Baviaans Local Municipality
Annual Financial Statements
for the period ended 30 June 2011

Auditor-General: Eastern Cape
Issued 31 August 2011

General Information

Legal form of entity	Local Authority
Mayoral committee	
Executive Mayor	EL Loock
Councillors	D Bezuidenhout J Booysen P Daniels C Krisjan
Grading of local authority	Grade 1
Accounting Officer	JZA Vumazonke
Chief Finance Officer (CFO)	JD Doyle
Registered office	42 Wehmeyer Street Willowmore 6445
Business address	42 Wehmeyer Street Willowmore 6445
Bankers	ABSA Bank Willowmore
Auditors	Auditor-General: Eastern Cape
Attorneys	Steyn and Van der Vyver Willowmore

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

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
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)
IFRS	International Financial Reporting Standards

Accounting Officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) and the prescripts of the Municipali Finance Management Act.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 6.

The annual financial statements set out on pages 6 to 61, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2010 and were signed on:

Municipal Manager **J.Z.A. Vumazonke**	**Chief Financial Officer** **J.D. Doyle**

Willowmore

31 August 2011

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Legal form of entity

Baviaans Local Municipality is low capacity municipality and delivers basic services such as water, electricty and refuse removal services to the Willowmore, Steytlerville and Rietbron region.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and does not in our opinion require any further comment.

2. 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.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations, guidelines and directives issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Non-current assets

Details of major changes in the nature of the non-current assets of the municipality during the year were as follows:

Fixed assets were recognised in accordance with GRAP17: Property, plant and equipment and the transitional provisions of Directive 4.

6. Auditors

Auditor-General: Eastern Cape will continue in office for the next financial period.

7. Relevant legislation governing the entity's operations

1.) Constitution of South Africa 1993
2.) Municipal Finance Management Act No.56 of 2003
3.) Property Rates Act No. 6 of 2003
4.) Division of Revenue Act No. 12 of 2009
5.) Municipal Fiscal Powers and Functions Act No. 12 of 2007
6.) Municipal Systems Act No. 32 of 2000
7.) Municipal Structures Act No. 33 of 2000
8.) Municipal Demarcation Act No. 27 of 1998
9.) Value Added Tax Act No. 89 of 1991
10.) Income Tax Act No.58 of 1962

Statement of Financial Position

	Note(s)	2011 R	2010 R
Assets			
Current Assets			
Inventories	3	19,723	13,271
Other financial assets	4	5,810	7,294,696
Trade and other receivables from exchange transactions	5	194,673	463,279
VAT receivable form non-exchange transactions	6	2,936,919	1,339,394
Consumer payables from exchange transactions	7	2,970,167	2,546,342
Cash and cash equivalents	8	-	193,465
		6,127,292	**11,850,447**
Non-Current Assets			
Investment property	9	10,155	10,155
Property, plant and equipment	10	37,739,376	25,896,711
Intangible assets	11	466,343	466,343
		38,215,874	**26,373,209**
Total Assets		**44,343,166**	**38,223,656**
Liabilities			
Current Liabilities			
Other financial liabilities	12	-	6,707
Finance lease obligation	13	696,106	539,771
Trade and other payables from exchange transactions	14	9,848,142	5,794,311
Consumer deposits	15	137,165	132,545
Unspent conditional grants and receipts	16	3,219,697	6,632,164
Provisions	17	423,128	262,744
Bank overdraft	8	289,375	-
		14,613,613	**13,368,242**
Non-Current Liabilities			
Finance lease obligation	13	1,162,597	1,403,043
Total Liabilities		**15,776,210**	**14,771,285**
Net Assets		**28,566,956**	**23,452,371**
Net Assets			
Accumulated surplus		28,566,956	23,452,371

Statement of Financial Performance

	Note(s)	2011 R	2010 R
Revenue			
Property rates		2,955,267	2,383,026
Service charges		7,724,389	6,646,646
Rental of facilities and equipment	24	64,756	97,330
Interest received (Outstanding debtors)		350,502	344,608
Income from agency services		256,610	765,616
Fines		11,750	14,410
Licences and permits		518,028	387,123
Government grants & subsidies	25	26,339,953	25,672,786
Adjustment to trade and other payables		4,199,554	-
Other income	26	2,061,493	623,339
Interest received - investment	27	325,177	965,944
Total Revenue		**44,807,479**	**37,900,828**
Expenditure			
Personnel	28	(14,486,046)	(11,674,479)
Remuneration of councillors	29	(1,042,232)	(886,073)
Transfer payments		-	(16,380)
Finance costs	30	(524,687)	(273,779)
Allowance for bad debt	31	(883,862)	(579,705)
Repairs and maintenance		(2,747,700)	(2,688,092)
Bulk purchases		(5,530,556)	(4,016,783)
General expenses	32	(14,477,814)	(13,881,070)
Total Expenditure		**(39,692,897)**	**(34,016,361)**
Gain on disposal of assets and liabilities		-	39,423
Surplus for the year		**5,114,582**	**3,923,890**

Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	19,356,580	19,356,580
Adjustments		
Prior year adjustments	171,901	171,901
Balance at 01 July 2009 as restated	**19,528,481**	**19,528,481**
Changes in net assets		
Surplus for the year	3,923,890	3,923,890
Total changes	3,923,890	3,923,890
Balance at 01 July 2010	**23,452,374**	**23,452,374**
Changes in net assets		
Surplus for the year	5,114,582	5,114,582
Total changes	5,114,582	5,114,582
Balance at 30 June 2011	**28,566,956**	**28,566,956**

Note(s)

Cash Flow Statement

	Note(s)	2011 R	2010 R
Cash flows from operating activities			
Receipts			
Sale of goods and services		39,025,261	28,989,147
Interest income		325,177	965,944
Interest received from receivables		350,502	344,608
		39,700,940	30,299,699
Payments			
Suppliers		(35,014,496)	(33,897,670)
Finance costs		(218,752)	(22,747)
		(35,233,248)	(33,920,417)
Net cash flows from operating activities	34	**4,467,692**	**(3,620,718)**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(11,842,665)	(8,520,322)
Proceeds from sale of property, plant and equipment	10	-	39,423
Purchase of investment property	9	-	(7,000)
Proceeds from sale of investment property	9	-	2,150
Purchase of other intangible assets	11	-	(436,008)
Proceeds from sale of financial assets		7,288,886	11,170,212
Net cash flows from investing activities		**(4,553,779)**	**2,248,455**
Cash flows from financing activities			
Repayment of other financial liabilities		(6,707)	(95,214)
Finance lease payments		(390,046)	437,566
Net cash flows from financing activities		**(396,753)**	**342,352**
Net increase/(decrease) in cash and cash equivalents		**(482,840)**	**(1,029,911)**
Cash and cash equivalents at the beginning of the year		193,465	1,223,376
Cash and cash equivalents at the end of the year	8	**(289,375)**	**193,465**

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.

1.1 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables and loans and receivables for impairment at 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.

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

Fair value estimation

Unquoted financial assets are measured at fair value using valuation techniques. Inherent to these techniques are certain uncertainties like time of cash flows and interest rates used for discounting.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The recoverable (service) amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

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 17 - Provisions.

Useful lives

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment. This estimate is based on the pattern in which an assets's future economic benefits or potential are expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.1 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

The municipality uses an appropriate interest rate, taking into account guidance provided in the standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Allowance for doubtful debts

On receivables 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 receivables's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 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.

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, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, 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.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

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 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 and GRAP 16 - Investment Property of the as issued by the Accounting Standards Board.

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 note 9. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 as issued by the Accounting Standards Board, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the

1.2 Investment property (continued)
Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been recognised at provisional amounts, as disclosed in note 9.

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)

1.3 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 or fair value 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.

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

Where the municipaility replaces parts of an asset it derecognises the part of the asset being replaced and capitalises the

1.3 Property, plant and equipment (continued)
new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

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

Motor vehicles are depreciated on a pro rata basis calculated on the basis of kilometers travelled annually as a proportion of the expected useful life of the vehicle.

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

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.

A previously recognised impairment loss is reversed when there is an indication that it may no longer exist or may have decreased, however not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment been recognised in prior years.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 and GRAP 17 - Property Plant as issued by the Accounting Standard Board.

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 note 10. The municipality recognised property, plant and equipment acquired before 01 July 2008 at a zero value. Subsequently no deprectiation was recognised for these assets. These assets will be measured in accordance with GRAP 17 - Property, plant and equipment by the end of the expiry date of the transitional provisions of Directive 4. The municipality recognised property, plant and equipment acquired after 01 July 2008 at its cost price. These items will be measured in accordance with GRAP 17 - Property,plant and equipment by the end of the expiry date of the transitional provisions of Directive 4. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in note 10.

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),

1.3 Property, plant and equipment (continued)

- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.4 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses and development costs.

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.

Subsequent to initial recognition 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.

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:

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.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.
The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be

1.4 Intangible assets (continued)

impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

A previously recognised impairment loss is reversed when there is an indication that it may no longer exist or may have decreased, however not to an amount higher than the carrying amount that would have been determined (net of amortisation) had no impairment been recognised in prior years.

An intangible asset is derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is included in surplus or deficit when the item is derecognised.

Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board.

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 note 11. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standard Board, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible assets 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 intangible assets has accordingly been recognised at provisional amounts, as disclosed in note 11.

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.

1.5 Financial instruments

Classification

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

- Financial assets at fair value through surplus or deficit - held for trading
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities at fair value through surplus or deficit - held for trading
- 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 initialy when the municipality becomes party to the contractual provisions.

1.5 Financial instruments (continued)

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

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

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.

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.

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

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets calculated using the effective interest method is recognised in surplus or deficit as part of other income. Dividends received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

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

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

The credit quality of a financial asset or group of financial assets that is neither past due nor impaired is assessed / monitored by reference to historical information about counterparty default rates. The following are the criteria and indicators that are applied to assess whether or not the financial asset or group of financial assets may be impaired:

* counterparty has evidenced a trend of defaults that indicates that the recoverability of the outstanding balance of the financial asset or group of financial assets is doubtful; and
* financial difficulties identified from an analysis of the counterparty's financial position that would indicate that the recoverability of the outstanding balance of financial asset or group of financial assets is doubtful.

Impairment losses are recognised in surplus or deficit.

Trade and other receivables

Trade and other receivables are classified as loans and receivables and are measured at initial recognition at fair value plus direct transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment loss to reflect irrecoverable amounts. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments.

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

1.5 Financial instruments (continued)
asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Trade and other payables

Financial liabilities consist of trade payables and borrowings. Trade payables are initially measured at fair value, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

Cash and cash equivalents

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

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.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:
- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the municipality has transferred its rights to receive cash flows from the asset and either
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the municipality has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

1.6 Leases

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

Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Finance leases - lessee

The following situations would normally individually or in combination lead to a lease being classified as a finance lease and have been considered by the entity:

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

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 municipality's incremental borrowing rate.

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.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Contingent rentals are recognised as expenses in the period in which they are incurred and are not included in the straightline lease expense.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. The classification of the lease is determined using GRAP 13 Leases

Operating leases - lessor

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

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.

1.6 Leases (continued)

Any contingent rent is recognised separately as revenue when received or receivable and are not straight-lined over the lease term.

Income for leases is disclosed under revenue in the 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. This asset / liability is not discounted.

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

Contingent rentals are recognised as expenses in the period in which they are incurred and are not included in the straightline lease expense.

1.7 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.

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 or current replacement costs 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 or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for inventories in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board.

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

1.7 Inventories (continued)

Until such time as the measurement period expires and inventories are 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 Inventories implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on Inventories.

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

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

Identification

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.

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable 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 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.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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.

After the recognition of an impairment loss, 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.

1.8 Impairment of cash-generating assets (continued)

Recognition and measurement (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
- 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.

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.

1.8 Impairment of cash-generating assets (continued)

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.

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.

1.9 Impairment of non-cash-generating assets

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

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

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

GRAP 21.14 states:
“In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return [i.e. not clear if the asset meets the definition of a cash-generating asset]. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash inflows is so significant that this Standard [GRAP 21] is applicable rather than the Standard of GRAP on Impairment of Cash-generating Assets [GRAP 26]. Judgement is needed to determine which Standard to apply [consequently an entity needs to distinguish between non-cash-generating and cash-generating assets]. An entity develops criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets and non-cash-generating assets with the related guidance in paragraphs .10 to .13. Paragraph .72 requires an entity to disclose the criteria used in making this judgement. However, given the overall objectives of most entities, the presumption is that assets are non-cash-generating and, therefore, this Standard will apply [therefore implying that most entities will only have non-cash-generating assets, therefore no judgement will be required to determine which standard will be applicable – also refer to GRAP 26.15 which is a further testament of this].”

Note that GRAP 26 paragraph 15 is in principle exactly the same as above, therefore it was not included.

From above the following is apparent:

- The judgement that the standard refers to, is in a case where the entity is uncertain whether the asset is used for commercial purposes or not and then the standard requires an entity to evaluate the significance of cash flows generated by the asset, and it is at this point where it may be difficult to determine whether GRAP 21 or GRAP 26 is applicable. (If the asset generated insignificant cash flows from other assets, it will be accounted for under GRAP 21 and not GRAP 26)

- As a result of such judgement to be made by management to determine which standard to use, the criteria used in making the judgement needs to be disclosed in the entity’s accounting policy (as required by par. 72 of GRAP 21 and 115 of GRAP 26).

- Therefore if an entity only has non-cash-generating assets and consequently only applies GRAP 21, there is no need to disclose any criteria as there is no uncertainty as to whether the asset is a non-cash-generating asset or a cash-generating asset.

- The same applies if the entity do have a cash-generating asset (the asset does not operate and generate cash flows independently from other assets nor does it form part of a group of assets that generates cash flows independently from other assets, otherwise the asset would have automatically be accounted for under GRAP 26 already). And there was no difficulty in evaluating the significance of cash flows generated by the asset, therefore there is no uncertainty as to whether the asset is a non-cash-generating asset or a cash-generating asset.

1.9 Impairment of non-cash-generating assets (continued)

If the entity has assets for which it is not clear whether the primary objective of the assets is to generate a commercial return and/or it is difficult to evaluate the significance of cash flows generated by the assets, the following can be used. This can aid management in developing the specific criteria to be used in exercising its judgement (the definition of cash-generating assets and non-cash-generating assets and the related guidance in paragraphs .10 to .13):

- definition of a cash-generating asset and a non-cash-generating asset (therefore identifying the primary objective for which the asset is held)
  - if the primary objective is to generate a commercial return, it is usually a cash-generating asset
  - if the primary objective is to provide service delivery, it is usually a non-cash-generating asset
- where it is established that the asset is held primarily to generate a commercial return, does the asset operate independently from other assets, if so:
  - does the asset generate cash flows independently from other assets, if the answer is yes for both, it is usually a cash-generating asset
- where it is established that the asset is held primarily to generate a commercial return, but the asset does not operate independently from other assets and/or generate cash flows independently from other assets, if so:
  - does the asset form part of a group of assets and the group generates cash flows independently from other assets, if yes, it is usually a cash-generating asset, if not:
  - evaluate the significance of cash flows generated by the asset in a group of assets, if significant, it is treated as a cash-generating asset (under GRAP 26), if insignificant, it is treated a non-cash-generating asset (under GRAP 21).

In conclusion:

The entity need not disclose criteria it used in distinguishing cash-generating assets from non-cash-generating assets, unless it is not clear whether the primary objective of the assets is to generate a commercial return and/or it is difficult to evaluate the significance of cash flows generated by the assets.

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 a non-cash-generating asset is the present value of the non-cash-generating asset's remaining service potential.

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

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 overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or

1.9 Impairment of non-cash-generating assets (continued)
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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of a cash-generating asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

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.

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.

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.

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.

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

1.10 Employee benefits (continued)

Defined contribution plans

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities 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 municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 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.

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

Accounting Policies

1.11 Provisions and contingencies (continued)

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

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

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

Contingent assets and contingent liabilities are recognised as per notes .

1.12 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.

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.

1.12 Revenue from exchange transactions (continued)

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.

Interest

Interest is recognised on a time-apportioned basis, in surplus or deficit.

1.13 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

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.

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.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Fines

Revenue from the issuing of fines 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.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Licenses and permits

Licenses and permits are recognised as revenue 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.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow of economic benefits or service potential. Revenue is then only recognised once evidence of the probability of the flow of economic benefits or service potential becomes available.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

1.14 Borrowing costs

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

1.15 Comparative figures

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

1.16 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.

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Accounting Policies

1.17 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.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure incurred in contravention of or that is not in accordance with:

- (a) a requirement of the MFMA (Act No. 56 of 2003), and which has not been condoned in terms of section 170; or
- (b) a requirement of the Municipal System Act (Act No. 32 of 2000), and which has not been condoned in terms of this Act; or
- (c) a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- (d) a requirement of the supply chain management policy of the municipality or any of the municipality's by-law giving effect to such policy, and which has been condoned in terms of such policy or by-law.

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 the 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.

1.19 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.

1.20 Presentation of currency

These annual financial statements are presented in South African Rand.

1.21 Offsetting

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

Accounting Policies

1.22 Related Parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned or controlled by the South African Government, as a consequence of the constitutional independence of the three spheres of government in South Africa.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. We regard all individuals from the level of Executive Mayor, Municipal Manage and Council Members as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or to be influenced by key management individuals, in their dealings with the entity.

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered 'at arms-length' and 'in the ordinary course of business' are not disclosed in accordance with IPSAS 20 'Related Party Disclosures'.

1.23 Budget information

Comparison of budget and actual amounts are presented in a separate additional annexure: Statement of Comparison of Budget and Actual Amounts.

The entity only presents the final budget amounts.

Differences (variances) between the actual amounts and budget amounts are presented.

The financial statements and budget are not presented on the same basis as the financial statements are prepared on accrual basis and the budget on cash basis of accounting. A comparison of budget and actual amounts is presented in the statement of comparison of budget and actual amounts. A reconciliation between the surplus/(deficit) for the period as per Statement of Financial Performance and budgeted surplus/(deficit) is included in the Statement of Comparison of Budget and Actual Amounts.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and standards that have been issued but are not yet effective but that are relevant to its operations:

GRAP 18: Segment Reporting

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 2011.

The municipality expects to adopt the standard for the first time in the 2012 annual financial statements.

The impact of this standard is currently being assessed.

GRAP 23: Revenue from Non-exchange Transactions

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 January 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 24: Presentation of Budget Information in the Financial Statements

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 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.

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.

IGRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue

An entity assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition.

The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense.

Certificate by Secretary

2. New standards and interpretations (continued)

The effective date of the interpretation is for years beginning on or after 01 April 2010.

The municipality has adopted the interpretation for the first time in the 2011 annual financial statements.

GRAP 21: Impairment of non-cash-generating assets

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

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 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.

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 25: Employee benefits

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

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

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 entity expects to adopt the standard for the first time it becomes effective.

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

2. New standards and interpretations (continued)

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.

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.

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 entity expects to adopt the interpretations for the first ttime once it becomes effective.

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

GRAP 20: Related Party Disclosures

New standard of GRAP: To ensure that an entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance.

The entity expects to adopt the standard for the first time once it becomes effective.

It is unlikely that the standard will have a material impact on the entity's annual financial statements
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GRAP 105: Transfer of Functions Between Entities Under Common Control

The new standard of GRAP: Establishes accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance

The entity expects to adopt the standard for the first time once it becomes effective.

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

GRAP 106: Transfer of Functions Between Entities Not Under Common Control

The new standard of GRAP: Establishes accounting principles for the acquirer in a transfer of functions between entities not under common control.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance

The entity expects to adopt the standard for the first time once it becomes effective.

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

2. New standards and interpretations (continued)

GRAP 107: Mergers

The new standard of GRAP: Establishes accounting principles for the combined entity and combining entities in a merger. The standard will be applied to a transaction or event where no acquirer can be identified.

This standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance

The entity expects to adopt the standard for the first time once it becomes effective.

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

Improvements to the Standards of GRAP

Improvements are proposed to the following standards of GRAP: GRAP 1-4, 9-14, 16-17, 19 and 100 as part of the ASB's improvement project.

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

The enity expects to adopt the standard for the first time in the 2012 annual financial statements.

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

Interpretations to the Standards of GRAP

The followings standards of GRAP are affected by the Interpretations issued: GRAP 2-10 and 13-15

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

The enity expects to adopt the standard for the first time in the 2012 annual financial statements.

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

IGRAP Standards Issued But Not Yet Effective

- IGRAP 2 – Changes in Existing Decommissioning, Restoration and similar Liabilities;
- IGRAP 3 - Determining Whether an Arrangement Contains a Lease;
- IGRAP 4 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds;
- IGRAP 5 – Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies;
- IGRAP 6 – Loyalty Programmes;
- IGRAP 7 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction;
- IGRAP 8 – Agreements for the Construction of Assets from Exchange Transactions;
- IGRAP 9 - Distributions of Non cash Assets to Owners;
- IGRAP 10 – Assets Received from Customers;
- IGRAP 13 – Operating Leases – Incentives
- IGRAP 14 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease;
- IGRAP 15 – Revenue – Barter Transactions Involving Advertising Services;

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

Notes to the Annual Financial Statements

	2011 R	2010 R

3. Inventories

Water	19,723	13,271

Inventory pledged as security

No inventory was pledged as security for financing facilities of the municipality.

Transitional provisions

Inventories recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.7, certain inventories with a carrying value of R 19,723 (2010: R 13,271) were recognised at provisional amounts.

4. Other financial assets

Held to maturity		
Short term fixed deposits This represents monies invested with ABSA and Standard Bank which mature at various future dates and returns.	5,810	7,294,696
Current assets		
Held to maturity	5,810	7,294,696

Fair value information

Financial assets at fair value through surplus or deficit are recognised at fair value, which is therefore equal to their carrying amounts.

Renegotiated terms

None of the financial assets that are fully performing have been renegotiated in the last year.

Short term deposits

Standard Bank - 288875729	5,810	814,519
ABSA Bank - 4061808429	-	204,950
ABSA Bank - 2067964441	-	2,128,359
ABSA Bank - 2069012985	-	476,069
ABSA Bank - 2069285530	-	103,669
ABSA Bank - 206976275	-	326,090
ABSA Bank - 2069951670	-	891,039
ABSA Bank - 2070392879	-	2,350,000

The investments are 32 day fixed deposits and bears interest at rates of 2% to 8% per annum.

No other financial asset has been pledged as security for financing facilities of the municipality.

	2011 R	2010 R

4. Other financial assets (continued)

The maximum exposure to credit risk at the reporting date is the fair value of each class of financial asset mentioned above. The municipality does not hold any collateral as security.

Credit quality of other financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

For held to maturity financial assets, the maximum exposure to credit risk at the reporting date is the carrying amount.

5. Trade and other receivables from exchange transactions

	2011	2010
Trade debtors	147,788	147,374
Sundry debtors	50,808	50,901
Cacadu claims	(13,323)	255,971
Prepaid expenses	9,400	9,033
	194,673	**463,279**

Trade and other receivables pledged as security

No trade and other receivables were pledged as security for overdraft facilities.

Credit quality of trade and other receivables

All of the municipality's trade and other receivables have been reviewed for indicators of impairment. The municipality's management considers that all of the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers, identified group, based on average past payment history and incorporates this information into its credit risk control. No external credit rating is performed. The municipality's policy is to deal only with creditworthy consumers.

Trade and other receivables past due but not impaired

There were no trade and other receivables past due but not impaired

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above. The municipality does not hold any collateral as security.

6. VAT receivable

	2011	2010
VAT	2,936,919	1,339,394

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

Notes to the Annual Financial Statements

	2011 R	2010 R

7. Consumer payables

	2011 R	2010 R
Gross balances		
Rates	935,746	1,178,338
Electricity	650,596	616,172
Water	1,033,793	1,716,943
Sewerage	475,337	647,554
Refuse	634,176	892,397
Other (rental of venues etc.)	141,930	147,835
	3,871,578	**5,199,239**
Less: Provision for debt impairment		
Provision for impairment of assets	(901,411)	(2,652,897)
Net balance		
Rates	935,746	1,178,338
Electricity	650,596	616,172
Water	1,033,793	1,716,943
Sewerage	475,337	647,554
Refuse	634,176	892,397
Other (including provision for doubtful debts)	(759,481)	(2,505,062)
	2,970,167	**2,546,342**
Rates		
Current (0 -30 days)	39,848	48,403
31 - 60 days	27,503	19,032
61 - 90 days	30,382	17,013
91 - 120 days	21,899	12,266
121 - 365 days	816,114	1,081,624
	935,746	**1,178,338**
Electricity		
Current (0 -30 days)	149,886	165,167
31 - 60 days	72,997	58,127
61 - 90 days	67,719	56,204
91 - 120 days	32,309	40,058
121 - 365 days	327,685	296,616
	650,596	**616,172**
Water		
Current (0 -30 days)	77,855	209,831
31 - 60 days	66,613	77,744
61 - 90 days	64,185	94,634
91 - 120 days	37,394	82,987
121 - 365 days	787,746	1,251,747
	1,033,793	**1,716,943**
Sewerage		
Current (0 -30 days)	35,353	47,855
31 - 60 days	21,958	30,187
61 - 90 days	18,512	32,077
91 - 120 days	12,233	30,358
121 - 365 days	387,281	507,077
	475,337	**647,554**

	2011 R	2010 R
7. Consumer payables (continued)		
Refuse		
Current (0 -30 days)	37,924	69,268
31 - 60 days	23,572	42,105
61 - 90 days	19,379	41,714
91 - 120 days	17,430	40,917
121 - 365 days	535,871	698,393
	634,176	**892,397**
Other (specify)		
Current (0 -30 days)	(31,143)	(67,279)
31 - 60 days	1,641	3,206
61 - 90 days	8,650	1,140
91 - 120 days	601	1,065
121 - 365 days	162,181	289,818
Impairment	(901,411)	(2,733,012)
	(759,481)	**(2,505,062)**
Summary of debtors by customer classification		
Domestic		
Current (0 -30 days)	231,372	235,379
31 - 60 days	123,110	151,395
61 - 90 days	98,712	167,109
91 - 120 days	79,773	158,158
121 - 365 days	2,674,495	3,959,157
	3,207,462	4,671,198
Less: Provision for debt impairment	(894,205)	(2,645,729)
	2,313,257	**2,025,469**
Industrial/ commercial		
Current (0 -30 days)	54,339	57,401
31 - 60 days	11,337	8,067
61 - 90 days	1,290	1,863
91 - 120 days	919	1,200
121 - 365 days	76,695	19,355
	144,580	87,886
Less: Provision for debt impairment	(1,422)	(687)
	143,158	**87,199**
National and provincial government		
Current (0 -30 days)	111,298	165,993
31 - 60 days	82,720	70,940
61 - 90 days	40,513	73,810
91 - 120 days	41,958	48,294
121 - 365 days	242,991	81,044
	519,480	440,081
Less: Provision for debt impairment	(5,784)	(6,481)
	513,696	**433,600**

Notes to the Annual Financial Statements

	2011 R	2010 R
7. Consumer payables (continued)		
Total		
Current (0 -30 days)	397,010	458,773
31 - 60 days	217,167	230,401
61 - 90 days	140,515	242,783
91 - 120 days	122,650	207,652
121 - 365 days	2,994,181	4,059,630
	3,871,523	5,199,239
Less: Provision for debt impairment	(901,411)	(2,652,897)
	2,970,167	**2,546,342**
Less: Provision for debt impairment		
Total	(901,411)	(2,652,897)
Total debtor past due but not impaired		
Current (0 -30 days)	336,496	433,736
31 - 60 days	159,691	198,975
61 - 90 days	80,001	184,190
91 - 120 days	68,085	167,021
121 - 365 days	322,618	1,643,755
	966,891	**2,627,677**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(2,652,897)	(3,100,020)
Reversal of provision	1,751,486	447,123
	(901,411)	**(2,652,897)**

Consumer debtors pledged as security

No consumer debtors were pledged as security for the liabilities of the municipality.

Credit quality of consumer debtors

All of the municipality's consumer debtors have been reviewed for indicators of impairment. The municipality's managements considers that all of the above consumer debtors that are not impaired for each of the reporting dates under review are of good credit quality. The municipality continosly monitors consumers, based on average past payment history and incorporates this information into its credit risk control. No external credit rating is performed.

None of the financial assets that are fully performing have been renegotiated in the last year.

Consumer debtors past due but not impaired

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

currently due	336,496	433,736
1 month past due	159,691	198,975
2 months past due	470,704	1,994,966

The maximum exposure to credit risk at the reporting date is the fair value of each class of trade receivables mentioned above. The municipality does not hold any collateral as security.

Notes to the Annual Financial Statements

	2011 R	2010 R

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011 R	2010 R
Bank balances	-	193,465
Bank overdraft	(289,375)	-
	(289,375)	**193,465**
Current assets	-	193,465
Current liabilities	(289,375)	-
	(289,375)	**193,465**

Credit quality of cash at bank

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

The municipality did not default on any of its payments due to ABSA or Standard Bank.

The municipality does not have a overdraft facility at either ABSA or Standard Bank. The bank overdraft as shown in annual financial statements is due to reconciling items on the bank reconciliation.

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
ABSA BANK - Cheque (4053623514)	161,330	432,047	898,696	(379,495)	107,494	1,182,400
STANDARD BANK - Cheque - (280252013)	90,120	85,971	178,204	90,120	85,971	178,204
Total	**251,450**	**518,018**	**1,076,900**	**(289,375)**	**193,465**	**1,360,604**

9. Investment property

	2011			2010		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Investment property	10,155	-	10,155	10,155	-	10,155

Reconciliation of investment property - 2011

	Opening balance	Total
Investment property	10,155	10,155

Reconciliation of investment property - 2010

	Opening balance	Additions	Disposals	Total
Investment property	5,305	7,000	(2,150)	10,155

9. Investment property (continued)

Pledged as security

No investment property was pledged as security for the liabilities of the municipality:

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.

There is no contractual obligations to purchase, construct or develop investment property.

Transitional provisions

Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.2, certain investment property with a carrying value of R 10,155 (2010: R 10,155) was recognised at provisional amounts.

10. Property, plant and equipment

	2011			2010		
	Cost	Accumulated depreciation	Carrying value	Cost	Accumulated depreciation	Carrying value
Infrastructure	28,153,350	-	28,153,350	17,168,854	-	17,168,854
Community	5,767,241	-	5,767,241	5,619,037	-	5,619,037
Other equipment	3,818,785	-	3,818,785	3,108,820	-	3,108,820
Total	**37,739,376**	**-**	**37,739,376**	**25,896,711**	**-**	**25,896,711**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Infrastructure	17,168,854	10,984,496	28,153,350
Community assets	5,619,037	148,204	5,767,241
Other equipment	3,108,820	709,965	3,818,785
	25,896,711	**11,842,665**	**37,739,376**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Infrastructure	11,850,464	5,318,390	17,168,854
Community assets	3,950,578	1,668,459	5,619,037
Other equipment	1,575,347	1,533,473	3,108,820
	17,376,389	**8,520,322**	**25,896,711**

Pledged as security

Carrying value of assets pledged as security:

	2011	2010
Other equipment	1,682,831	1,175,744

Financed leased assets are pledged as security for finance leased liabilities as per note 13.

Notes to the Annual Financial Statements

	2011 R	2010 R

10. Property, plant and equipment (continued)

Contractual commitments for the acquisition of property, plant and equipment

	2011	2010
Infrastructure	20,522,165	8,842,549

Details of heritage assets and servitudes

The municipality owns the following heritage assets:

The Heroes of Steytlerville monument, situated in Steytlerville, in honor of persons that died during the apartheids struggle. The Great War Memorial monument, situated in Steytlerville, in honor of service men killed during the First World War.

The municipality owns registered servitudes.

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.3, certain property, plant and equipment with a carrying value of R 37,739,375 (2010: R 25,896,710) were recognised at provisional amounts. Property plant and equipment purchased before 01 July 2008 was recognised at Rnil value.

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.

11. Intangible assets

	2011			2010		
	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Operating software	466,343	-	466,343	466,343	-	466,343

Reconciliation of intangible assets - 2011

	Opening balance	Total
Operating software	466,343	466,343

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Operation software	30,335	436,008	466,343

Pledged as security

No intangible assets were pledged as security for long term liabilities.

There is no contractual obligations to purchase, construct or develop intangible assets.

	2011 R	2010 R

11. Intangible assets (continued)

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework as issued by the Accounting Standards Board, as disclosed in note 1.4, certain intangible assets with a carrying value of R 466,343 (2010: R 466,343) were recognised at provisional amounts.

12. Other financial liabilities

	2011 R	2010 R
Held at amortised cost		
ABSA Bank Loan	-	6,707
The abovementioned loan bears interest at 10% and is repayable in monthly repayments of R8 448. The last instalment was 1 July 2010.		
Current liabilities		
At amortised cost	-	6,707

The fair values of the financial liabilities approximates their carrying value.

13. Finance lease obligation

	2011 R	2010 R
Minimum lease payments due		
- within one year	927,969	788,244
- in second to fifth year inclusive	1,432,246	1,727,048
	2,360,215	2,515,292
less: future finance charges	(501,512)	(572,478)
Present value of minimum lease payments	**1,858,703**	**1,942,814**
Present value of minimum lease payments due		
- within one year	696,106	539,771
- in second to fifth year inclusive	1,162,597	1,403,043
	1,858,703	**1,942,814**
Non-current liabilities	1,162,597	1,403,043
Current liabilities	696,106	539,771
	1,858,703	**1,942,814**

It is municipality policy to lease certain of the other assets as shown in note 10.

The average lease term was 5 years and the average effective borrowing rate was 17% (2010: 15%).

Interest rates are fixed at the contract date. Some leases escalate at between 10% and 15% per annum. Some vehicles have contingent rent payable based on kilometres travelled above on an agreed limit. For other leases no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 10.

Defaults, breaches and renegotiated terms

There were no reported defaults during the reporting dates under review. There were no changes to the terms and conditions of finance lease obligations. Purchase options exist over certain of the motor vehicles disclosed as other assets in note 10.

Notes to the Annual Financial Statements

	2011 R	2010 R

14. Trade and other payables from exchange transactions

Trade payables	8,678,022	4,694,014
Accrued leave pay	1,098,190	1,100,297
Other payables	71,930	-
	9,848,142	**5,794,311**

The fair value of trade and other payables approximates their carrying value. There were no defaults recorded during the year and no changes to credit terms and conditions.

The calculation of the accrueed leave pay for 30 June 2011 has been calculated by using the basic annual salary as at the end of the financial year, divided by two hundred and fifty (250) days, multiplied by the accrued annual leave as at 30 June 2011 (to a maximum of forty eight (48) days).

15. Consumer deposits

Electricity	137,165	132,545

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Wireless Backbone Grant (Cacadu)	36,842	-
Water Conservation and Demand	107,944	-
MIG Grant	1,050,814	4,664,121
Provincial LED Projects	700,000	700,000
Valuation of Property	337,274	478,334
Water Conservation DWAF	338,386	338,386
Water Services Assets	55,390	(1)
Water Supply Investigation	15,577	15,577
IDP - Cacadu	189,502	60,259
LED Funds - Cacadu	219,348	375,488
MSIG Grant	153,590	-
Tourism Hospitality Training Grant	15,030	-
	3,219,697	**6,632,164**

Movement during the year

Balance at the beginning of the year	6,632,164	11,879,263
Additions during the year	10,833,565	10,999,865
Income recognition during the year	(14,246,032)	(16,246,964)
	3,219,697	**6,632,164**

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.

See note 25 for reconciliation of grants from National/Provincial Government.

17. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Bonus provision	251,243	114,526	365,769
Long service awards	11,501	45,858	57,359
	262,744	**160,384**	**423,128**

Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Bonus provision	248,414	2,829	-	251,243
Long service awards	24,393	-	(12,892)	11,501
	272,807	**2,829**	**(12,892)**	**262,744**

Bonuses are paid out to all emloyees (except for senior management) during November each year and are based on a 13th month basic salary.

Uncertainty exists regarding the amount of the bonus provision as employee bonuses may vary due to unexpected increases and wage demands.

Uncertainty exists regarding the amount of the long service provision as there are no certainty regarding the number of employees that will qualify for this award.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the colloctive agreement of 21 February 2011, signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary
- After 10 Continuous Years of Service - 3% of Basic Annual Salary
- After 15 Continuous Years of Service - 4% of Basic Annual Salary
- After 20 Continuous Years of Service - 5% of Basic Annual Salary
- After 25 Continuous Years of Service - 6% of Basic Annual Salary
- After 30 Continuous Years of Service - 6% of Basic Annual Salary
- After 35 Continuous Years of Service - 6% of Basic Annual Salary
- After 40 Continuous Years of Service - 6% of Basic Annual Salary
- After 45 Continuous Years of Service - 6% of Basic Annual Salary

	2011 R	2010 R

18. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

No gains or losses were recognised on held to maturity financial assets.

2011

	Loans and receivables	Held to maturity investments	Total
Other financial assets	-	5,810	5,810
Consumer receivables from exchange transactions	2,970,167	-	2,970,167
VAT receivable	2,936,919	-	2,936,919
Trade and other receivables from exchange transactions	194,673	-	194,673
	6,101,759	**5,810**	**6,107,569**

2010

	Loans and receivables	Held to maturity investments	Total
Other financial assets	-	7,294,696	7,294,696
Cash and cash equivalents	-	193,465	193,465
Trade and other receivables from exchange transactions	463,279	-	463,279
VAT receivable	1,339,394	-	1,339,394
Consumer receivables from non-exchange transactions	2,546,342	-	2,546,342
	4,349,015	**7,488,161**	**11,837,176**

19. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2011

	Financial liabilities at amortised cost	Total
Finance lease obligations	1,858,703	1,858,703
Unspent conditional grants and receipts	3,219,697	3,219,697
Bank overdraft	289,375	289,375
Trade and other payables from exchange transactions	9,848,142	9,848,142
Provisions	423,128	423,128
Consumer Deposits	137,165	137,165
	15,776,210	**15,776,210**

	2011 R	2010 R

19. Financial liabilities by category (continued)

2010

	Financial liabilities at amortised cost	Total
Finance lease obligations	1,942,814	1,942,814
Unspent conditional grants	6,632,164	6,632,164
Provisions	262,744	262,744
Trade and other payables	5,794,311	5,794,311
Consomer deposits	132,545	132,545
Short term portion of other financial liabilities	6,707	6,707
	14,771,285	**14,771,285**

20. Retirement benefits

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees through contributions to a nominated contribution plan. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act 24 of 1957 as ammended by the Pension Funds Amendment Act 11 of 2007, exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The total contributions to such schemes	970,021	761,327

21. Contingent asset

The contingent asset is due to a litigation matter that arose between Baviaans Municipality (Defendant) and Isiseko So QoQosho CC (Palintiff). This matter arose due to the a claim that the plaintiff instituted against the defendant. The court ruled in favour of the defendant and ordered the plaintiff to reimburse the defendant for legal expenses. The plaintiff has been liquadated and there is uncertainty regarding the plaintiff's ability to pay these legal expenses, in which case the municipality will have to carry these costs. The estimated costs as determined by the defendant's legal team is approxiamately R300 000 payable in one year. If the defendant is able to recoup these legal expenses it will be accounted for in the Statement of Financial Performance as recoupment of legal expenses incurred.

22. Contingent Liability (Landfill Site)

Per Section 20 of the Environment Conservation Act,1989,

No person shall establish, provide or operate any disposal site without a permit issued by the Minister of Water Affairs and the Minister may
a) issue a permit subject to such conditions as he may deem fit;
b) alter or cancel any permit or condition in a permit;
c) refuse to issue a permit

In light of this the municipality has a current obligation as a result of past events to obtain such a permit and to rehabilitate the current waste disposal sites in Willowmore and Steytlerville.

The municipality has appointed the Aurecon Group to do an environmental impact assessment on the current waste disposal sites and to determine the estimated rehabilitation costs and time needed to perform the rehabilitation process. As at the date of these financial statements Aurecon have not completed this process and an estimate of above mentioned costs and time lines have not been submitted. As a result of this there is a material uncertainty regarding the amount and timing of the future liability to be incurred by the municipality.

Notes to the Annual Financial Statements

	2011 R	2010 R

23. Revenue

Property rates	2,955,267	2,383,026
Service charges	7,724,389	6,646,646
Rental of facilities & equipment	64,756	97,330
Income from agency services	256,610	765,616
Fines	11,750	14,410
Licences and permits	518,028	387,123
Government grants & subsidies	26,339,953	25,672,786
Miscellaneous other revenue	4,199,554	-
	42,070,307	**35,966,937**

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

Service charges	7,724,389	6,646,646
Rental of facilities & equipment	64,756	97,330
Income from agency services	256,610	765,616
Licences and permits	518,028	387,123
Miscellaneous other revenue	4,199,554	-
	12,763,337	**7,896,715**

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

Property rates	2,955,267	2,383,026
Fines	11,750	14,410
Government grants & subsidies	26,339,953	25,672,786
	29,306,970	**28,070,222**

24. Rental of facilities and equipment

Premises

Premises	-	29,012
Venue hire	21,213	23,692
Commonage	1,694	1,439
	22,907	**54,143**

Facilities and equipment

Rental of facilities	41,849	43,187
	64,756	**97,330**

Notes to the Annual Financial Statements

	2011 R	2010 R

25. Government grants and subsidies

Equitable share	12,093,919	9,534,832
Finance management grant	1,250,000	900,726
Fullarton fencing grant	-	72,349
IDP grant - Cacadu	27,758	80,076
LED grant - Cacadu	156,141	20,512
MIG grant	10,905,307	11,018,894
MSIG grant	596,410	400,000
Toursim hospitality training grant	330,635	188,754
Valuation of property grant	141,060	2,135,646
Water & sanitation policy grant	-	96,579
Water services asset grant	183,509	1,039,036
CIP grant	-	185,382
Wireless backbone grant	263,158	-
Water conservation and demand grant	392,056	-
	26,339,953	**25,672,786**

Equitable Share

In terms of the Division of Revenue Act this unconditional grant, derived from the Provincial Sphere's share of revenue raised nationally, is intended to assist the funding of unforeseeable and unavoidable expenditure due to significant and unforeseeable economic and financial events.

Wireless Backbone Grant - Cacadu

Current-year receipts	300,000	-
Conditions met - transferred to revenue	(263,158)	-
	36,842	**-**

Conditions still to be met - remain liabilities (see note 16)

This grant was received from Cacadu District Municipality for the funding of a project that will connect the local libraries with the main library in Port Elizabeth.

Water Conservation and Demand Grant

Current-year receipts	500,000	-
Conditions met - transferred to revenue	(392,056)	-
	107,944	**-**

Conditions still to be met - remain liabilities (see note 16)

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure and to eradicate the bucket sanitation system mainly in urban townships.

	2011 R	2010 R

25. Government grants and subsidies (continued)

Local Goverment Financial Management Grant (FMG)

	2011 R	2010 R
Balance unspent at beginning of year	-	9,734
Current-year receipts	1,250,000	1,000,000
Conditions met - transferred to revenue	(1,250,000)	(1,009,734)
	-	**-**

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Manager Act (MFMA).

Critical Infrastructure Programme Grant (CIP)

	2011 R	2010 R
Balance unspent at beginning of year	-	185,382
Conditions met - transferred to revenue	-	(185,382)
	-	**-**

Tourism Hospitality Training Grant

	2011 R	2010 R
Balance unspent at beginning of year	188,754	-
Current-year receipts	345,665	188,754
Conditions met - transferred to revenue	(330,635)	-
	203,784	**188,754**

This grant was received from Cacadu District Municipality for the funding of a Tourism Hospitality Training Programme for the employees in the hospitality sector.

Municipal Infrastructure Grant (MIG)

	2011 R	2010 R
Balance unspent at beginning of year	4,664,121	7,314,450
Current-year receipts	7,292,000	8,368,566
Conditions met - transferred to revenue	(10,905,307)	(11,018,895)
	1,050,814	**4,664,121**

Conditions still to be met - remain liabilities (see note 16)

The Municipal Infrastructure Grant (MIG) programme is aimed at providing all South Africans with at least a basic level of service by the year 2013 through the provision of grant finance aimed at covering the capital cost of basic infrastructure for the poor. The MIG programme is a key part of government's overall drive to alleviate poverty in the country and, therefore, infrastructure is to be provided in such a way that employment is maximised and opportunities are created for enterprises to flourish.

Provincial LED Projects Grant - Cacadu

	2011 R	2010 R
Balance unspent at beginning of year	700,000	700,000

Conditions still to be met - remain liabilities (see note 16)

This grant was received from Cacadu District Municipality for the funding of the Local Economic Development programme in Steytlerville.

Notes to the Annual Financial Statements

	2011 R	2010 R

25. Government grants and subsidies (continued)

Valuation of Property Grant

Balance unspent at beginning of year	478,334	2,613,980
Conditions met - transferred to revenue	(141,060)	(2,135,646)
	337,274	**478,334**

Conditions still to be met - remain liabilities (see note 16)

In terms of the Municipal Property Rates Act, this grant was received to regulate the power of a municipality to impose rates on property; to exclude certain properties from rating in the national interest; to make provision for the municipality to implement a transparent and fair system of exemptions, reductions and rebates through their rating policies and to make provision for fair and equitable valuation methods of properties.

Water and Sanitation Policy Grant

Balance unspent at beginning of year	-	87,719
Current-year receipts	-	8,860
Conditions met - transferred to revenue	-	(96,579)
	-	**-**

Conditions still to be met - remain liabilities (see note 16)

This grant was received from the Department of Water Affairs for the provision of a policy for water and sanitation to farm workers on privately owned farms.

Water Conservation - DWAF

Balance unspent at beginning of year	338,386	338,386

Conditions still to be met - remain liabilities (see note 16)

This grant was received from the Department of Water Affairs and Forrestry to allow the Municipality to undertake a water conservation project, with specific attention to the quality of plumbing used in state subsidized housing projects and to replace old water meters.

Water Services Asset Grant

Balance unspent at beginning of year	(1)	614,035
Current-year receipts	238,900	425,000
Conditions met - transferred to revenue	(183,509)	(1,039,036)
	55,390	**(1)**

Conditions still to be met - remain liabilities (see note 16)

This grant was received from the Department of Water Affairs for the calculation of the water services assets of the Municipality and it's replacement value.

	2011 R	2010 R

25. Government grants and subsidies (continued)

Water Supply Investigation Grant

	2011 R	2010 R
Balance unspent at beginning of year	15,577	15,577

Conditions still to be met - remain liabilities (see note 16)

This grant was received from the Department of Water Affairs and Forestry to allow the Municipality to initiate a programme to develop the required Water Services Authority capacity, which included a Water Supply Investigation.

Integrated Development Plan - Cacadu

	2011 R	2010 R
Balance unspent at beginning of year	60,259	-
Current-year receipts	157,000	140,336
Conditions met - transferred to revenue	(27,757)	(80,077)
	189,502	**60,259**

Conditions still to be met - remain liabilities (see note 16)

This grant was received from Cacadu District Municipality for the funding of the Integrated Development Plan.

LED Funds Grant - Cacadu

	2011 R	2010 R
Balance unspent at beginning of year	375,488	-
Current-year receipts	-	396,000
Conditions met - transferred to revenue	(156,140)	(20,512)
	219,348	**375,488**

Conditions still to be met - remain liabilities (see note 16)

This grant was received from Cacadu District Municipality for the funding of the Local Economic Development programme in Willowmore.

Municipal Systems Improvement Grant (MSIG)

	2011 R	2010 R
Current-year receipts	750,000	400,000
Conditions met - transferred to revenue	(596,410)	(400,000)
	153,590	**-**

Conditions still to be met - remain liabilities (see note 16)

The Municipal Systems Improvement Grant (MSIG) is a grant directed to municipalities with a purpose to support them in implementing new systems so that they can carry mandated functions effectively. These new systems include integrated development planning, performance management, financial management, community participation, effective administration and efficient service delivery mechanisms as well as Powers and Functions.

	2011 R	2010 R
26. Other income		
Building fees	7,198	4,777
Cemetery fees	5,681	4,618
Commission received	12,589	11,794
Connection fees	19,271	42,370
Events and other	-	252,582
Membership fees	64,399	50,050
Other revenue	2,295	1,124
EPWP allocation	906,000	-
Arts and crafts allocation	540,000	-
Photocopies	200	311
Rezoning fees	7,076	12,481
Seta claims refunded / (paid)	12,465	(9,020)
Sundry income	464,495	144,869
Tourism brochures	-	17,040
Transaction fees	2,114	78,412
Valuation fees	17,710	11,931
	2,061,493	**623,339**

27. Investment revenue

Interest revenue		
Bank	325,177	825,294
Interest charged on trade and other receivables	-	140,650
	325,177	**965,944**

28. Employee related costs

Basic	11,382,716	9,388,407
Bonus	605,445	396,706
Contributions to UIF, SDL and medical aid	768,080	404,334
Leave pay provision charge	171,270	276,568
Post-employment benefits - Pension - Defined contribution plan	970,021	761,328
Travel, motor car, accommodation, subsistence and other allowances	182,649	148,903
Overtime payments	334,052	286,389
Long-service awards	45,857	(12,892)
Housing benefits and allowances	25,956	24,736
	14,486,046	**11,674,479**

Municipal Manager: JZA Vumazonke

Annual Remuneration	453,678	431,087
Car Allowance	60,000	60,000
Other	14,400	14,400
	528,078	**505,487**

Chief Financial Officer: JH Doyle

Annual Remuneration	297,111	278,150
Car Allowance	134,138	134,138
Other	10,800	10,800
	442,049	**423,088**

Notes to the Annual Financial Statements

	2011 R	2010 R

28. Employee related costs (continued)

Corporate Services Manager: M Lotter

	2011 R	2010 R
Annual Remuneration	356,249	337,287
Car Allowance	75,000	75,000
Other	10,800	10,800
	442,049	**423,087**

Technical Services Manager: B Arends

	2011 R	2010 R
Annual Remuneration	396,249	377,387
Car Allowance	35,000	35,000
Other	10,800	10,800
	442,049	**423,187**

Community Services Manger: L de Beer

	2011 R	2010 R
Annual Remuneration	371,249	352,287
Car Allowance	60,000	60,000
Other	10,800	10,800
	442,049	**423,087**

29. Remuneration of councillors

	2011 R	2010 R
Councillors	731,055	626,979
Executive mayor	311,177	259,094
	1,042,232	**886,073**

30. Finance costs

	2011 R	2010 R
Finance leases	305,935	251,032
Current borrowings	1,742	6,261
Other interest paid	217,010	16,486
	524,687	**273,779**

31. Debt impairment

	2011 R	2010 R
Contributions to debt impairment provision	-	97,382
Debts impaired	883,862	482,323
	883,862	**579,705**

Notes to the Annual Financial Statements

	2011 R	2010 R

32. General expenses

Administration fees	24,292	51,832
Advertising	76,094	65,899
Animal costs	-	122,640
Auditors remuneration	2,465,195	812,510
Bank charges	124,182	59,027
Capital expenditure	54,706	335,767
Chemicals	113,312	128,919
Cleaning	-	12,095
Commission paid	110,108	69,463
Consulting and professional fees	449,068	79,129
Consumables	29,848	12,581
Departmental charges	-	1,961
Donations	-	25,916
EPWP wages	2,754,901	-
Electricity	848,299	439,165
Fuel and oil	674,105	431,109
General expenses transferred from grants	3,243,058	8,538,139
IT expenses	4,700	(261)
Insurance	193,642	188,692
LED arts and crafts expenditure	469,600	-
Licences	23,193	36,367
Movement in water inventory	(6,452)	(2,085)
Other expenses	13,440	15,600
Pest control	828	3,634
Postage and courier	130,230	87,657
Printing and stationery	188,005	160,076
Promotions	-	60,000
Provision for doubtful debts	-	105,845
Refuse	56,325	46,352
Research and development costs	23,299	58,816
Special projects	1,036,057	640,896
Subscriptions and membership fees	70,000	68,807
Telephone and fax	427,010	320,622
Title deed search fees	20,792	919
Tourism development	473,034	287,439
Town planning	30,000	32,394
Training	36,167	257,214
Travel - local	89,779	105,527
Utilities - Other	230,997	220,407
	14,477,814	**13,881,070**

33. Auditors' remuneration

Fees	2,465,195	812,510

	2011 R	2010 R

34. Cash generated from operations

	2011 R	2010 R
Surplus	5,114,582	3,923,890
Adjustments for:		
Gain on sale of assets and liabilities	-	(39,423)
Finance costs - Finance leases	305,935	251,032
Debt impairment	883,862	579,705
Movements in provisions	160,384	302,451
Changes in working capital:		
Inventories	(6,452)	(2,084)
Trade and other receivables from exchange transactions	268,606	(426,294)
Consumer debtors	(1,307,687)	(1,558,192)
Trade and other payables from exchange transactions	4,053,834	(1,035,100)
VAT	(1,597,525)	(371,857)
Unspent conditional grants and receipts	(3,412,467)	(5,247,099)
Consumer deposits	4,620	2,253
	4,467,692	**(3,620,718)**

35. Commitments

Authorised capital expenditure

Already contracted for but not provided for

	2011 R	2010 R
• Tenders	20,522,165	8,842,549

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses and government grants.

36. Related parties

Relationships	
EL Loock	Mayor. In addition he provides transport services to the Baviaans Municipality
D Bezuidenhout	Councillor
H Booysen	Councillor
V Lapperts	Councillor
M Fivaz	Councillor
T Spogter	Councillor
GA Hobson	Councillor
JM Vumazonke	Municipal Manager
JH Doyle	Chief Financial Officer
B Arends	Technical Services Manager
L de Beer	Community Services Manager
MA Lotter	Corporate Services Manager
Eskom	Related government entity
Cacadu District Municipality	District municipality that the Baviaans Municipality is part of

Related party balances

Councillors rates and taxes in arrears

	2011 R	2010 R
D Bezuidenhout	984	-

Related party transactions

Purchases from (sales to) related parties

	2011 R	2010 R
EL Loock - Transport provided	-	9,100
DJ Bezuidenhout - Purchase of sheep for functions	-	1,950

Notes to the Annual Financial Statements

	2011 R	2010 R

37. Prior period errors

During the preparation of the annual financials statements the following errors were identified and subsequently restated. These errors included the following:
.
- Property, plant and equipment items were incorrectly treated as repairs and maintenance.
- Trade receivables were overstated due to accruals raised in the incorrect periods and amounts incorrectly recorded in prior years.
- Certain Finance lease agreements for office equipment were treated as operating expenses in the prior year and not as non-current liabilities.
- Long Service Awards provision was overstated due to the incorrect treatment of the payment policy of such awards.
- Leave pay accrual was restated as there was a change in the data used to calculate this provision.
- Provision for rehabilitation costs were removed from the annual financial statements as there is uncertainty regarding the amount and timing of this provision. Refer to note 22.
- Interest received was overstated due to an incorrect accrual of interest.
- Income and expense amounts related to SETA claims were included in trade payables and were reclassified to the Statement of Financial Performance.
- Cash and Cash Equivalents suspense accounts were not cleared in the prior period. This has subsequently been corrected..
- Prepaid expenditure was not accounted for in prior periods and was subsequently included in trade and other receivables
- The treatment of certain value added tax entries were not correct in the prior period. This has subsequently been corrected.

[If retrospective restatement is impracticable for a particular prior period, disclose the circumstances that led to the existence of that condition and a description of how and from when the error has been corrected.]

The correction of the errors resulted in the following adjustments:

	2011	2010
Statement of financial position		
Property, plant and equipment	-	(279,168)
Trade and other receivables from non - exchange transactions	-	(7,176)
Intangible assets	-	51,356
Consumer receivables from exchange transactions	-	74
VAT receivable from non-exchange transactions	-	(211,887)
Cash and cash equivalents	-	299,987
Trade and other payables from exchange transactions	-	786,553
Consumer deposits	-	(12)
Provisions	-	999,435
Finance lease obligation	-	(468,515)
Accumulated surplus	-	(171,901)
Statement of financial performance		
Property rates	-	7
Service charges	-	(22,537)
Licenses and permits	-	77,670
Income from agency services	-	(9,041)
Other income	-	10,646
Interest received - investment	-	3,015
Personnel	-	513
Remuneration of councillors	-	(47,261)
Finance costs	-	(77,951)
Amortisation	-	(29,307)
Debt impairment	-	82,323
Repairs and maintenance	-	(137,266)
Bulk purchases	-	(581,999)
General expenses	-	(253,509)
Gain on disposal of assets and liabilities	-	(20,921)

38. Risk management

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

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

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

Interest rate risk

The municipality’s interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2011 and 2010, the municipality’s borrowings at variable rate were denominated in the Rand.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables - normal credit terms	9.00 %	213,601	-	-	-	-
Consumer receivables - normal credit terms	9.00 %	2,970,167	-	-	-	-
Trade and other payables - normal credit terms	9.00 %	(8,394,861)	-	-	-	-
VAT receivable	- %	2,935,167	-	-	-	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

The municipality establishes an allowance for impairment that represents its estimate of incurred credit losses in trade and other receivables. The municipality's consumers were reviewed for indication of impairment and certain receivables were found to be impaired and an allowance for credit loss was provided for - Refer note 7 for the reconciliation thereof

	2011 R	2010 R

38. Risk management (continued)

Financial assets exposed to credit risk at reporting date were as follows:

Financial instrument		
Cash and cash equivalents	-	193,465
Short term deposits	5,810	7,294,696
Trade and other receivables from non-exchange transactions	213,601	463,279
Consumer receivables received from exchange transactions	2,970,167	2,546,342

The municipality does not hold any collateral as security, but however has preferential rights on collecting arrear consumer accounts when consumers' properties are placed under sale of execution.

39. 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.

40. Events after the reporting date

The executives of the municipality are not aware of any significant matter or circumstance arising subsequent to the financial year end.

41. Unauthorised expenditure

Agency Commission	33,311	2,938
Audit Cost	1,791,826	262,510
Bank Charges	-	28,063
Capital Interest	-	8,738
Capital Redemption	-	8,738
Electricty (Eskom)	234,602	186,823
Finance Management Grant Expenditure	-	232,119
Fuel and Oil	73,572	-
Membership Fees	-	3,807
Salaries	902,032	-
Telephone	-	141,408
Vehicle Maintenance	7,539	110,913
Water Research	-	33,755
	3,042,882	**1,019,812**

Unauthorized expenditure is due to a vote that was overspent during the current financial year. The nature of unauthorized expenditure is as follows.

Fuel and oil - Significant increases in fuel prices during the financial year lead to additional fuel expenses.
Audit cost - The first time adoption of GRAP lead to a increase in audit costs. This was not budgeted for.
Salaries - Unexpected salary increases lead to salary costs not budgeted for.
Electricity - Higher than expected tariff hikes from Eskom lead to higher than budgeted electricity expenses.
Vehicle maintenance - Higher than expected maintenance cost lead to this vote being overspent.

These items of unauthorized expenditure were authorized during a special council meeting held in July 2011.

42. Fruitless and wasteful expenditure

Penalties and interest	-	276,368

The penalties and interest were paid to The South African Revenue Service for the late submission of PAYE, UIF and SDL returns. This classifies as wasteful expenditure as the municipality had made these expenditure in vain and with the proper care could have avoided these expenses.

Notes to the Annual Financial Statements

	2011 R	2010 R

43. Irregular expenditure

Irregular expenditure - current year	3,066,125	11,404,951

44. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix C for the comparison of actual operating expenditure versus budgeted expenditure.

45. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix D for the comparison of actual capital expenditure versus budgeted expenditure.

46. 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.

There were no deviations from supply chain policies besides the extention of contract expiration dates of key suppliers. The extention of these contracts had no adverse financial impact on the municipal entity.

47. Soccer world cup expenditure

The municipality spent R30,050 on flags to commemorate the Fifa Soccer World Cup that was held in South Africa during June 2010.

Baviaans Local Municipality
APPENDIX A
June 2011

Schedule of external loans as at 30 June 2011

	Loan Number	Redeemable	Balance at 30 June 2010 Rand	Received during the period Rand	Redeemed written off during the period Rand	Balance at 30 June 2011 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
OTHER LOANS			**6,707**	**-**	**6,707**	**-**	**-**	**-**
LEASE LIABILITY			**1,904,497**	**507,088**	**573,190**	**1,838,395**	**-**	**-**
				Undefined Difference:	1838395	(1,838,395)		
TOTAL EXTERNAL LOANS								
OTHER LOANS			6,707	-	6,707	-	-	-
LEASE LIABILITY			1,904,497	507,088	573,190	1,838,395	-	-
			1,911,204	**507,088**	**579,897**	**1,838,395**	**-**	**-**
				Undefined Difference:		(1,838,395)		

Supplementary Information

Appendix B: Analysis of property, plant and equipment

Baviaans Local Municipality
APPENDIX B
June 2011

Analysis of property, plant and equipment as at 30 June 2010

	Cost							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Infrastructure	17,168,854	10,984,496	-	-	-	-	28,153,350	(32,587)	-	-	(61,982)	-	(94,569)	28,058,781
Community Assets	5,619,037	148,204	-	-	-	-	5,767,241	(36,140)	-	-	(79,968)	-	(116,108)	5,651,133

Baviaans Local Municipality
APPENDIX B
June 2011

Analysis of property, plant and equipment as at 30 June 2010

	Cost							Accumulated depreciation						
	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Other assets	3,070,869	709,967	-	-	-	-	3,780,836	(260,785)	-	-	(458,150)	-	(718,935)	3,061,901
Total property plant and equipment	25,858,760	11,842,667	-	-	-	-	37,701,427	(329,512)	-	-	(600,100)	-	(929,612)	36,771,815
Undefined Difference:	25,833,824	11,829,864					37,663,688	(329,512)			(600,100)		(929,612)	36,734,076
Total	25,858,760	11,842,667	-	-	-	-	37,701,427	(329,512)	-	-	(600,100)	-	(929,612)	36,771,815

Supplementary Information

Appendix E(1): Actual versus Budget (Revenue and Expenditure)

APPENDIX E(1)
June 2011

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

	Current year 2010 Act. Bal. Rand	Current year 2010 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Property rates	-	2,695,106	(2,695,106)	(100.0)	
Service charges	-	1,973,226	(11,973,226)	(100.0)	
Rental of facilities and equipment	-	50,542	(50,542)	(100.0)	
Interest received (Outstanding debtors)	-	640,000	(640,000)	(100.0)	
Interest received - External Investments	-	450,000	(450,000)	(100.0)	
Income from agency services	-	-	-	-	
Fines	-	10,000	(10,000)	(100.0)	
Licences and permits	-	900,000	(900,000)	(100.0)	
Government grants & subsidies	-	1,704,738	(21,704,738)	(100.0)	
Miscellaneous other revenue	4,199,554	-	4,199,554	-	
Other income	-	304,649	(304,649)	(100.0)	
Interest received - investment	-	-	-	-	
	4,199,554	3,728,261	(34,528,707)	(89.2)	
Expenses					
Personnel	-	6,373,330	(16,373,330)	(100.0)	
Remuneration of councillors	-	788,421	(788,421)	(100.0)	
Transfer payments	-	-	-	-	
Finance costs	-	332,348	(332,348)	(100.0)	
Debt impairment	(883,862)	200,000	(1,083,862)	(541.9)	

APPENDIX E(1)

June 2011

ACTUAL VERSUS BUDGET (REVENUE AND EXPENDITURE) FOR THE YEAR ENDED 30 JUNE 2011

	Current year 2010 Act. Bal.	Current year 2010 Bud. Amt	Variance		Explanation of Significant Variances greater than 10% versus Budget
Repairs and maintenance - General	-	2,705,954	(2,705,954)	(100.0)	
Bulk purchases	-	4,930,450	(4,930,450)	(100.0)	
General Expenses	-	3,231,072	(13,231,072)	(100.0)	
	(883,862)	3,561,575	(39,445,437)	(102.3)	
Other revenue and costs					
Gain or loss on disposal of assets and liabilities	-	-	-	-	
	-	-	-	-	
Net surplus/ (deficit) for the year	3,315,692	7,289,836	(39,445,437)	(51.0)	

Supplementary Information

Appendix E(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

BUDGET ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2011

	Additions Rand	Original Budget Rand	Revised Budget Rand	Variance Rand	Variance %	Explanation of significant variances from budget
Infrastructure						
Roads, Pavements & Bridges	3,458,682	-	3,658,899	200,217	**2**	
Housing (Down Housing and Steytlerville)	-	-	1,409,456	1,409,456	**100**	
Generation	1,066,497	-	1,616,218	549,721	**34**	
Street lighting	-	-	350,000	350,000	**100**	
Water purification	1,459,316	-	575,000	(884,316)	**(154)**	
Sewerage purification	-	-	150,000	150,000	**100**	
	0,984,495	**-**	**2,759,573**	**1,775,078**	**52**	
Undefined Difference:	10,984,495					
Community Assets						
Town halls	6,705	-	300,000	293,295	**98**	
Libraries	142,579	-	-	(142,579)	**-**	
	149,284	**-**	**300,000**	**150,716**	**50**	
Other assets						
General vehicles	444,488	-	-	(444,488)	**-**	
Plant & equipment	10,025	-	-	(10,025)	**-**	
Office Equipment	255,878	-	-	(255,878)	**-**	
	710,391	**-**	**-**	**(710,391)**	**-**	
Total						
Infrastructure	0,984,495	-	2,759,573	1,775,078	**52**	
Community Assets	149,284	-	300,000	150,716	**50**	
Other assets	710,391	-	-	(710,391)	**-**	
	1,844,170	**-**	**3,059,573**	**1,215,403**	**49**	

Supplementary Information

Appendix F: Disclosure of grants and subsidies in terms of the Municipal Finance Management Act

Baviaans Local Municipality
APPENDIX F
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003
June 2011

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld					Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar	Mar	Jun	Sep	Dec	Mar		Yes/ No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		No	
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.