170 406	9 615 375
	30 376 639	33 222 805
Non-current liabilities		
At amortised cost	30 376 639	33 222 805
12. Finance lease obligation		
Minimum lease payments due		
- within one year	337 509	840 867
- in second to fifth year inclusive	-	337 509
Total minimum lease payments	337 509	1 178 376

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

The average lease term was 5 years and the average effective borrowing rate was 13% (2010: 13%).

The leases have not been capitalised as finance lease assets have been accounted for in terms of the transitional provisions of Directive 4.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

13. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

Ndlambe Municipality employees contribute to 5 medical aid schemes, namely Bonitas, Hosmed, Key-Health, LA Health and SAMWU Med. Pensioners continue on the option they belong to on the day of their retirement.

The obligation in respect of the medical care contributions for retirement benefits is valued by an independent qualified actuary. The last actuarial valuation was performed on 30 June 2010 by Deloitte using the Projected Unit Credit Method.

Ndlambe Municipality opted not to recognise any actuarial gains/losses applying the "Corridor" method.

The split for interest and service costs could not be obtained from the Valuer for the prior year and therefore the below figures could not be further analysed. This was therefore considered impracticable.

The amounts recognised in the statement of financial position are as follows:

Balance at the beginning of the year

Balance at the beginning of the year	(41 505 723)	(37 242 947)
Service cost	-	(2 801 438)
Interest cost	-	(2 640 167)
Less: Benefits paid	1 198 737	1 178 829
Net liability	(40 306 986)	(41 505 723)

14. Revenue

Rendering of services	366 971	125 485
Property rates	42 377 546	32 964 467
Service charges	91 526 016	75 767 494
Rental of facilities & equipment	3 178 190	3 132 911
Fines	482 007	421 325
Licences and permits	2 785 656	2 925 703
Government grants & subsidies	62 289 367	77 326 667
	203 005 753	192 664 052

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

Rendering of services	366 971	125 485
Service charges	91 526 016	75 767 494
Rental of facilities & equipment	3 178 190	3 132 911
Licences and permits	2 785 656	2 925 703
	97 856 833	81 951 593

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

Taxation revenue

Property rates	42 377 546	32 964 467
Fines	482 007	421 325
Transfer revenue		
Levies	62 289 367	77 326 667
	105 148 920	110 712 459

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
15. Property rates		
Rates received		
Property rates	42 377 546	32 964 467
Valuations		
All	10 812 030 470	0 923 382 589

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2010. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on an monthly basis.

16. Service charges

Sale of electricity	39 918 486	28 995 243
Sale of water	22 925 930	20 221 122
Sewerage and sanitation charges	9 984 963	8 520 888
Refuse removal	18 069 943	16 783 990
Other service charges	626 694	1 246 251
	91 526 016	75 767 494

17. Government grants and subsidies

Equitable share	21 747 346	35 696 943
Health subsidies	2 840 543	3 841 543
Government grant (PPE)	24 407 844	33 845 055
Government grant (operating)	13 293 634	3 943 126
	62 289 367	77 326 667

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
18. General expenses		
Advertising	68 201	170 349
Auditors remuneration	2 031 546	756 095
Bank charges	577 048	674 207
Cleaning	186	8 633
Commission paid	246 975	271 505
Consulting and professional fees	15 335 706	11 665 488
Communication programmes	47 277	67 238
Boat decals	62 748	67 383
Entertainment	41 159	76 121
Flowers	625	4 268
Hire	60 337	81 879
Insurance	1 557 046	1 309 027
Election expenses	-	975
IT expenses	181 816	584 433
Lease rentals on operating lease	1 633 285	1 849 375
Indigent expenses	-	20 061 466
Motor vehicle expenses	180 080	152 373
Fuel and oil	2 874 922	2 316 082
Postage and courier	416 274	525 052
Printing and stationery	1 086 942	873 705
Promotions	37 752	40 248
Security (Guarding of municipal property)	1 050 245	824 031
Staff welfare	8 619	-
Subscriptions and membership fees	54 871	625 445
Telephone and fax	1 301 284	1 272 632
Transport and freight	47 886	59 607
Training	143 460	124 029
Travel - local	792 551	1 071 894
Refuse	48 603	49 861
Electricity	9 201 959	3 796 113
Sewerage and waste disposal	122 281	114 318
Uniforms & protective clothing	368 841	376 830
Tourism development	57 811	-
Water Testing	307 463	330 297
MIG Expenses	-	646 515
Bursaries	63 045	22 847
MSIG Expenses	(26 576)	481 108
Water Services Authority expenses	172 026	184 664
Publicity	436 000	361 830
Valuation expenses	582 889	1 070 642
Transport (workshop)	282 680	207 178
Chemicals	506 966	426 246
PMS review process	496	41 266
Clearing of erven	-	46 500
Other expenses	1 095 847	285 109
	43 059 172	53 974 864

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
19. Employee related costs		
Basic	42 463 663	38 944 664
Medical aid - company contributions	4 066 962	5 354 291
UIF	405 501	380 828
WCA	229 888	345 347
SDL	475 241	456 587
Leave pay provision charge	1 056 241	436 470
Bonus provision charge	1 565 340	-
Post-employment benefits - Pension - Defined contribution plan	5 904 702	5 392 464
Overtime payments	3 892 762	4 046 214
Car allowance	2 256 229	2 015 582
Housing benefits and allowances	256 768	283 589
Group insurance	469 238	342 414
Allowances	1 682 144	1 477 429
Industrial levy	20 943	18 739
Casuals	552 453	830 832
	65 298 075	60 325 450
Remuneration of municipal manager		
Annual Remuneration	533 973	483 941
Car Allowance	172 494	149 984
Telephone allowance	13 994	13 240
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	135 681	141 083
	856 142	788 248
Remuneration of chief finance officer		
Annual Remuneration	479 478	456 879
Car Allowance	168 831	159 574
Telephone allowance	13 994	14 392
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	146 183	171 257
	808 486	802 102
Remuneration of executive directors		
Remuneration of the director: infrastructural development		
Annual Remuneration	478 087	455 585
Car Allowance	172 494	163 037
Telephone allowance	13 994	14 392
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	145 599	213 004
	810 174	846 018
Remuneration of the director: corporate services		
Annual Remuneration	481 165	464 999
Car Allowance	172 494	163 037
Telephone allowance	13 994	14 392
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	33 141	111 740
	700 794	754 168
Remuneration of the director: community and protection services		
Annual Remuneration	475 087	452 404

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
19. Employee related costs (continued)		
Car Allowance	172 494	163 037
Telephone allowance	13 994	14 392
Other (13th Cheque, Allowance, UIF, Medical, Pension, etc)	138 445	220 947
	800 020	850 780
20. Remuneration of councillors		
Executive Major	601 989	588 649
Speaker	264 971	254 871
Other councillors	3 236 803	2 979 834
	4 103 763	3 823 354
21. Debt impairment		
Contributions to debt impairment provision	7 551 800	29 464 739
22. Investment revenue		
Dividend revenue		
Listed financial assets - Old Mutual	1 323	727
Interest revenue		
Unlisted financial assets	303 170	590 877
Bank	205 529	2 123 993
Interest charged on trade and other receivables	3 783 846	3 042 532
	4 292 545	5 757 402
	4 293 868	5 758 129
23. Fair value adjustments		
Other financial assets		
• NRB (under curatorship) amount due, Old Mutual shares	1 409 445	252 235
24. Finance costs		
Non-current borrowings	3 779 869	6 915 354
Bank	-	11 159
	3 779 869	6 926 513
25. Auditors' remuneration		
Fees	2 031 546	756 095
26. Grants and subsidies paid		
Other subsidies		
FMG	1 108	-
Audit action plan	1 488	-
Operating expenditure ex Grant Funding	11 945 501	3 834 711
	11 948 097	3 834 711

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
27. Bulk purchases		
Electricity	21 377 109	16 595 271
Water	5 337 504	4 084 778
	26 714 613	20 680 049

28. Cash generated from operations

Surplus	53 178 319	16 043 858
Adjustments for:		
Loss (gain) on sale of assets and liabilities	(431 677)	(1 245 189)
Fair value adjustments	(1 409 445)	(252 235)
Debt impairment	7 551 800	29 464 739
Retirement benefits	(1 198 737)	4 262 776
Other non cash items	-	473 458
Adjust for advances	-	9 346 514
Adjustment to surplus on IMFO transactions	-	(10 953 792)
Changes in working capital:		
Inventories	(151 334)	54 026
Trade and other receivables from non-exchange transactions	1 367 123	247 840
Consumer debtors	(19 000 601)	(19 000 601)
Trade and other payables	4 376 017	3 378 486
VAT	(1 877 932)	1 217 902
Unspent conditional grants and receipts	(7 301 619)	4 438 010
Consumer deposits	140 609	115 893
	35 242 523	37 591 685

29. Changes in accounting policy

Reconciliation of effect of accounting policy changes on accumulated surplus			
Retirement benefit obligation recognised in statement of financial performance 2009	-	-	(37 242 947)
Trust funds	-	-	35 819 426
Property, plant and equipment	-	-	(21 067 266)
Receivables	-	-	(12 882 806)
Provision for audit fees	-	-	1 365 096
Unspent conditional grants	-	-	(21 142 529)
Accumulated funds movement	-	-	20 535 843
Other	-	-	(15)
Accumulated surplus restated at 1 July 2009	-	-	<u>(27 623 291)</u>

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of an accounting policy based on the following standards:

- GRAP 21
- GRAP 23
- GRAP 26
- GRAP 104

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations

30.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods:

GRAP 18: Segment Reporting 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 municipality. 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 municipality'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 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

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 in 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 01 July 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

Unlikely there will be a material impact

Unable to reliably estimate the impact

Expected impact is...

Impact is currently being assessed

Not expected to impact results but may result in additional disclosure

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

GRAP 106: Transfer of Functions between Entities not under common control

An Entity shall account for each transfer of functions between Entities not under common control by applying the acquisition method. This requires identifying the acquirer, the acquisition date, recognising and measuring Assets/Liabilities acquired and assumed, non-controlling interests in the acquiree, and recognise any differences between Net Assets/Liabilities and considerations received.

In the current financial year the Department of Health assumed all responsibility for providing Primary Health Care services in the municipal area. As such, associated assets and liabilities were acquired and assumed by the Department on 1 January 2011.

The effective date of the standard is still to be determined by the Minister of Finance in a Regulation to be published in accordance with Section 91(1)(b) of the Public Finance Management Act No 1 of 1999, as amended.

The impact of this standard is currently being assessed.

GRAP 20: Related Party Disclosures

Related Party relationships, transactions and outstanding balances, including commitments, shall be disclosed in a note to the Annual Financial Statements.

The effective date of the standard is still to be determined by the Minister of Finance in a Regulation to be published in accordance with Section 91(1)(b) of the Public Finance Management Act No 1 of 1999, as amended.

The impact of this standard is currently being assessed.

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

GRAP 23: Revenue from Non-exchange Transactions

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 municipality.

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 reduction.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 103: Heritage Assets

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:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

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.

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.

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

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.

Grp 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 or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of 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 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 21: Impairment of non-cash-generating assets

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

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 26: Impairment of cash-generating assets

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

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

An municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity's decision to terminate an employee's employment before the normal retirement date; or
 - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality has transferred control of the asset to another municipality.

An municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality expects to adopt the standard for the first time in the 2013 annual financial statements.

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

30.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

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 municipality. 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 municipality'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 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

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 in 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.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

30. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 July 2011.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the 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;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual 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 annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

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.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

The aggregate impact of the initial application of the statements and interpretations on the municipality's annual financial statements is expected to be as follows:

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
31. VAT payable		
Vat refunds payable	3 064 467	4 942 399
32. Other income		
Admission fees	57 962	63 073
Alexandria sundry	-	3 465
Building plan fees	550 576	463 586
Canoe contract	-	567
Encroachments	2 471	6 298
Event application fees	8 667	7 305
Sundry fees	71 713	4 883
Sundry fees	2 247	1 265
Pit inspection fees	4 574	4 275
Refuse bags sold	20 993	19 971
River usage	101 565	114 282
Sundry income	500 907	577 695
Subdivisions	13 437	33 298
Town planning income	110 698	111 987
Valuation rolls	70 228	44 949
Disconnection admin fee	28 840	-
	1 544 878	1 456 899
33. Administrative expenditure		
Administration and management fees - third party	26 115	33 864
34. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	1 235 520	1 235 520
This committed expenditure relates to infrastructure development and will be financed from grant funding.		
35. Contingencies		
Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2011 is R3 907 437. The estimated amount on 30 June 2010 was R2 907 437.		
36. Going concern		
The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.		
37. Events after the reporting date		
There were no events for disclosure that occurred after the reporting date.		
38. Unauthorised expenditure		
Unauthorised expenditure	-	15 644 428

The above amount represents expenditure incurred due to either no budget or overspending on budget.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
39. Irregular expenditure		
Opening balance	25 742 161	5 877 767
Add: Irregular Expenditure - current year	-	19 864 394
	25 742 161	25 742 161
40. Reconciliation between budget and statement of financial performance		
Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:		
Net surplus per the statement of financial performance	53 178 319	16 043 858
Adjusted for:		
Fair value adjustments	(1 409 445)	(252 235)
External audit fees	-	(150 000)
Loss on the sale of assets	(431 677)	(1 245 189)
Increases / decreases in provisions	-	1 973 580
Service cost medical aid benefit	-	2 801 438
Interest cost medical aid benefit	-	2 640 187
Redemption	-	(5 726 370)
Other	(6 088 157)	-
Net surplus per approved budget	45 249 040	16 085 269
41. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	-	617 662
Audit fees		
Amount paid - current year	2 023 771	1 830 534
PAYE and UIF		
Amount paid - current year	6 911 243	6 333 928
Pension and Medical Aid Deductions		
Amount paid - current year	16 317 522	14 893 781
VAT		
VAT payable	3 064 467	4 942 399

All VAT returns have been submitted by the due date throughout the year.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
41. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Incident		
Sundries	5 107 881	350 675
Water infrastructure	7 094 340	-
Uniforms & protective clothing	286 033	-
	12 488 254	350 675

42. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

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Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2011

Detailed Income statement

Figures in Rand	Note(s)	2011	2010
Revenue			
Rendering of services		366 971	125 485
Property rates	15	42 377 546	32 964 467
Service charges	16	91 526 016	75 767 494
Rental of facilities and equipment		3 178 190	3 132 911
Fines		482 007	421 325
Licences and permits		2 785 656	2 925 703
Government grants & subsidies	17	62 289 367	77 326 667
Rental income		10 546	9 653
DORA savings		10 648 306	-
Other income	32	1 544 878	1 456 899
Interest received - investment	22	4 292 545	5 757 402
Dividends received	22	1 323	727
Total Revenue		219 503 351	199 888 733
Expenditure			
Personnel	19	(65 298 075)	(60 325 450)
Remuneration of councillors	20	(4 103 763)	(3 823 354)
Administration	33	(26 115)	(33 864)
Finance costs	24	(3 779 869)	(6 926 513)
Debt impairment	21	(7 551 800)	(29 464 739)
Repairs and maintenance		(5 684 650)	(6 278 755)
Bulk purchases	27	(26 714 613)	(20 680 049)
Grants and subsidies paid	26	(11 948 097)	(3 834 711)
General Expenses	18	(43 059 172)	(53 974 864)
Total Expenditure		(168 166 154)	(185 342 299)
Gain on disposal of assets and liabilities		431 677	1 245 189
Fair value adjustments	23	1 409 445	252 235
Surplus for the year		53 178 319	16 043 858

APPENDIX A

NDLAMBE MUNICIPALITY: SCHEDULE OF EXTERNAL LOANS AS AT 30 JUNE 2011

Loan Number	Redeemable	Balance at 30 June 2010	Received during the period	Redeemed written off during the period	Balance at 30 June 2011	
		Rand	Rand	Rand	Rand	
DEVELOPMENT BANK OF SOUTH AFRICA						
DBSA @ 12.34% p.a.	101161/2	2025/03/31	7 187 250	-	182 586	7 004 664
DBSA @ 16.38% p.a.	11228/15007.5	2010/12/31	6 007	-	6 007	-
DBSA @ 17.00% p.a.	13478/101	2020/12/31	4 378 675	-	171 353	4 207 322
DBSA @ 10.89% p.a.	102198	2016/03/31	7 863 793	-	989 762	6 874 031
DBSA @ 9.68% p.a.	101855	2016/03/31	6 346 144	-	824 730	5 521 414
DBSA @ 8.81% p.a.	102557/1	2023/09/30	10 025 958	-	410 577	9 615 381
			35 807 827	-	2 585 015	33 222 812
BONDS						
OTHER LOANS						
TOTAL EXTERNAL LOANS						
DEVELOPMENT BANK OF SOUTH AFRICA			35 807 827	-	2 585 015	33 222 812
			35 807 827	-	2 585 015	33 222 812