Kou-Kamma Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	Government entity Municipality
Mayoral committee	
Executive Mayor	M Vuso* N O'Connel (term expired 20 May 2011)
Councillors	N Mntambo* P Goni* T Mohr* F Strydom* R Krige* S Jacobs* L Nelson* C Rheeders* N Pottie* B Jantjies* M Jacobs (term expired 20 May 2011) M Wogane (term expired 20 May 2011) D Ncetezo (term expired 20 May 2011) J Kettledas (term expired 20 May 2011) F J Yake (term expired 20 May 2011) T Hendricks (term expired 20 May 2011)
Accounting Officer	S. Nkuhlu
Chief Finance Officer (CFO)	S. Hulana
Registered office	5 Keet Street Kareedouw 6400
Postal address	Private Bag X011 Kareedouw 6400
Auditors	Auditor General
*	Newly elected councillors - appointed 21 May 2011.

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

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Abbreviations

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

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 annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

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 responsible for the the preparation of these financial statement statements in terms Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The accounting officer certifies that the salaries, allowances and benefits of Councillors and payments made are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Governments determination in accordance with that Act.

The annual financial statements set out on pages 4 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Accounting Officer
S. Nkuhlu

Kou-Kamma Municipality
Annual Financial Statements for the year ended 30 June 2011

Statement of Financial Position

Figures in Rand	Notes	2011	2010 Restated
Assets			
Current Assets			
Trade and other receivables from exchange transactions	3	893 937	1 375 952
Other receivables from non-exchange transactions	4	2 864 773	2 147 890
VAT receivable	5	4 877 257	-
Current portion of long-term receivables	6	13 408	13 408
Cash and cash equivalents	7	16 209 753	7 698 564
		24 859 128	**11 235 814**
Non-Current Assets			
Investment property	8	29 068	38 713
Property, plant and equipment	9	201 799 945	185 631 692
Intangible assets	10	448 627	559 131
		202 277 640	**186 229 536**
Total Assets		**227 136 768**	**197 465 350**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	11	15 762 915	20 993 339
VAT payable	12	-	515 879
Unspent conditional grants and receipts	13	54 508 248	26 674 224
Consumer deposits	14	104 700	104 700
Provisions	15	92 258	91 670
		70 468 121	**48 379 812**
Non-Current Liabilities			
Retirement benefit obligation	16	555 697	561 531
Provisions	17	616 167	511 461
		1 171 864	**1 072 992**
Total Liabilities		**71 639 985**	**49 452 804**
Net Assets		**155 496 783**	**148 012 546**
Net Assets			
Accumulated surplus		155 496 783	148 012 546

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010 Restated
Revenue			
Property rates	18	7 943 164	6 975 364
Service charges	19	14 554 633	14 505 861
Rental of facilities and equipment	20	157 991	203 967
Income from agency services		1 465 002	981 436
Fines		287 493	420 004
Government grants & subsidies	21	59 391 343	159 895 647
Other income	22	10 144 744	1 350 095
Interest received - investment	23	1 857 046	3 988 604
Total Revenue		**95 801 416**	**188 320 978**
Expenditure			
Personnel	24	(21 314 434)	(21 501 353)
Remuneration of councillors	25	(2 041 502)	(1 720 285)
Depreciation and amortisation	33	(8 863 221)	(3 916 806)
Impairment loss	26	(14 913 661)	(19 189 077)
Finance costs	27	(129 479)	(79 097)
Collection costs		-	(78 150)
Repairs and maintenance		(1 323 078)	(137 578)
Bulk purchases	28	(1 929 374)	(1 517 264)
Contracted services	29	(1 538 154)	(2 556 843)
Grants and subsidies paid	30	(27 426 649)	(16 493 978)
General Expenses	31	(8 227 316)	(8 959 602)
Total Expenditure		**(87 706 868)**	**(76 150 033)**
Surplus for the year		**8 094 548**	**112 170 945**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	64 232 395	64 232 395
Adjustments		
Change in accounting policy (Note)	(28 390 794)	(28 390 794)
Balance at 01 July 2009 as restated	**35 841 601**	**35 841 601**
Changes in net assets		
Surplus for the year	112 170 945	112 170 945
Total changes	112 170 945	112 170 945
Balance at 01 July 2010	**147 402 235**	**147 402 235**
Changes in net assets		
Surplus for the year	8 094 548	8 094 548
Total changes	8 094 548	8 094 548
Balance at 30 June 2011	**155 496 783**	**155 496 783**

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010 Restated
Cash flows from operating activities			
Receipts			
Grants		108 486 911	180 567 475
Interest income		1 857 046	3 988 604
		110 343 957	184 556 079
Payments			
Suppliers		(76 181 653)	(69 905 205)
Finance costs		(129 479)	(79 097)
		(76 311 132)	(69 984 302)
Net cash flows from operating activities	32	**34 032 825**	**114 571 777**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(24 911 325)	(114 091 227)
Purchase of other intangible assets	10	-	(532 571)
Net cash flows from investing activities		**(24 911 325)**	**(114 623 798)**
Cash flows from financing activities			
Repayment of other financial liabilities		-	(2 000 000)
Net cash flows from financing activities		**-**	**(2 000 000)**
Net increase/(decrease) in cash and cash equivalents		**9 121 500**	**(2 052 021)**
Cash and cash equivalents at the beginning of the year		7 698 564	9 750 585
Cash and cash equivalents at the end of the year	7	**16 820 064**	**7 698 564**

Accounting Policies

1. Presentation of Annual Financial Statements

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 have been prepared in terms of section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003), in accordance with the Accounting Standards prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and are presented in South African Rand.

The Accounting Framework of the municipality, based on the preceding paragraph and applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 3	Cash Flow Statements
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 9	Paragraphs relating to Revenue from Non-Exchange Transactions
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an arrangement contains a lease

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

Accounting Policies

1.1 Standards and amendments to standard and interpretations issued but not yet effective

Management has considered all of the Standards of Generally Recognised Accounting Practice (GRAP) issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality. Application of these GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is currently unavailable.

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

- GRAP 18 Segment Reporting - Issued March 2005
- GRAP 21 Impairment of non-cash-generating assets - Issued March 2009
- GRAP 23 Revenue from non-exchange transactions (taxes and transfers) - Issued February 2008
- GRAP 24 Presentation of budget information in the financial statements - Issued November 2007
- GRAP 25 Employee benefits - Issued December 2009
- GRAP 26 Impairment of cash-generating assets - Issued March 2009
- GRAP 103 Heritage assets - Issued July 2008
- GRAP 104 Financial instruments - Issued October 2009

1.2 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 judgements 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, held to maturity investments 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, held to maturity investments 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

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.

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.

Post retirement benefits

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

Key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Other

Accounting policy 1.18 on Revenue from exchange transactions and accounting policy 1.19 for Revenue from non-exchange transactions describe the conditions under which revenue will be recorded by the management of the municipality.

In making their judgements, the management considered the detailed criteria for the recognition of revenue as set out in GRAP

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)
9: Revenue from exchange transactions and GAMAP 9: Revenue, as far as revenue from non-exchange transactions is concerned (see Basis for Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when service is rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that the recognition of the revenue in the current year is appropriate.

1.3 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.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment property;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held under a finance lease) and leased out under one or more operating leases;
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties;

The following assets do not fall within the ambit of investment property and shall be classified as property, plant and equipment, inventory or non-current assets held for sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, eg. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

1.4 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.

1.4 Property, plant and equipment (continued)

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	**Average useful life (years)**
Buildings	30
Infrastructure	
• Roads and paving	10 - 100
• Electricity	45 - 50
• Water	15 - 100
Community	
• Recreational facilities	15 - 60
• Security	5
Other property, plant and equipment	
• Specialist vehicles	10 - 15
• Other vehicles	5 - 15
• Office equipment	3 - 7

These were not reviewed in the previous and current financial years as required by GRAP 17. The details of this departure are disclosed in Note 2 of the annual financial statements.

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

1.4 Property, plant and equipment (continued)

depreciated separately.

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

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

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

1.5 Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

1.6 Finance leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term

1.7 Housing development fund assets

The housing development fund contains letting schemes that are included in Council's property plant and equipment. All surpluses generated from the letting schemes are transferred to the housing development fund.

1.8 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

1.8 Intangible assets (continued)

asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

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

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

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

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

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

1.9 Financial instruments

Trade and other receivables

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

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

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

1.10 Leases

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

Finance leases - the Municipality as lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value

1.10 Leases (continued)
of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

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.

Operating leases - the Municipality as lessor

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

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

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

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

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

Operating leases - the Municipality as lessee

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

1.11 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 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.

Water inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised on the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at financial position date comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition, net of trade discounts and rebates.

1.11 Inventories (continued)
Water and purified effluent are valued by using the weighted average method, at the lower of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold property

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Redundant or slow-moving stock are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory is sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.12 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset held for sale is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

The gain or loss on the eventual disposal of non-current assets held for sale is included in the statement of financial performance as gain or loss on sale of assets. The gain or loss on the eventual disposal of non-current assets held for sale is calculated on the difference between the net disposal proceeds and the carrying amount of the individual asset (or disposal group).

1.13 Impairment of cash-generating assets

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

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

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

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

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The 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.

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

1.14 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.

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

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

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non-cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is recognised as follows:
To the asset of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in the prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

1.15 Employee benefits

Short-term employee benefits

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

The municipality treats its provision for leave pay as an accrual.

The liability for leave pay is based on the total accrued leave days at reporting date and is disclosed as part of trade and other payables on the Statement of Financial Position. The expected cost of bonus payments is recognised as an expense only when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

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

The municipality's contributions to the defined contribution plans are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further obligation once the contributions have been paid. The contributions are recognised as employee related costs when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or reduction in the future payments is available.

1.15 Employee benefits (continued)

Defined benefit plans

The municipality has an obligation to provide post-retirement health care benefits to certain retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate.

The municipality recognises actuarial gains and losses in full in the period in which they occur. Actuarial valuations on the municipality's benefit plans are performed every two years whereas actuarial valuations are performed every three years on the multi-employer benefit plans to which the municipality contributes.

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

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

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

The municipality contributes to various national and provincial administered defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds are detailed in Note 50 of the annual financial statements. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued every three years on the projected unit credit method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

Long-service allowances

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to certain 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.

1.16 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.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is

1.16 Provisions and contingencies (continued)
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.

Provisions are not recognised for future operating deficits.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision.

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. An onerous contract is a contract in which the unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business unit or part of the business unit concerned;
  - the principal locations affected;
  - the location, function and approximate number of employees to be compensated for terminated services;
  - 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

Decommissioning, restoration and similar liability

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the entity's policy, taking into account current technologies, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to an asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related assets are charged to the Statement of Financial Performance.

1.17 Revenue Recognition

Revenue is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue is initially recognised at fair value for the year ended 30 June 2011 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 and

1.17 Revenue Recognition (continued)
SAICA Circular 09/2006.

1.18 Revenue from exchange transactions

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.

Service charges

Service charges relating to solid waste, sanitation and sewerage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has refuse containers. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges relating to sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards is recognised at the point of sale and if payment is made five days before year end, it is recognised based on an estimate of the prepaid electricity consumed as at reporting date.

Finance income

Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment.

Interest earned on the following investments is not recognised in the Statement of Financial Performance:
- Interest earned on trust funds is allocated directly to the fund, and
- Interest earned on unutilised conditional grants is allocated directly to the creditor:unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

Tariff charges

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

Income from agency services

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreements.

1.18 Revenue from exchange transactions (continued)

Rentals

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

Royalties

Royalties are recognised on an accrual basis in accordance with the substance of the relevant agreement. Royalties determined on a time basis are recognised straight-line basis over the period of the agreement. Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

1.19 Revenue from non-exchange transactions

Rates, including collection charges and penalty interest

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Fines

Fines constitute both spot fines and summonses for which revenue is recognised when payment is received, together with an estimate of spot fines and summonses based on past experience of amounts collected.

Public contributions

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are available for use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

Other donations and contributions

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

Revenue from recovery of unauthorised, fruitless and wasteful expenditure

Revenue from the recovery of unauthorised, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

1.20 Investment income

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

1.21 Borrowing costs

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

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

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

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

Accounting Policies

1.21 Borrowing costs (continued)

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

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

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

1.22 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rand's, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each reporting date:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

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

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

1.25 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.

1.26 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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

Accounting Policies

1.26 Irregular expenditure (continued)

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

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

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

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

1.27 Presentation of currency

These annual financial statements are presented in South African Rand.

1.28 Offsetting

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

1.29 Housing development fund

Section 15(5) off the Housing Act, (Act No. 107 of 1997), which came into operation on 1 April 1998, required that the entity maintain a separate housing operating account. This legislated separate operating account is known as the Housing development fund.

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.30 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which the become receivable.

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

Government grants and conditional receipts are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- 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.

Accounting Policies

1.31 Going concern assumption

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

1.32 Grants-in-aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction,
- expect to be repaid in future, or
- expect a financial return, as would be expected from an investment

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

1.33 Events after the reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the annual financial statements.

1.34 Commitments

Commitments are not recognised on the statement of financial position as a liability or as expenditure on the statement of financial performance but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts that are non-cancelable or only cancelable at significant cost in the event that such contract should relate to something other than the business of the municipality.

1.35 Value Added Tax

The Municipality accounts for value added tax on the cash basis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. General information

The annual financial statements have been prepared in accordance with the Generally Recognised Accounting Practices and the Municipal Finance Management Act. With the exception of the instances detailed below, the municipality has complied with the Standards of GRAP. Management is of the opinion that the entity's financial position, financial performance and cash flows are fairly presented.

The municipality is classified by the National Treasury as a medium capacity municipality and had adopted the phased-in approach in order to comply fully with the implementation of GRAP by 30 June 2011. The relief offered by Directive 4 from the Accounting Standards Board (which the municipality had taken advantage of) has expired and as such, the municipality has departed from the requirements of the following Standards of GRAP as at 30 June 2011:

- GRAP 12: Inventories
  The municipality has failed to identify all its inventory and measure it in accordance to GRAP 12. In terms of GRAP 12 the municipality is required to determine the cost of inventories and if necessary, recognise any write-downs to net realisable value at reporting date in the Statement of Financial Performance . The municipality did not measure its Unpurified water; Water in pipelines as well as Land held for resale as they were unable to measure quantities on hand at reporting date or the net realisable value thereof. Consequently, there are no amounts recognised on the Statement of Financial Position to represent the assets held. The impact of the departure on the annual financial statements could not be quantified.
- GRAP 13: Leases
  The municipality has not applied the recognition criteria envisaged in GRAP 13 to distinguish between operating and finance leases for all such contracts entered into. Consequently, the municipality has not recognised any leased asset or related liabilities in the Statement of Financial Position and no distinction is made between finance costs and lease rentals in the Statement of Financial Performance.The impact of the departure on the annual financial statements could not be quantified.
- GRAP 16: Investment property
  This standard of GRAP requires that the entity shall determine the fair value of investment property for the purpose of disclosure. The municipality has departed from this requirement as they have not assessed the investment properties held for any indication of impairment. Consequently, any such losses have not been recognised in the Statement of Financial Performance and are not reflected by the balances disclosed on the Statement of Financial Position. The impact of the departure on the annual financial statements could not be quantified.
- GRAP 17: Property, Plant and Equipment
  In terms of GRAP 17, the residual value and the useful life of an asset shall be reviewed at least at each reporting date and an entity shall assess whether there is any indication that the asset may be impaired. The municipality has departed from this requirement as they have not assessed the assets for impairment. Any such losses have not been recorded in the Statement of Financial Performance and are not represented by the balances reflected on the Statement of Financial Position. The impact of the departure on the annual financial statements could not be quantified.
- GRAP 19: Provisions, contingent liabilities and contingent assets
  This standard requires that a provision of the expenditure required to settle a present obligation at the reporting date be recorded in the financial statements. The municipality has failed to identify, measure and disclose the environmental rehabilitation provisions required for the land-fill site as they were unable to quantity the obligation at reporting date. Conseqently, an environmental rehabilitation provision has not been recorded in the Statement of Financial Position and the impact of the unwinding of the provision due to the time value of money has not been recognised in the Statement of Financial Performance. The impact of the departure on the annual financial statements could not be quantified.
- GRAP 102: Intangible assets
  In terms of GRAP 102, the residual value and the useful life of an asset shall be reviewed at least at each reporting date and an entity shall assess whether there is any indication that the asset may be impaired. The municipality has departed from this requirement as they have not assessed the assets for impairment. Any such losses have not been recorded in the Statement of Financial Performance and are not represented by the balances reflected on the Statement of Financial Position. The impact of the departure on the annual financial statements could not be quantified.

3. Trade and other receivables from exchange transactions

Service debtors	808 222	1 276 162

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

3. Trade and other receivables from exchange transactions (continued)

Loan instalments	-	18
Housing debtors	76 948	90 597
Other debtors	8 767	9 175
	893 937	**1 375 952**

Consumer Debtors are billed monthly, latest end of month. Interest is charged on all outstanding trade receivables at a market related interest rate.

The municipality receives applications that it processes. Deposits are required to be paid for all water accounts opened. There are no consumers who represent more than 5% of the total balance of Consumer Debtors.

The management of the municipality is of the opinion that the carrying value of Consumer Debtors approximate their fair values.

The fair value of Consumer Debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and Consumer Debtors as well as the current payment ratio's of the municipality's Consumer Debtors.

Gross balances

Service debtors - Electricity	1 268 060	1 156 757
Service debtors - Refuse	10 064 916	8 261 778
Service debtors - Sewerage	21 090 997	17 052 425
Service debtors - Water	23 932 358	21 241 668
Housing	567 453	554 206
Loan instalments	899 131	899 437
Other debtors	2 253 224	2 251 841
	60 076 139	**51 418 112**

Less: Provision for impairment

Service debtors - Electricity	1 254 370	1 148 398
Service debtors - Refuse	9 904 419	8 034 781
Service debtors - Sewerage	20 826 966	16 681 262
Service debtors - Water	23 562 352	20 572 025
Housing	490 505	463 609
Loan instalments	899 131	899 420
Other debtors	2 244 459	2 242 665
	59 182 202	**50 042 160**

Net Balances

Service debtors - Electricity	13 690	8 359
Service debtors - Refuse	160 497	226 997
Service debtors - Sewerage	264 031	371 163
Service debtors - Water	76 948	669 643
Housing	370 006	90 597
Loan instalments	-	18
Other debtors	8 765	9 175
	893 937	**1 375 952**

Electricity: ageing

Current (0 - 30 days)	7 064	31 395
31 - 60 days	11 451	-
61 - 90 days	54 726	-
91 - 120 days	6 181	5 610
+ 120 days	1 188 638	1 119 753
	1 268 060	**1 156 758**

3. Trade and other receivables from exchange transactions (continued)

Refuse: ageing		
Current (0 - 30 days)	167 552	351 632
31 - 60 days	379 705	164 077
61 - 90 days	174 406	163 339
91 - 120 days	171 533	159 492
+ 120 days	9 171 720	7 423 239
	10 064 916	**8 261 779**

Sewerage: ageing		
Current (0 - 30 days)	431 264	738 871
31 - 60 days	753 294	348 783
61 - 90 days	357 790	339 380
91 - 120 days	361 882	339 048
+ 120 days	19 186 767	15 286 343
	21 090 997	**17 052 425**

Water: ageing		
Current (0 - 30 days)	431 051	997 425
31 - 60 days	848 598	273 462
61 - 90 days	429 667	271 798
91 - 120 days	495 088	387 709
+ 120 days	21 727 954	19 311 274
	23 932 358	**21 241 668**

Housing: ageing		
Current (0 - 30 days)	-	11 985
31 - 60 days	2 863	1 305
61 - 90 days	13 265	1 305
91 - 120 days	12 983	1 268
+ 120 days	538 342	-
	567 453	**15 863**

Loan instalments: ageing		
Current (0 - 30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	-	-
+ 120 days	899 131	899 437
	899 131	**899 437**

Other debtors: ageing		
Current (0 - 30 days)	-	5 026
31 - 60 days	-	2 043
61 - 90 days	-	1 608
91 - 120 days	-	1 608
+ 120 days	2 253 224	2 241 556
	2 253 224	**2 251 841**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	50 042 160	37 177 512
Impairment loss recognised	9 140 042	12 864 648
	59 182 202	**50 042 160**

3. Trade and other receivables from exchange transactions (continued)

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per debtor. No further provision is required in excess of the provision for impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.

Aging of impairment		
Current (0 - 30 days)	791 798	2 422 243
31 - 60 days	1 891 632	904 348
61 - 90 days	960 152	939 816
91 - 120 days	979 950	966 505
+ 120 days	54 558 670	44 809 248
	59 182 202	**50 042 160**

4. Trade and other receivables from non-exchange transactions

Assessment rates debtors	25 404 120	19 879 026
Insurance claims	114 190	114 190
Sundry debtors	2 129 486	1 164 079
Less: Provision for impairment	(24 783 023)	(19 009 405)
	2 864 773	**2 147 890**

The Insurance Claims instituted against the municipality's insurance company are supported by valid insurance claims which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

Reconciliation of provision for impairment of other receivables from non-exchange transactions

Opening balance	19 009 406	12 684 974
Impairment losses recognised	5 773 617	6 324 432
	24 783 023	**19 009 406**

Aging of trade receivables from non-exchange transactions		
Rates		
Current (0 - 30 days)	183 114	1 314 735
31 - 60 days	674 916	498 792
61 - 90 days	318 242	561 565
91 - 120 days	306 777	482 285
+ 120 days	23 921 071	17 021 649
	25 404 120	**19 879 026**

Aging of impairment		
Rates		
Current (0 - 30 days)	63 739	-
31 - 60 days	586 692	-
61 - 90 days	250 894	-
91 - 120 days	243 620	-
+ 120 days	23 638 078	-
	24 783 023	**-**

The aging of impairment for assessment rate debtors was not available for the year ended 30 June 2011.

5. VAT receivable

Figures in Rand	2011	2010

5. VAT receivable (continued)

VAT	4 877 257	-

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

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

6. Current portion of long term receivable

Staff loans		
Gross balances	122 978	122 978
Provision for impairment	(109 570)	(109 570)
	13 408	**13 408**

In terms of the MFMA no loans are granted to officials anymore. The outstanding amount is in respect of loans granted before 01 July 2004 and will continue until all loans have been repaid.

As at 30 June 2011 Long-term Receivables of R109 570 (2010: R109 570) were past due and a provision for impairment has been made for these amounts.

Reconciliation of provision for impairment		
Balance at beginning of year	109 570	109 570
Impairment losses recognised	-	-
Amounts written off as uncollectable	-	-
	109 570	**109 570**

In determining the recoverability of the long term receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being small and staff of the municipality. Accordingly, the management believe that there is no further credit provision required in excess of the provision for impairment.

7. Cash and cash equivalents

Cash floats and advances	310	310
Bank balances	9 817 753	7 017 993
Short-term deposits	6 391 690	680 261
	16 209 753	**7 698 564**

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 - 40 5280 5864	1 172 920	411 374	8 434 598	1 903 810	550 059	8 693 483
ABSA Bank - 90 9125 7522	2 620	2 563	2 367	2 620	2 558	2 499
ABSA Bank - 19 4015 8695	1 007 609	3 491 185	9 114	1 007 609	3 491 185	9 114
ABSA Bank - 91 2257 3572	1 343	1 339	1 338	1 343	1 339	1 338
ABSA Bank - 40 5774 2120	223 028	183 131	179 891	223 028	161 531	179 891
ABSA Bank - 90 7906 4583	462 040	207 710	477 933	465 791	76 713	240 193
ABSA Bank - 91 0756 0295	5 965	5 835	5 697	5 965	5 824	5 697
ABSA Bank - 19 4015 8687	6 073 763	1 531 298	57 150	6 073 763	1 949 214	57 150
ABSA Bank - 90 5224 5645	91 517	86 177	80 311	91 517	86 177	80 311
ABSA Bank - 91 0220 9606	41 807	354 449	338 797	42 307	693 393	338 797
Total	**9 082 612**	**6 275 061**	**9 587 196**	**9 817 753**	**7 017 993**	**9 608 473**

Call deposits are invested with a maturity period of less than 3 months and earn interest at different rates per annum. An

7. Cash and cash equivalents (continued)
amount of R 9 252 705 (2010: R5 209 511) is attributable to Unspent Conditional Grants.

For the purposes of the Statement of Financial Position and the Cash Flow Statement, Bank, Cash and Cash Equivalents include Cash-on-Hand, Cash in Banks and Investments in Money Market Instruments, net of outstanding Bank Overdrafts.

Interest on overdrawn current accounts is charged at the banker's prime rate plus two percent per annum. Interest is earned at different rates per annum on favourable balances.

8. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	289 543	(260 475)	29 068	289 543	(250 830)	38 713

Reconciliation of investment property - 2011

	Opening balance	Depreciation	Total
Investment property	38 713	(9 645)	29 068

Reconciliation of investment property - 2010

	Opening balance	Depreciation	Total
Investment property	48 358	(9 645)	38 713

	2011	2010
Estimated fair value of investment properties at 30 June	255 000	255 000

Other disclosures

Revenue and Expenditure disclosed in the Statement of Financial Performance include the following:

	2011	2010
Total rental income earned from investment property	-	129 600

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.

All of the municipality’s Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations on Investment Property.

The municipality's Investment Properties are accounted for according to the cost model.

Impairment of Investment Property was taken into consideration during the process of identifying property, plant and equipment. No Impairment Losses were recognised.

Refer to Appendix "B" for more detail on Investment Property.

9. Property, plant and equipment

	2011	2010

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Property, plant and equipment (continued)

	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	4 774 780	(1 362 546)	3 412 234	4 774 780	(1 301 932)	3 472 848
Office equipment	30 536 513	(4 885 359)	25 651 154	10 660 063	(3 695 387)	6 964 676
Infrastructure	191 095 688	(26 441 229)	164 654 459	186 060 813	(19 421 848)	166 638 965
Community	15 367 229	(7 727 890)	7 639 339	15 367 229	(7 271 480)	8 095 749
Housing development fund	501 169	(58 410)	442 759	501 169	(41 715)	459 454
Total	**242 275 379**	**(40 475 434)**	**201 799 945**	**217 364 054**	**(31 732 362)**	**185 631 692**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Depreciation	Total
Buildings	3 472 848	-	(60 614)	3 412 234
Office equipment	6 964 676	19 876 450	(1 189 972)	25 651 154
Infrastructure	166 638 965	5 034 875	(7 019 381)	164 654 459
Community	8 095 749	-	(456 410)	7 639 339
Housing development fund	459 454	-	(16 695)	442 759
	185 631 692	**24 911 325**	**(8 743 072)**	**201 799 945**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Buildings	3 533 462	-	(60 614)	3 472 848
Office equipment	7 401 658	658 912	(1 095 894)	6 964 676
Infrastructure	55 402 086	113 432 315	(2 195 436)	166 638 965
Community	8 552 159	-	(456 410)	8 095 749
Housing development fund	476 149	-	(16 695)	459 454
	75 365 514	**114 091 227**	**(3 825 049)**	**185 631 692**

Other information

The municipality did not pledge any of its assets as security.

No Property, Plant and Equipment were retired from active use and held for disposal during the financial year.

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.

Refer to Appendices "B, C and E (2)" for more detail on Property, Plant and Equipment, including those in the course of construction.

10. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	883 539	(434 912)	448 627	883 539	(324 408)	559 131

Reconciliation of intangible assets - 2011

	Opening balance	Amortisation	Total
Computer software, other	559 131	(110 504)	448 627

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Intangible assets (continued)

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Amortisation	Total
Computer software, other	108 672	532 571	(82 112)	559 131

Other information

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Refer to Appendix "B" for more detail on Intangible Assets.

All significant Intangible Assets, that meet the recognition criteria for Intangible Assets as stipulated in GRAP 102, have been identified.

The municipality depreciates all its intangible assets and no of such assets are regarded as having indefinite useful lives.

Impairment of intangible assets was taken into consideration during the process of identifying property, plant and equipment. No impairment losses were recognised.

11. Trade and other payables from exchange transactions

	2011	2010
Trade payables	6 888 885	15 648 915
Sundry deposits	35 017	17 462
Staff leave accrual	1 398 017	2 039 994
Accrued bonus	483 839	405 199
Payments received in advance	448 719	2 318
Other creditors	6 508 438	2 879 451
	15 762 915	**20 993 339**

The average credit period on purchases is 441 days (2010: 513 days). No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.

12. VAT Payable

	2011	2010
VAT payable	-	515 879

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

No interest is payable to SARS if the VAT is paid over timeously, but interest for late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date.

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2011	2010
Other spheres of government: Development Bank of SA	1 380 445	1 380 445
Local government: Cacadu District Municipality Grant	1 392 025	1 292 790
Provincial: Department Housing Grant	(196 182)	(196 182)
Provincial: DPLG (Department of Local Government)	7 323 449	7 610 324
Provincial: IDP	225 456	-

Figures in Rand	2011	2010

13. Unspent conditional grants and receipts (continued)

Provincial: LED	53 000	-
National: MIG (Municipal Infrastructure Grant)	31 707 822	14 350 029
National: MSIG (Municipal Systems Improvement Grant)	806 623	369 431
National: FMG (Financial Management Grant)	2 006 161	1 341 524
National: Housing Project	9 133 586	-
Provincial: DPLG Community Halls	150 000	-
National: Department of Water Affairs Grant	525 863	525 863
	54 508 248	**26 674 224**

Refer to Appendix "F" for more detail on Conditional Grants.

See note 21 for reconciliation of grants from National/Provincial and Other Spheres of Government.

These amounts are invested in a ring-fenced investment account until utilised.

14. Consumer deposits

Electricity and water	104 700	104 700

No guarantees were held in lieu of electricity and water deposits.

Consumer deposits are paid by consumers on application for new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts the municipality can utilise the deposit as payment for the outstanding account.

No interest is paid on consumer deposits held.

15. Provisions

Current portion of long service award	37 824	40 754
Current portion of post-retirement medical aid benefit liability	54 434	50 916
	92 258	**91 670**

Long-term service		
Balance at beginning of year	40 754	103 862
Transfer from non-current	37 824	40 754
Contributions to provision	-	-
Expenditure incurred	(40 754)	(103 862)
	37 824	**40 754**

Post-retirement medical aid benefit		
Balance at beginning of year	50 916	46 246
Transfer from non-current	54 434	50 916
Contributions to provision	-	-
Expenditure incurred	(50 916)	(46 246)
	54 434	**50 916**

16. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

Retirement benefit liabilities have been dicslosed to adhere to the disclosure provisions of IAS 19.

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying

16. Retirement benefits (continued)

retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid membership fee. The municipality operates an unfunded defined benefit for those qualifying employees. No other post-retirement benefits are provided to these employees.

Actuarial valuations are performed every two years. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2010 by Mr C Weiss, member of the Actuarial Society of South Africa. At this date, two members were eligible for the post retirement medical aid benefit.

The present value of the defined benefit obligation and the related current service cost and past service cost, were measured using the projected unit credit method.

Carrying value

	2011	2010
Present value of the defined benefit obligation-wholly unfunded	(561 531)	(591 914)
Interest cost	(48 600)	(49 957)
Net actuarial gains or losses not recognised	-	(16 824)
Benefits paid	-	46 248
Current portion transferred to provisions	54 434	50 916
	(555 697)	**(561 531)**

Post-retirement health care benefits liability

	2011	2010
Opening balance	612 447	591 914
Contributions by members	48 600	49 957
Expenditure incurred	(50 916)	(46 248)
Increase / (reduction) due to re-measurement	-	16 824
	610 131	612 447
	(54 434)	(50 916)
	555 697	**561 351**

Net expense recognised in the statement of financial performance

	2011	2010
Current service cost	48 600	49 957
Interest cost	-	16 824
	48 600	**66 781**

Key assumptions used

Assumptions used on last valuation on .

	2011	2010
Health care cost inflation rate	6.91 %	6.91 %
Net effective discount rate	8.27 %	8.27 %

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

17. Provisions

Reconciliation of provisions

Opening Balance	552 215	495 393
Current service cost	94 481	104 722
Interest cost	48 049	40 705
Benefits paid	(40 754)	(103 862)
Reduction due to re-measurement	-	15 257
Accrued Liability	653 991	552 215
Transferred to current provisions	(37 824)	(40 754)
	616 167	**511 461**

Amounts recognised in the Statement of Financial Performance are as follows:

Current service cost	94 481	104 722
Interest cost	48 049	40 705
Actuarial gains and losses	-	15 257
	142 530	**160 684**

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan, a Long-service Award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long-service based on historical staff turnover. No other long-service benefits are provided to employees.

Actuarial valuations are performed every two years. The most recent actuarial valuation of the present value of the defined benefit obligation was carried out at 30 June 2010 by Mr C Weiss, Member of the Actuarial Society of South Africa. At this date, 130 employees were eligible for Long-services Awards.

The defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The Current-service Cost and Interest cost incurred are estimated to be R94 481 and R48 049 respsctively (2010: R104 722 and R40 705), whereas the cost for the ensuing year is estimated to be R103 010 and R37 824.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Property rates

Rates received

Residential	7 943 164	6 975 364

Valuations

Residential	900 697 000	900 697 000
Commercial	222 980 000	222 980 000
State	540 494 600	540 494 600
Municipal	-	-
Agricultural	1 663 265 000	1 663 265 000
Exempted properties	294 037 400	294 037 400
	3 621 474 000	**3 621 474 000**

Assessment Rates are levied on the value of land and improvements, which valuation is performed every four years. The last general valuation came into effect on 1 July 2009. A uniform rate for the same class and type of property will be applied with the implementation of the Property Rates Act. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 5.341c/R (2010:4.9879c/R) is applied to property valuations to determine assessment rates. Rebates of 20% (2010: 20%) are granted to properties owned by the state.

Rates are levied on an monthly basis and are payable on the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September 2011 .

19. Service charges

Sale of electricity	1 431 955	1 256 255
Sale of water	5 473 115	6 403 110
Sewerage and sanitation charges	5 155 971	4 604 358
Refuse removal	2 493 592	2 242 138
	14 554 633	**14 505 861**

The amounts disclosed above for revenue from service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

20. Rental of facilities and equipment

Premises		
Operating lease income from investment property	-	129 601
Rental revenue from halls	84 840	37 757
Rental revenue from houses	66 136	8 976
	150 976	**176 334**
Facilities and equipment		
Rental revenue from toilets	219	1 330
Rental revenue from office equipment	761	-
Rental revenue from other facilities	6 035	26 303
	7 015	**27 633**
	157 991	**203 967**

Rental revenue earned on facilities and equipment is in respect of non-financial assets rented out.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Government grants and subsidies

Provincial: Equitable share	22 754 154	18 224 387
National: FMG (Financial Management Grant)	2 335 363	2 319 612
Provincial: DPLG (Department Local Government Grant)	188 959	3 018 092
National: MIG (Municipal Infrastructure Grant)	33 339 887	125 843 411
Other spheres of Government: Development Bank of South Africa	-	3 133 170
National: DWAF Grant	-	1 015 598
Local Government - Cacadu District Municipality	240 200	1 228 196
Provincial: IDP (Intergrated Development Plan)	219 972	-
National: MSIG (Municipal Systems Improvement Grant)	312 808	342 717
Provincial: Department of Housing Grant	-	4 770 464
	59 391 343	**159 895 647**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy based on the monthly billing, towards the consumer account, which subsidy is determined annually by council. All residential households receive 6 kl water and certain poor areas 50 kWh electricity free every month

Provincial: Equitable Share	22 754 154	18 224 387

National: FMG (Financial Management Grant)

Balance unspent at beginning of year	1 341 524	911 136
Current-year receipts	3 000 000	2 750 000
Conditions met - transferred to revenue	(2 335 363)	(2 319 612)
	2 006 161	**1 341 524**

Conditions still to be met - remain liabilities (see note 13)

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

Provincial: DPLG (Department Local Government Grant)

Balance unspent at beginning of year	7 610 324	8 628 416
Current-year receipts	-	2 000 000
Conditions met - transferred to revenue	(330 189)	(3 018 092)
Other	43 314	-
	7 323 449	**7 610 324**

Conditions still to be met - remain liabilities (see note 13)

National: MIG (Municipal Infrastructural Grant)

Balance unspent at beginning of year	14 350 029	7 673 564
Current-year receipts	49 491 863	138 150 559
Conditions met - transferred to revenue	(33 339 887)	(125 843 411)
Other	1 205 817	(5 630 683)
	31 707 822	**14 350 029**

Conditions still to be met - remain liabilities (see note 13)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Government grants and subsidies (continued)

The Municipal Infrastructure Grant (MIG) was allocated for the development of infrastructure. Funds have been distributed via the Local District Municipality.

Other government - DBSA (Development Bank of South Africa) Grant

Balance unspent at beginning of year	1 380 445	(371 933)
Current-year receipts	-	4 885 548
Conditions met - transferred to revenue	-	(3 133 170)
	1 380 445	**1 380 445**

Conditions still to be met - remain liabilities (see note 13)

The Development Bank of South Africa allocates funds to ensure that infrastructure is maintained and improved. The grant was utilised for this purpose. No funds have been withheld.

National: DWAF Grant

Balance unspent at beginning of year	525 863	525 863
Current-year receipts	-	1 015 598
Conditions met - transferred to revenue	-	(1 015 598)
	525 863	**525 863**

Conditions still to be met - remain liabilities (see note 13)

The Department of Water and Forestry Grant was allocated to the municipality to improve municipal systems and was used for indigent surveys, fixed asset register and drafting of water bylaws. No funds have been withheld.

Local Government - Cacadu District Municipality

Balance unspent at beginning of year	1 292 790	(214 847)
Current-year receipts	339 435	2 735 834
Conditions met - transferred to revenue	(240 200)	(1 228 197)
	1 392 025	**1 292 790**

Conditions still to be met - remain liabilities (see note 13)

These funds have been received for the repairs on damages to houses caused by floods and for LED Projects. No funds have been withheld.

Provincial: IDP (Intergrated Development Plan)

Balance unspent at beginning of year	-	-
Current-year receipts	445 428	-
Conditions met - transferred to revenue	(219 972)	-
	225 456	**-**

Conditions still to be met - remain liabilities (see note 13)

National: MSIG (Municipal Systems Improvement Grant)

Balance unspent at beginning of year	369 431	312 148
Current-year receipts	750 000	400 000
Conditions met - transferred to revenue	(312 808)	(342 717)
	806 623	**369 431**

21. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 13)

The Municipal Systems Improvement Grant (MSIG) was allocated for the improvement of internal systems. No funds have been withheld.

Provincial: Department of Housing Grant

Balance unspent at beginning of year	(196 182)	(206 082)
Current-year receipts	-	4 780 364
Conditions met - transferred to revenue	-	(4 770 464)
	(196 182)	**(196 182)**

Conditions still to be met - remain liabilities (see note 13)

The grant was allocated for the building and repair of houses. The municipality acts as agent for implementation of the plan. No funds have been withheld.

Provincial: LED (Local Economic Development)

Current-year receipts	53 000	-

Conditions still to be met - remain liabilities (see note 13)

National: Housing Project Grant

Current-year receipts	9 133 586	-

Conditions still to be met - remain liabilities (see note 13)

Provincial: Community Halls Grant

Current-year receipts	150 000	-

Conditions still to be met - remain liabilities (see note 13)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act No 2 of 2009), government grant funding is expected to increase over the forthcoming 3 financial years.

22. Other income

Connection fees	8 145	5 451
Valuation certificates	8 647	4 985
Building plan fees	93 045	154 649
Land use application fees	29 158	44 317
Information fees	16 278	17 470
Cemetery fees	63 663	40 749
VAT Recoveries	7 841 189	-
Income from boreholes and other equipment	860 121	-
Sundry other income	1 224 498	1 082 474
	10 144 744	**1 350 095**

The amounts disclosed above for Other income are in respect of services, other than described in Notes 18 and 19, rendered which were billed to or paid for by the users as the services are required according to approved tariffs.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Interest received

Interest revenue		
Bank	158 491	97 981
Investments	1 698 555	3 890 623
	1 857 046	**3 988 604**

24. Employee related costs

Salaries, Wages and Bonuses	15 222 826	15 027 278
Contributions for UIF, Pensions and Medical aids	2 522 561	2 115 251
Defined benefit plan expense	(2 316)	143 845
Overtime payments	241 346	852 186
Housing benefits and allowances	72 211	(94 423)
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	3 257 806	3 457 216
	21 314 434	**21 501 353**

Remuneration of the Municipal manager

Annual Remuneration	440 630	360 800
Car Allowance	168 000	240 533
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	81 628	1 373
	690 258	**602 706**

Remuneration of the Chief financial officer

Annual Remuneration	342 205	338 966
Car Allowance	157 500	224 491
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	1 123	1 497
	500 828	**564 954**

Remuneration of the Manager: Corporate services

Annual Remuneration	360 515	113 715
Car Allowance	103 000	47 759
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	81 574	8 587
	545 089	**170 061**

Remuneration of the Manager: Strategic Services

Annual Remuneration	-	255 859
Car Allowance	-	151 460
Performance Bonuses	-	-
Contributions to UIF, Medical and Pension Funds	-	19 814
	-	**427 133**

Remuneration of the Manager: Technical Services

Annual Remuneration	141 164	481 328
Car Allowance	24 262	68 091
Contributions to UIF, Medical and Pension Funds	374	1 497
	165 800	**550 916**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Remuneration of councillors

Executive Major	559 905	418 129
Councillors	1 077 967	757 785
Sundry allowances	403 630	544 371
	2 041 502	**1 720 285**

In-kind benefits

The Councillor occupying the position of Mayor serves in a full-time capacity. He is provided with office accommodation and secretarial support at the expense of the municipality in order to enable him to perform his official duties.

The Mayor has the use of separate Council owned vehicles for official duties.

The Mayor has a full-time driver.

26. Impairment of assets

Impairments		
Trade receivables from exchange and non-exchange transactions	14 913 661	19 189 077

27. Finance costs

Other interest paid	129 479	79 097

28. Bulk purchases

Electricity	1 847 482	1 364 574
Water	81 892	152 690
	1 929 374	**1 517 264**

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Louterwater Engineering Works.

29. Contracted services

Security Services	458 992	399 622
Valuation Services	299 028	1 018 092
Project Management Fees	-	108 204
Project Fees	2 223	240 240
Contractors' Fees	777 911	790 685
	1 538 154	**2 556 843**

30. Grants and subsidies paid

Other subsidies		
Low income subsidy / Free basic service	2 423 843	1 048 548
Community projects	25 002 806	15 445 430
	27 426 649	**16 493 978**

Community Projects are in respect of conditional and other grants utilised for the upliftment of housing and basic service needs of communities and flood/drought relief within the municipality's area of jurisdiction.

The Low Income Subsidy/Free Basic Services is in respect of providing basic service levels to indigent/residential households. Refer to Note 21.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

30. Grants and subsidies paid (continued)

The Mayor makes grants available on application after consultation with the Municipal Manager on the merits of such an application.

31. General expenses

Advertising	139 961	87 106
Auditors remuneration	951 595	285 492
Bank charges	102 767	97 738
Consulting and professional fees	270 967	345 066
Insurance	643 943	325 203
Conferences and seminars	20 838	2 000
Lease rentals on operating lease	494 620	376 370
Levies	179 127	189 674
Fuel and oil	1 208 403	1 034 033
Printing and stationery	355 515	161 345
Subscriptions and membership fees	5 631	10 702
Telephone and fax	811 685	926 169
Training	3 098	5 000
Travel - local	362 009	565 090
Refuse	42 000	79 920
Capacity building	(2 722)	1 693 013
L E D Strategy expenses	(8 314)	127 371
Licence fees	184 783	169 816
Materials and stores	222 840	769 961
Mayoral discretionary expenses	320	27 140
Refreshments	14 783	12 518
Chemicals	586 367	77 232
Other general expenses	1 637 100	1 591 643
	8 227 316	**8 959 602**

The amounts disclosed above for Other general expenses are in respect of costs incurred in the general management of the municipality and not directly attributable to a specific service or class of expense.

32. Cash generated from operations

Surplus	8 094 548	112 170 945
Adjustments for:		
Depreciation and amortisation	8 863 221	3 916 806
Impairment deficit	14 913 661	19 189 077
Movements in retirement benefit assets and liabilities	99 460	143 845
Movements in provisions	(563 337)	802 058
Changes in working capital:		
Trade and other receivables from exchange transactions	(8 658 028)	(11 962 924)
Other receivables from non-exchange transactions	(6 490 501)	(5 206 533)
Trade and other payables from exchange transactions	(4 667 087)	(12 196 404)
VAT	(5 393 136)	(1 701 052)
Unspent conditional grants and receipts	27 834 024	9 415 959
	34 032 825	**114 571 777**

33. Depreciation and amortisation

Property, plant and equipment	8 863 221	3 916 806

34. Commitments

Authorised capital expenditure

	2011	2010
Already contracted for but not provided for		
• Infrastructure	6 515 516	45 011 830
• Community	-	-
• Other	-	-
	6 515 516	**45 011 830**

This committed expenditure relates to plant and equipment and will be financed by government grants.

Other commitments

The municipality had entered into a contract with Kamva Security Services for the provision of security services for 3 years. The contract expired on 30 June 2009. The contract is now being continued on a month-to-month basis.

35. Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party to exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.Refer to Note 24 regarding the remuneration paid to key management.

36. Comparative figures

The comparative figures were restated due to the full implementation of the Standards of GRAP listed below. Refer to change in accounting policy disclosed in Note 48.

- GRAP 16 Investment Properties
- GRAP 17 Property, Plant and Equipment
- GRAP 102 Intangible Assets

37. Risk management

Financial risk management

The municipality has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

Risks and exposures are disclosed below:

Credit risk

Credit risk is the risk of financial loss to the municipality if a customer or counterparty to a financial instrument fails to meet its contractual obligation, and arises principally from the municipality's receivables from customers and investment securities.

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses other publicly available financial information and its own trading records to assess its major customers. The municipality’s exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances. Maximum exposure to credit risk not covered by collateral is specified.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

37. Risk management (continued)
maximum terms, which are included in the municipality's Investment Policy. These limits are reviewed annually by the CFO and authorised by the Council.

Trade Receivables consist of a large number of customers, spread across diverse industries in the geographical area of the municipality. Periodic credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee is increased accordingly.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Financial instrument	**2011**	**2010**
Long-term receivable (current portion)	13 408	13 408
Trade and other receivables from exchange transactions	893 937	1 375 952
Other receivables from non-exchange transactions	2 864 773	2 147 890
Bank and cash balances	16 209 753	7 698 564

Liquidity risk

Liquidity is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure cash flow requirements are met.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The municipality’s activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

The municipality’s activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

Capital risk management

37. Risk management (continued)

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance. The municipality’s overall strategy remains unchanged from 2010.

The capital structure of the municipality consists of debt which is defined as the Unspent conditional grants disclosed in Note 13, cash and cash equivalents disclosed in note 7, and equity which includes all funds and reserves of the municipality disclosed as net assets in the statement of financial position.

Consistent with others in the industry, the municipality monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total equity. Net debt is calculated as total debt less cash and cash equivalents.

There are no externally imposed capital requirements.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Directorate: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2011 and 2010 respectively were as follows:

		2011	2010
Total borrowings			
Unspent conditional grants	13	54 508 248	26 674 226
Less: Cash and cash equivalents	7	(16 209 753)	(7 698 564)
Net debt		38 298 495	18 975 662
Total equity		155 496 783	148 012 546
Total capital		**193 795 278**	**166 988 208**
Net debt to equity ratio		19.76%	10.52%

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with well-established financial institutions of high credit standing. No investment with a tenure exceeding twelve months shall be made without consultation with the councillor responsible for financial matters.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of a provision for impairment.

Figures in Rand	2011	2010

37. Risk management (continued)

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

At 30 June 2011, if interest rates on Rand-denominated investments had been 0.1% higher/lower with all other variables held constant, post-tax surplus for the year would have been R 16 209 (2010: R 7 698) lower/higher, mainly as a result of higher/lower interest earned on the short-term call deposits and bank and cash balances.

38. Financial assets by category

In accordance with with IAS 39.09 the Financial Assets of the municipality are classified as follows:

2011

	Loans and receivables	Available-for-sale	Total
Loans to employees	13 408	-	13 408
Trade and other receivables from exchange transactions	893 937	-	893 937
Cash and cash equivalents	-	16 209 753	16 209 753
Trade and other receivables from non-exchange transactions	2 864 773	-	2 864 773
	3 772 118	**16 209 753**	**19 981 871**

2010

	Loans and receivables	Available-for-sale	Total
Loans to employees	13 408	-	13 408
Trade and other receivables from exchange transactions	1 375 952	-	1 375 952
Cash and cash equivalents	-	7 698 564	7 698 564
Trade and other receivables from non-exchange transactions	2 147 890	-	2 147 890
	3 537 250	**7 698 564**	**11 235 814**

39. 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
Unspent conditional grants and receipts	54 508 248	54 508 248
Trade and other payables	13 881 059	13 881 059
Consumer deposits	104 700	104 700
	68 494 007	**68 494 007**

2010

	Financial liabilities at amortised cost	Total

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

39. Financial liabilities by category (continued)

Unspent conditional grants and receipts	26 674 226	26 674 226
Trade and other payables	18 548 146	18 548 146
Consumer deposits	104 700	104 700
	45 327 072	**45 327 072**

40. Events after the reporting date

No events having financial implications requiring disclosure occurred subsequent to 30 June 2011.

41. Unauthorised expenditure

Opening balance	16 970 000	16 970 000
Unauthorised expenditure - current year	-	-
Approved by Council or condoned	-	-
Unauthorised expenditure awaiting authorisation	-	-
	16 970 000	**16 970 000**

Unauthorised expenditure is expenditure which has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

42. Fruitless and wasteful expenditure

Opening balance	117 426	37 853
Add: Fruitless and wasteful expenditure - current year	129 088	79 573
Condoned or written off by Council	-	-
Fruitless and wasteful expenditure awaiting condonement	-	-
	246 514	**117 426**

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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

43. Irregular expenditure

Opening balance	345 716	93 410
Add: Irregular Expenditure - current year	-	1 073 241
Less: Amounts recoverable (not condoned)	-	(820 935)
	345 716	**345 716**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

44. Contingencies

Contingent liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability can also arise from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality had outstanding litigations and claims relating to the following personnel matters:

- W. Hloyi — Disciplinary hearing
- C. Gongqongqo — Disciplinary hearing
- C Senatle — Disciplinary hearing
- L. Bebeza — Disciplinary hearing
- B. Olivier — Disciplinary hearing
- S. Spellman — Arbitration
- M. Ndokweni — Arbitration
- E. Cunningham and others — Arbitration

Contingent assets

The municipality was not engaged in any transactions or events during the year under review involving contingent assets.

45. In-kind donations and assistance

The municipality received the following in-kind donations and assistance:

- Secondment of one Financial Expert by DBSA for two years
- Secondment of one Engineer by DBSA for two years
- Secondment of three Young Technical Professionals by DBSA for two years
- Secondment of five officials from the Provincial Treasury

46. Comparison with budget

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

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Council subscriptions	20 301	103 151

Audit fees

Current year audit fee	951 595	285 492
Amount paid - current year	(951 595)	(285 492)
	-	-

PAYE and UIF

Current year payroll deductions	2 720 549	2 728 514
Amount paid - current year	(2 720 549)	(2 728 514)
	-	-

Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	4 325 823	1 793 846
Amount paid - current year	(4 325 823)	(1 793 846)

Figures in Rand	2011	2010

47. Additional disclosure in terms of Municipal Finance Management Act (continued)

	-	-

VAT

	2011	2010
VAT receivable	4 877 257	-
VAT payable	-	515 879
	4 877 257	**515 879**

VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

There were no arrear consumer accounts due from Councillors at 30 June 2011. The following Councillors had arrear accounts outstanding at 30 June 2010:

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Wogane MW	553	434	987
Councillor Jacobs S	484	2 686	3 170
	1 037	**3 120**	**4 157**

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

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor Wogane MW	434	90
Councillor Jacobs S	2 686	90
	3 120	**180**

Supply chain management regulations

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

48. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) on a basis consistent with the prior year except for the full adoption of the following new or revised standards and the departures disclosed in Note 48:

- GRAP 16 Investment Property
- GRAP 17 Property, Plant and Equipment
- GRAP 102 Intangible Assets

Full adoption of GRAP Standards

During the year, the municipality implemented its accounting policy for depreciating property, plant and equipment, investment property and intangible assets in order to comply with the benchmark treatment required by the Standards of GRAP listed above as well as the basis of preparation per GRAP 1.

On principle these standards have been applied retrospectively and the 2010 comparatives contained in these annual financial statements differ from those published in the annual financial statements published for the year ended 30 June 2010.

Figures in Rand	2011	2010

48. Changes in accounting policy (continued)

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2010 is as follows:

Statement of financial position

Property, plant and equipment		
Previously stated	-	217 364 054
Accumulated Depreciation - prior years	-	(27 907 313)
Depreciation - current year	-	(3 825 049)
	-	**185 631 692**

Intangible assets		
Previously stated	-	883 539
Accumulated depreciation - prior years	-	(242 296)
Depreciation - current year	-	(82 112)
	-	**559 131**

Investment property		
Previously stated	-	289 543
Accumulated depreciation - prior years	-	(241 185)
Depreciation - current year	-	(9 645)
	-	**38 713**

Statement of financial performance

Depreciation		
Property, plant and equipment	-	(3 825 049)
Intangible assets	-	(82 112)
Investment property	-	(9 645)
	-	**(3 916 806)**

Cash flow statement

Cash flow from operating activities

Surplus for the year		
Previously stated	-	116 021 261
Adjustment	-	(3 916 806)
	-	**112 104 455**

Depreciation		
Previously stated	-	-
Adjustment	-	3 916 806
	-	**3 916 806**

49. Prior period errors

A number of errors in prior periods' appropriations and transactions were discovered and corrected in the current financial period. These errors include amounts that should have been expensed to relevant accounts in the Statement of Financial Performance.

The correction of the errors results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

49. Prior period errors (continued)

Statement of financial position

Non-current liability (Long-service award)	-	(66 490)

Statement of financial performance

Employee related costs	-	(66 490)

50. Multi-employer retirement benefit information

Kou-Kamma Municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the Pension Fund for Municipal Councillors.

Employees belong to a variety of approved Pension and Provident funds as described below.

All of these afore-mentioned funds are multi-employer plans and are subject to an actuarial valuation either annually, every two years or every three years, details which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

It is therefore seen that each fund operates as a single entity and is not divided into sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors/employees leave the plans prior to vesting of the contributions, the contributions payable by the municipality are reduced by the amount of the forfeited benefits.

The retirement funds have been valued by making use of the discounted cash flow method of valuation.

Defined Benefit Schemes
Cape Joint Pension Fund
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed on 30 June 2009.

The statutory valuation performed as at 30 June 2009 revealed that the fund had a surplus of R0.00 (30 June 2008: R182,7 million) with a funding level of 100% (30 June 2008: 106%) and a solvency reserve with a closing balance of R220.6 million (30 June 2008: R0.00). The contribution rate paid by the members (9.00%) and the municipalities (18.00%) is less than the recommended contribution rate of 32.1%

Defined Contribution Schemes
Cape Joint Pension Fund
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed on 30 June 2009.

The statutory valuation performed as at 30 June 2009 revealed that the investment reserve of the fund amounted to R1,171 million (30 June 2008: R12,033 million) with a funding level of 100.3% (30 June 2008: 103.3%). The contribution rate paid by the members (9.00%) and the municipalities (18.00%) is sufficient to fund the benefits accruing from the fund in the future.

Cape Joint Retirement Fund
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed as at 30 June 2009. The statutory valuation performed as at 30 June 2009 revealed that the assets of the fund amounted to R6 842 (30 June 2008: R6 675) million, with funding levels of 100,8% and 131,9% (30 June 2008: 101,1% and 112,2%) for the Share Account and the Pensions Account respectively. The contribution rate paid by the members (9,00%) and the municipalities (18,00%) is sufficient to fund the benefits accruing from the fund in the future.

Municipal Councillors Pension Fund
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed as at 30 June 2006.
The Municipal Councillors’ Pension Fund operates as a defined contribution scheme. The contribution rate paid by the

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

members (13,75%) and their councils (15,00%) is sufficient to fund the benefits accruing from the fund in the future. The last actuarial valuation of the fund was undertaken at 30 June 2006, and the actuary reported that the fund was as a whole in a sound financial position, with a funding level of 106,5%.

South African Municipal Workers Union National Provident Fund
The scheme is subject to an actuarial valuation every three years. The last statutory valuation was performed as at 30 June 2005. The statutory valuation performed as at 30 June 2005 revealed that the fund had a funding ratio of 100.0% (30 June 2002: 100,0%). The contribution rate paid by the members (not less than 5,00%) and Council (not less than 12,00%) is sufficient to fund the benefits accruing from the fund in the future.

None of the above mentioned plans are State Plans.