Great Kei Municipality
Annual Financial Statements
for the year ended 30 June 2011

Issued 31 August 2011

General Information

Legal form of entity	Municipality
Mayoral committee	
Mayor	N.W. Tekile
Councillors	T.M. Mali
	N.D. Pan (term ended 18 May 2011)
	Z. Mpondo (term ended 18 May 2011)
	W. Hollington (term ended 18 May 2011)
	N. George (term ended 18 May 2011)
	N. Moli
	N. Dyani
	M.M. Kema (term ended 18 May 2011)
	W. Ndoro
	Z. Blom (term ended 18 May 2011)
	F. Lewis (term ended 18 May 2011)
	L. Bangani
	M. Mzamo
	N.V. Mevana
	N.P. Mgema
	N. Ngabayena
	L. Gavumente
	J.C. Labuschagne
	S.M. Jacobs
Grading of local authority	Grade 2
Accounting Officer	Mr. C. M. Mbekela
Chief Finance Officer (CFO)	Mrs. P. Gwana
Registered office	Komga
Business address	17 Main Street Komga 4950
Postal address	Private Bag X2 Komga 4950
Bankers	Standard Bank, Komga
Telephone number	(043) 831 1028
Fax Number	(043) 831 1306
E-mail Address	SharonD@lgnet.org.za

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

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 preparation of these annual financial statements, which are set out on pages 4 to 40, in terms of 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 Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's statements.

The annual financial statements set out on pages 4 to 40, 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
Mr. C. M. Mbekela

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010 Restated
Assets			
Current Assets			
Trade and other receivables from exchange transactions	7	13,362,117	9,872,837
Other receivables from non-exchange transactions	8	1,742,199	6,310,741
VAT receivable	9	5,453,185	2,872,729
Cash and cash equivalents	10	13,637,494	18,342,298
		34,194,995	**37,398,605**
Non-Current Assets			
Investment property	4	-	-
Property, plant and equipment	5	18,630,686	7,173,461
		18,630,686	**7,173,461**
Non-Current Assets		18,630,686	7,173,461
Current Assets		34,194,995	37,398,605
Non-current assets held for sale (and) (assets of disposal groups)		-	-
Total Assets		**52,825,681**	**44,572,066**
Liabilities			
Current Liabilities			
Non-current borrowings	11	257,048	227,176
Trade and other payables from exchange transactions	14	9,788,522	8,324,310
Consumer deposits	15	80,503	80,503
Unspent conditional grants and receipts	12	1,003,762	982,677
Provisions	13	51,595	-
		11,181,430	**9,614,666**
Non-Current Liabilities			
Non-current borrowings	11	2,945,970	3,203,150
Non-Current Liabilities		2,945,970	3,203,150
Current Liabilities		11,181,430	9,614,666
Liabilities of disposal groups		-	-
Total Liabilities		**14,127,400**	**12,817,816**
Assets		52,825,681	44,572,066
Liabilities		(14,127,400)	(12,817,816)
Net Assets		**38,698,281**	**31,754,250**
Net Assets			
Accumulated surplus		38,698,281	31,754,250

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010 Restated
Revenue			
Property rates	18	10,355,256	6,267,095
Service charges	19	9,737,906	6,027,330
Rental of facilities and equipment		107,058	342,522
Fines		10,600	12,800
Licences and permits		1,190,073	1,195,999
Government grants & subsidies	20	34,227,587	29,751,762
Commissions received		282,929	-
Sundry revenue		1,308,661	348,687
Interest received - other	25	790,808	794,833
Total Revenue		**58,010,878**	**44,741,028**
Expenditure			
Personnel	23	(16,343,794)	(13,415,911)
Remuneration of councillors	24	(2,529,904)	(2,550,483)
Bad debt impairment		(16,953,505)	-
Finance costs	26	(445,501)	(476,018)
Repairs and maintenance		(1,751,128)	(2,330,784)
Bulk purchases	27	(5,145,745)	(4,264,019)
Fair value adjustment		(278,377)	-
General Expenses	22	(7,618,892)	(5,748,778)
Total Expenditure		**(51,066,846)**	**(28,785,993)**
Revenue		58,010,878	44,741,028
Expenditure		(51,066,846)	(28,785,993)
Other		-	-
Surplus for the year		**6,944,032**	**15,955,035**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	4,312,243	4,312,243
Adjustments		
Prior year adjustments	4,251,847	4,251,847
Balance at 01 July 2009 as restated	**8,564,090**	**8,564,090**
Changes in net assets		
Prior year adjustments	7,235,125	7,235,125
Net income (losses) recognised directly in net assets	7,235,125	7,235,125
Surplus for the year	15,955,035	15,955,035
Total recognised income and expenses for the year	23,190,160	23,190,160
Total changes	23,190,160	23,190,160
Balance at 01 July 2010	**31,754,249**	**31,754,249**
Changes in net assets		
Surplus for the year	6,944,032	6,944,032
Total changes	6,944,032	6,944,032
Balance at 30 June 2011	**38,698,281**	**38,698,281**
Note(s)	32	

Cash flow statement

Figures in Rand	Note(s)	2011	2010 Restated
Cash flows from operating activities			
Receipts			
Grants		35,062,622	29,751,762
Interest income		790,808	794,833
Other receipts		4,045,271	1,900,008
		39,898,701	32,446,603
Payments			
Employee costs		(18,873,698)	(15,966,394)
Suppliers		(13,599,774)	(11,557,614)
Finance costs		(445,501)	(476,018)
		(32,918,973)	(28,000,026)
Total receipts		39,898,701	32,446,603
Total payments		(32,918,973)	(28,000,026)
Net cash flows from operating activities	28	**6,979,728**	**4,446,577**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(11,457,225)	(7,173,461)
Cash flows from financing activities			
Repayment of non-current borrowings		(227,308)	-
Net cash flows from financing activities		**(227,308)**	**(2,340,732)**
Net increase/(decrease) in cash and cash equivalents		**(4,704,805)**	**(5,067,616)**
Cash and cash equivalents at the beginning of the year		18,342,298	23,409,914
Cash and cash equivalents at the end of the year	10	**13,637,493**	**18,342,298**

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 also in terms of the standards and principles contained in Directive 4 issued by the ASB in March 2009.

The Accounting Framework of the municipality, based on the preceding paragraphs 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

1.1 Significant judgements and sources of estimation uncertainty

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

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

The municipality assesses its trade receivables and loans and receivables for impairment at the end of each reporting period.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

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

Fair value estimation

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 13 - 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.

Other key assumptions for pension obligations are based on current market conditions.

Allowance for doubtful debts

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

1.2 Investment property

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 reported at provisional amounts (Nil value) due to the fact that the initial accounting for Investment property was incomplete by the end of a reporting period in which the Standard became effective.

Investment property was not disclosed in the financial statements for the year ending 30 June 2010 but is disclosed at provisional amounts in the current financial statements. Please refer to note 4. No other retrospective adjustments to provisional amounts were recognised to reflect new information obtained about facts and circumstances that existed on the effective date of the Standard.

It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2012.

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

1.3 Property, plant and equipment (continued)

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.

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.

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.

In terms of Directive 4 the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment. The Standard of GRAP on Property, Plant and Equipment was initially adopted on 1 July 2009.

Due to the fact that the municipality has taken advantage of the transitional provisions, property, plant and equipment were not recognised and measured in accordance with the Standards of GRAP on Property, Plant and Equipment, the Presentation of Financial Statements, Effects of Changes in Foreign Exchange Transactions, Leases, Segment Reporting and Non-Current Assets Held for sale and Discontinued Operations.

Property, plant and equipment acquired prior to the date of initial adoption of the Standard of GRAP are measured at provisional amounts (Nil value) in line with Directive 4. Additions to property, plant and equipment since the Standard of GRAP on Property, Plant and Equipment was initially adopted are recognised at cost. No depreciation is recognised on these assets as all the related elements of the depreciation calculation could not be considered at year end.

No measurement adjustments were made for the year ending 30 June 2011.

1.4 Financial instruments

Classification

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

- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

1.4 Financial instruments (continued)

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

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

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

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

Subsequent measurement

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

Available-for-sale financial assets are subsequently measured at fair value. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.

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

Changes in fair value of available-for-sale financial assets denominated in a foreign currency are analysed between translation differences resulting from changes in amortised cost and other changes in the carrying amount. Translation differences on monetary items are recognised in surplus or deficit, while translation differences on non-monetary items are recognised in equity.

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

Impairment of financial assets

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

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

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

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

1.4 Financial instruments (continued)
account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial instruments designated as available-for-sale

Available for sale investments are financial assets that are designated as available for sale or are not classified as:
- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance

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, except where material variances exist between the amortised cost and the nominal value.

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.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:
- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognised in surplus or deficit;
- A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net assets is recognised in surplus or deficit; and
- For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

Derecognition

Accounting Policies

1.4 Financial instruments (continued)

Financial assets

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

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

Financial liabilities

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

Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.5 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.

In terms of Directive 4 the municipality is not required to recognise finance lease assets/liabilities in the financial statements in relation to those Property, plant and equipment that have not been recognised as a result of applying the transitional provisions in the Standards of GRAP related to Property, plant and equipment.

The disclosure requirements included in the Standard of GRAP on Leases were applied insofar as the lease assets/ liabilities have been identified.

1.5 Leases (continued)

No measurement adjustments were made for the year ending 30 June 2011.

It is anticipated that the requirements of the Standard of GRAP on Leases will be applied in the financial statements for the year ending 30 June 2012 when the transitional provisions in the Standards of GRAP on Property, Plant and Equipment expire.

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.6 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as

1.6 Employee benefits (continued)
adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets (if any).

1.7 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

1.7 Provisions and contingencies (continued)

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 30.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount, and account for any impairment loss, in accordance with the amounting policy on impairment of assets.

If the related asset is measured using the revaluation model:
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

In terms of Directive 4, the municipality is not required to recognise provisions (which form part of the cost of an asset) as a result of applying the transitional provisions in the Standard of GRAP on Property, Plant and Equipment. The disclosure requirements on the provisions related to the assets were however complied with in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets.

Except for the provision for landfill sites, no other provisions were affected by the transitional provisions set out in Directive 4 and no other measurement adjustments were made for the year ending 30 June 2011.

1.8 Revenue from exchange transactions

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

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

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

Measurement

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

Rendering of services

1.8 Revenue from exchange transactions (continued)

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

1.9 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

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

Fines

1.9 Revenue from non-exchange transactions (continued)

Revenue from the issuing of fines is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Levies

Levies are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:
- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

Government grants

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

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

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

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a

1.9 Revenue from non-exchange transactions (continued)

liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.10 Investment income

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

1.11 Comparative figures

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

1.12 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.

1.13 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.

1.14 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.15 Use of estimates

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

1.16 Presentation of currency

These annual financial statements are presented in South African Rand.

1.17 Offsetting

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

1.18 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.

Accounting Policies

1.19 Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

2. Changes in accounting policy

Accounting policies have been consistently applied, except as indicated below:

The municipality changes an accounting policy only if the change:

a) is required by a Standard of GRAP; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

3. New standards and interpretations

3.1 Standards and interpretations issued, but not yet effective

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

- GRAP 18 Segment Reporting - 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 Financial Statements - issued November 2007
- GRAP 25 Employee benefits - issued November 2009
- GRAP 26 Impairment of cash generating assets - issued March 2009
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 104 Financial instruments - issued October 2009

3. New standards and interpretations (continued)

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

The impact of the standards not yet effective on future financial statements is not expected to be significant.

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

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

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

4. Investment property

Investment properties were recognised at provisional amounts (Nil Value).

Investment property consists of the following properties:

1.Erf 125 - Main Street, Komga (3 Houses + Municipal offices)
2.Erf 303 - 53 Main Street, Komga (2 Houses)
3.Erf 249 - K249 Kavie Street
4.Erf 001 - Grosvenor Square, Kei Mouth
5.Erf 483 - 20 Coral Street, Kei Mouthh
6.Erf 000 - Commonage 1, Kei Mouth (part of municipal commonage)

5. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Buildings	188,349	-	188,349	-	-	-
Infrastructure	17,864,044	-	17,864,044	7,173,461	-	7,173,461
Other property, plant and equipment	578,293	-	578,293	-	-	-
Total	**18,630,686**	**-**	**18,630,686**	**7,173,461**	**-**	**7,173,461**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Buildings	-	188,349	188,349
Infrastructure	7,173,461	10,690,583	17,864,044
Other property, plant and equipment	-	578,293	578,293
	7,173,461	**11,457,225**	**18,630,686**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Infrastructure	-	7,173,461	7,173,461

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.

Figures in Rand	2011	2010

6. Financial assets by category

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

2011

	Loans and receivables	Available-for-sale	Total
Trade and other receivables from exchange transactions	13,362,117	-	13,362,117
Other receivables from non-exchange transactions	1,742,199	-	1,742,199
Cash and cash equivalents	-	13,637,494	13,637,494
	15,104,316	**13,637,494**	**28,741,810**

2010

	Loans and receivables	Available-for-sale	Total
Trade and other receivables from exchange transactions	9,872,837	-	9,872,837
Other receivables from non-exchange transactions	6,310,741	-	6,310,741
Cash and cash equivalents	-	18,342,298	18,342,298
	16,183,578	**18,342,298**	**34,525,876**

7. Trade and other receivables from exchange transactions

	2011	2010
Trade debtors	13,318,187	9,872,837
Other receivables	43,930	-
	13,362,117	**9,872,837**

Trade and other receivables pledged as security

No Trade and other receivable balances were pledged as security.

Fair value of trade and other receivables

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

Reconciliation of provision for impairment of trade and other receivables

	2011	2010
Opening balance	4,055,204	4,055,204
Provision for impairment - relating to Rates	5,996,874	-
Provision for impairment - relating to Services	13,193,421	-
Fair value adjustment	(2,236,790)	-
	21,008,709	**4,055,204**

Summary of debtors by Customer Classification:

Service debtors: Aging Total (All Customers)	2011	2010
Current (0-30 days)	4,251,166	483,188
30-60 days	1,463,278	413,666
60-90 days	1,817,398	396,691
90-120 days	2,312,993	455,168
120-180 days (2010: +120 days)	2,707,969	18,989,840
+180 days	22,738,716	-
Less: Provision for debt impairment	(21,008,709)	(4,055,204)
	14,282,811	**16,683,349**

Aging amounts are inclusive of balances outstanding in terms of Assessment rates, the total of which is disclosed as part of

Figures in Rand	2011	2010

7. Trade and other receivables from exchange transactions (continued)
Trade and other receivables from non-exchange transactions.

Service debtors: Aging - Consumers

Current (0-30 days)	1,752,850	344,150
30-60 days	796,580	309,170
60-90 days	761,452	281,520
90-120 days	738,502	455,168
120-180 days (2010: +120 days)	1,428,044	14,470,516
+180 days	8,123,766	-
Less: Provision for debt impairment	(8,096,650)	-
	5,504,544	**15,860,524**

Comparative amounts for Provision for debt impairment is disclosed above - analysis per customer type not available.

Service debtors: Aging - Industrial/Commercial

Current (0-30 days)	2,438,451	124,657
30-60 days	637,289	88,911
60-90 days	1,024,757	101,605
90-120 days	1,541,974	165,436
120-180 days (2010: +120 days)	1,221,781	4,103,749
+180 days	14,393,350	-
Less: Provision for debt impairment	(12,654,432)	-
	8,603,170	**4,584,358**

Comparative amounts for Provision for debt impairment is disclosed above - analysis per customer type not available.

Service debtors: Aging - National and Provincial Government

Current (0-30 days)	59,866	14,381
30-60 days	29,459	15,585
60-90 days	31,189	13,566
90-120 days	32,518	14,161
120-180 days (2010: +120 days)	58,145	415,575
+180 days	221,600	-
Less: Provision for debt impairment	(257,627)	-
	175,150	**473,268**

Comparative amounts for Provision for debt impairment is disclosed above - analysis per customer type not available.

8. Other receivables from non-exchange transactions

Assessment rates	878,699	5,483,537
Other receivables from non-exchange revenue	863,500	827,204
	1,742,199	**6,310,741**

Other receivables from non-exchange transactions pledged as security

No other receivable balances from non-exchange transactions were pledged as security.

Fair value of other receivables from non-exchange transactions

The fair value of other receivables from non-exchange transactions approximates their carrying amounts]

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

Provision for impairment - Assessment rates	5,996,874	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

8. Other receivables from non-exchange transactions (continued)

Information regarding the analysis of the prior year provision for bad debts relating to Assessment rates is not available.

9. VAT receivable

VAT	5,453,185	2,872,729

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

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	10,346	6,346
Bank balances	2,663,733	4,923,665
Short-term deposits	10,963,415	13,412,287
	13,637,494	**18,342,298**

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
Standard Bank - Cheque Account - 280720963	2,266,721	877,040	3,731,965	878,899	4,969,235	4,963,596
Standard Bank - Investment Account - 388529768-402	2,056	2,490,456	-	2,056	2,490,456	-
Standard Bank - Investment Account - 388528672-002	715,028	1,467,590	-	715,028	1,467,590	-
Standard Bank - Investment Account - 388527544-402	6,125,201	3,397,180	-	6,125,201	3,397,180	-
Standard Bank - Investment Account - 388526734-003	603,547	582,568	-	603,547	582,568	-
Standard Bank - Investment Account - 388528672-001	398,239	877,040	16,608	398,239	877,040	16,608
Standard Bank - Savings Account - 285977334	1,664,127	1,627,253	1,575,736	1,664,127	1,627,253	1,575,736
Standard Bank - Investment Account - 388523786-001	152,098	884,688	-	152,098	884,688	-
Standard Bank - Investment Account - 388528672-003	34,473	33,543	-	34,473	33,543	-
Standard Bank - Investment Account - 388520523-401	1,486	1,464	-	1,486	1,464	-
Standard Bank - Savings Account - 285973452	1,217,122	1,386,175	935,466	18	1,386,175	935,466
Standard Bank - Savings Account - 285946110	1,822,380	1,572,928	867,601	1,822,380	1,572,928	867,601
Standard Bank - Investment Account - 388520833-301	-	9,876	-	-	9,876	-
ABSA Bank - Investment Account - 9059902802	1,229,151	2,002,972	1,260	1,229,151	2,002,972	1,260
ABSA Bank - Investment Account - 2054339424	-	2,795	2,703	-	2,795	2,703
ABSA Bank - Investment Account - 1054359396	-	2,719	2,633	-	2,719	2,633
ABSA Bank - Investment Account - 2054351529	-	2,759	2,672	-	2,759	2,672
ABSA Bank - Investment Account - 2064337389	-	2,793	2,705	-	2,793	2,705

Notes to the Annual Financial Statements

Figures in Rand					2011	2010

10. Cash and cash equivalents (continued)

ABSA Bank - Investment account - 2064391312	-	3,041	2,940	-	3,041	2,940
ABSA Bank - Investment Account - 9085598522	-	3,588	3,472	-	3,588	3,472
ABSA Bank - Investment Account - 9085598970	-	3,515	3,401	-	3,515	3,401
ABSA Bank - Investment Account - 9079485834	10,791	10,777	10,748	10,791	10,777	10,748
ABSA Bank - Investment Account - 8054337095	-	3,047	3,300	-	3,047	3,300
ABSA Bank - Investment Account - 7054337129	-	1,010	1,069	-	1,010	1,069
ABSA Bank - Investment Account - 9059904715	-	1,254	1,313	-	1,254	1,313
Total	**16,242,420**	**17,248,071**	**7,165,592**	**13,637,494**	**21,340,266**	**8,397,223**

11. Non-current borrowings

	2011	2010
Held at amortised cost		
Development Bank of South Africa	3,203,018	3,430,326
Loan amount payable to DBSA in equal instalments on a three-monthly basis with redemption date as 31-03-2011. Interest is capitalised at a rate of 13% (15% on arrears).		
	-	-
	3,203,018	3,430,326

	2011	2010
Non-current liabilities		
At amortised cost	2,945,970	3,203,150
Current liabilities		
At amortised cost	257,048	227,176
	2,945,970	3,203,150
	257,048	227,176
	3,203,018	**3,430,326**

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2011	2010
Unspent conditional grants and receipts		
Financial Management Grant	355,606	85,041
Municipal Systems Improvement Grant	648,156	897,636
	1,003,762	**982,677**

Movement during the year

	2011	2010
Balance at the beginning of the year	982,677	(644,633)
Additions during the year	10,138,000	9,216,224
Income recognition during the year	(10,116,915)	(7,588,914)
	1,003,762	**982,677**

See note 20 for reconciliation of grants from National/Provincial Government.

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Provision for landfill site rehabilitation	-	-	-
Provision for long service awards	-	51,595	51,595
	-	**51,595**	**51,595**

Provision for long service awards:

The calculation for the Provision for long service awards is based on the South African Bargaining Council's (SALGA) proposed tariffs. Provision was made for long service awards which falls within the next financial year ending on 30 June 2012.

Provision for Landfill site rehabilitation:

The municipality has an obligation to restore 1 landfill site, situated in Komga (provided by the Amathole District Municipality). The site is currently unlicenced and is used for general waste disposal (non hazardous) purposes. The municipality has initiated the process of procuring service providers to upgrade the operations of the site. As at 31 August 2011 no estimation was available on which the provision to restore the landfill sites could be based (i.e estimated useful life, annual rehabilitation costs, estimated costs for closure, etc.).

Transitional provisions

Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the Provision for Landfill site rehabilitation was recognised at provisional amounts.

14. Trade and other payables from exchange transactions

	2011	2010
Trade payables	8,669,458	6,962,821
Accrued leave pay	672,515	974,199
13th cheque accrual	446,549	387,290
	9,788,522	**8,324,310**

Fair value of trade and other payables

15. Consumer deposits

	2011	2010
Rates, electricity & refuse	80,503	80,503

16. 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
Trade and other payables from exchange transactions	9,788,521	9,788,521
Non-current borrowings	3,203,018	3,203,018
	12,991,539	**12,991,539**

16. Financial liabilities by category (continued)

2010

	Financial liabilities at amortised cost	Total
Trade and other payables from exchange transactions	8,324,310	8,324,310
Non-current borrowings	3,430,326	3,430,326
	11,754,636	**11,754,636**

17. Revenue

	2011	2010
Property rates	10,355,256	6,267,095
Service charges	9,737,906	6,027,330
Rental of facilities & equipment	107,058	342,522
Fines	10,600	12,800
Licences and permits	1,190,073	1,195,999
Government grants & subsidies	34,227,587	29,751,762
	55,628,480	**43,597,508**

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

	2011	2010
Service charges	9,737,906	6,027,330
Rental of facilities & equipment	107,058	342,522
Licences and permits	1,190,073	1,195,999
	11,035,037	**7,565,851**

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

	2011	2010
Property rates	10,355,256	6,267,095
Fines	10,600	12,800
Government grants & subsidies	34,227,587	29,751,762
	44,593,443	**36,031,657**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Property rates

Rates received

All properties	10,355,256	6,267,095

Valuations

Residential	1,646,273,291	1,646,273,291
Commercial	143,051,165	143,051,165
State	89,765,886	89,765,886
Municipal	2,899,763,212	2,899,763,212
Other	1,348,452,378	1,348,452,378
	6,127,305,932	**6,127,305,932**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2013.

The following rates have been applied to property valuations to determine assessment rates (Rebates in brackets):

- Residential properties 0.0045 (Rebate of R45,000 on valuation amount)
- Commercial properties 0.009
- Government properties 0.0015
- Agricultural properties 0.0015 (Rebate of 50% on rates amount)

19. Service charges

Sale of electricity	3,292,118	2,506,905
Refuse removal	6,445,788	3,520,425
	9,737,906	**6,027,330**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Government grants and subsidies

Equitable share	24,083,933	29,751,762
Municipal Infrastructure Grant	7,888,000	-
Financial Management Grant	1,229,435	-
Municipal Systems Improvement Grant	999,480	-
Other grant	26,739	-
	34,227,587	**29,751,762**

Equitable Share

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

Municipal Infrastructure Grant

Current-year receipts	7,888,000	-
Conditions met - transferred to revenue	(7,888,000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 12)

Financial Management Grant

Balance unspent at beginning of year	85,041	(222,708)
Current-year receipts	1,500,000	1,000,000
Conditions met - transferred to revenue	(1,229,435)	-
Other	-	(692,251)
	355,606	**85,041**

Conditions still to be met - remain liabilities (see note 12)

Municipal Systems Improvement Grant

Balance unspent at beginning of year	897,636	434,057
Current-year receipts	750,000	735,000
Conditions met - transferred to revenue	(999,480)	-
Other	-	(271,421)
	648,156	**897,636**

Conditions still to be met - remain liabilities (see note 12)

21. Sundry revenue

Commissions received	282,929	-
Sundry revenue, other fees and subsidies	1,308,661	348,687
	1,591,590	**348,687**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. General expenses

Advertising	353,362	12,472
Bank charges	103,358	81,116
Cleaning	12,845	-
Consulting and professional fees	1,206,029	1,032,776
Entertainment	130,859	14,769
Lease rentals on operating lease	666,455	369,990
Fuel and oil	358,240	-
Postage and courier	1,492	-
Protective clothing	41,303	-
Security (Guarding of municipal property)	25,752	-
Subscriptions and membership fees	104,946	-
Telephone and fax	912,337	865,934
Transport and freight	-	44,085
Training	199,875	-
Travel - local	248,357	7,600
Refuse	34,995	-
Administration	-	29,264
Other expenses	3,218,687	3,290,772
	7,618,892	**5,748,778**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Employee related costs

Basic	11,578,165	13,415,911
Bonus	828,634	-
Medical aid - company contributions	759,441	-
UIF	113,863	-
SDL	137,748	-
Bargaining Council Levies	5,293	-
Backpay	549,456	-
Travel, motor car, accommodation, subsistence and other allowances	486,599	-
Overtime payments	272,297	-
Acting allowances	153,746	-
Housing benefits and allowances	481,814	-
Pension / provident fund contributions	976,738	-
	16,343,794	**13,415,911**

The municipality migrated to a new financial system during the current financial year (from Pastel to Venus). Detail information regarding the analysis for the categories of employee cost as per the current year is not available for the comparative figures.

Remuneration of municipal manager

Annual Remuneration	418,350	314,864
Travel, motor car, accommodation, subsistence and other allowances	274,217	172,333
Contributions to UIF, Medical and Pension Funds	1,497	1,373
	694,064	**488,570**

Remuneration of chief finance officer

Annual Remuneration	352,463	333,451
Travel, motor car, accommodation, subsistence and other allowances	121,200	120,000
Contributions to UIF, Medical and Pension Funds	31,855	16,857
	505,518	**470,308**

Remuneration of executive director: Community services

Annual Remuneration	208,680	210,000
Travel, motor car, accommodation, subsistence and other allowances	-	240,000
Contributions to UIF, Medical and Pension Funds	9,863	1,497
	218,543	**451,497**

Remuneration of executive director: Corporate services

Annual Remuneration	-	198,000
Travel, motor car, accommodation, subsistence and other allowances	-	397,763
Contributions to UIF, Medical and Pension Funds	-	1,497
	-	**597,260**

The director for Corporate services was acting Municipal Manager during the current financial year (Remuneration included under Municipal Manager).

Remuneration of executive director: Technical services

Annual Remuneration	233,215	-
Contributions to UIF, Medical and Pension Funds	1,321	-
	234,536	**-**

Figures in Rand	2011	2010

23. Employee related costs (continued)

Remuneration of executive director: Strategic services

Annual Remuneration	289,311	-
Travel, motor car, accommodation, subsistence and other allowance	37,886	-
Contributions to UIF, Medical and Pension Funds	35,273	-
	362,470	**-**

24. Remuneration of councillors

Councillors’ pension and medical aid contribution	193,008	-
Councillors' allowances	1,750,985	2,550,483
Councillors' travel allowance	570,294	-
Councillors' UIF contributions	15,617	-
	2,529,904	**2,550,483**

In-kind benefits

The Mayor is full-time and is provided with an office with secretarial support at the cost of the Council.

The Mayor has use of a Council owned vehicle as well as a driver for official duties.

25. Investment revenue

Interest revenue		
Interest received - short-term deposits	790,808	794,833

26. Finance costs

Non-current borrowings	436,187	476,018
Other interest paid	9,314	-
	445,501	**476,018**

27. Bulk purchases

Electricity	5,145,745	4,264,019

28. Cash generated from operations

Surplus	6,944,032	15,955,035
Adjustments for:		
Impairment deficit	16,953,505	-
Movements in provisions	51,595	(963,078)
Changes in working capital:		
Trade and other receivables from exchange transactions	(20,442,785)	6,653,966
Other receivables from non-exchange transactions	4,568,542	(7,145,776)
Trade and other payables from exchange transactions	1,464,210	(8,865,791)
VAT	(2,580,456)	(2,021,337)
Unspent conditional grants and receipts	21,085	(2,934,914)
Other financial liabilities	-	3,768,472
	6,979,728	**4,446,577**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

29. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	16,419,320	29,215,753

This committed expenditure relates to the acquisition / construction of Property, Plant and Equipment (Roads infrastructure, Communicty Halls, etc.) and will be financed by existing cash resources and government grants.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	223,937	172,969
- in second to fifth year inclusive	131,818	241,425
	355,755	**414,394**

Operating lease payments represent rentals payable by the municipality for certain of its office equipment. Leases are negotiated for an average term of 3 - 5 years. No contingent rent is payable.

30. Contingencies

Contingent liabilities

There were no confirmed contingent liabilities at year end.

Contingent assets

There were no confirmed contingent assets at year end.

31. Related parties

Relationships	
Acting Municipal Manager	C Mbekela
Chief Financial Officer	P Gwana
Executive Director: Community Services	P Zonwabele
Executive Director: Corporate Services	M.N Malawana
Executive Director: Technical Services	G Bathembu
Executive Director: Strategic Services	M.D Maxon

Related party transactions

Refer to note 23 for an analysis of remuneration paid to Section 57 managers listed above.

32. Prior period adjustments

Certain prior period adjustments were made (errors corrected) and the effects thereof were as follows:

Statement of financial position

	-	-
Accumulated surplus / (Deficit)		
Opening balance	8,564,091	4,312,243
Cash and cash equivalents - adjustment of balances to agree to bank statements (see below)	-	(80,331)
Other current financial assets - de-recognition of balances not substantiated (see below)	-	(434,738)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Prior period adjustments (continued)		
Property, plant and equipment - de-recognition of balances not meeting the definition of an asset (see below)	-	(312,998)
Property, plant and equipment - recognition of infrastructure additions previously not accounted for (see below)	-	6,651,547
Non-current investments - de-recognition of balances not meeting the definition of an asset (see below)	-	(442,807)
Unspent conditional grants - de-recognition of unsubstantiated unspent conditional grants (previous trust funds) (see below)	-	(1,652,377)
Recognition of unspent conditional grants not previously recognised	-	(982,677)
Other financial liabilities - de-recognition of unsubstantiated other financial liabilities	-	1,476,789
Consumer deposits - re-statement of amount to agree to register	-	29,440
Correction of opening balance in current year due to an undisclosed difference in prior year	7,235,125	-
Restated balance	**15,799,216**	**8,564,091**

Cash and cash equivalents

Balance per the 2010 Annual report	-	4,975,581
Adjustment of balances to agree to bank statements	-	(80,331)
Reclassification of amounts previously dislcosed as Investments to Cash and cash equivalents	-	13,447,048
Restated balance	**-**	**18,342,298**

Trade and other receivables from exchange transactions

Balance per the 2010 Annual report	-	16,163,069
Reclassification of balances previously disclosed as Trade and other receivables from exchange transactions to Trade and other receivables from non-exchange transactions	-	(6,290,232)
Restated balance	**-**	**9,872,837**

Other current financial assets

Balance per the 2010 Annual report	-	434,738
De-recognition of prior year balance not substantiated	-	(434,738)
Restated balance	**-**	**-**

Current investments

Balance per the 2010 Annual report	-	13,447,048
Reclassification of amounts previously dislcosed as Investments to Cash and cash equivalents	-	(13,447,048)
Restated balance	**-**	**-**

Property, plant and equipment

Balance as per the 2010 Annual report	-	834,912
De-recognition of balances not meeting the definition of an asset	-	(312,998)
Recognition of infrastructure additions previously not accounted for	-	6,651,547
Restated balance	**-**	**7,173,461**

Non-current investments

Balance per the 2010 Annual report	-	442,807
De-recognition of balances not meeting the definition of an asset	-	(442,807)
Restated balance	**-**	**-**

Non-current Receivables

Balance per the 2010 Annual report	-	20,509

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
32. Prior period adjustments (continued)		
Reclassification of balances to trade and other receivables from non-exchange transactions	-	(20,509)
Restated balance	**-**	**-**
Non-current Borrowings (current portion)		
Balance per the 2010 Annual report	-	-
Recognition of current portion of Non-current Borrowings	-	227,176
Restated balance	**-**	**227,176**
Trade and other payables from exchange transactions		
Balance per the 2010 Annual report	-	6,392,878
Adjustment - income previously incorrectly recognised	-	543,981
Reclassification of amounts previously incorrectly recognised as Provisions to Trade and other payables from exchange transactions (amounts not meeting the definition requirements of a provision)	-	1,361,489
Re-classification of Other financial liabilities to Trade and other payables	-	25,962
Restated balance	**-**	**8,324,310**
Consumer deposits		
Balance per the 2010 Annual report	-	109,943
Re-statement of amount to agree to register	-	(29,440)
Restated balance	**-**	**80,503**
Current provisions		
Balance per the 2010 Annual report	-	1,551,749
Reclassification of amounts previously incorrectly recognised as Provisions to Trade and other payables from exchange transactions (amounts not meeting the definition requirements of a provision)	-	(1,361,489)
De-recognition of performance bonus (no obligation)	-	(190,260)
Restated balance	**-**	**-**
Unspent conditional grants and receipts		
Balance per the 2010 Annual report	-	(1,652,377)
De-recognition of unsubstantiated unspent conditional grants (previous trust funds)	-	1,652,377
Recognition of unspent conditional grants not previously recognised	-	982,677
Restated balance	**-**	**982,677**
Other financial liabilities		
Balance per the 2010 Annual report	-	1,502,754
De-recognition of unsubstantiated other financial liabilities	-	(1,476,789)
Re-classification of balances to Trade and other payables	-	(25,965)
Restated balance	**-**	**-**
Non-current borrowings		
Balance per the 2010 Annual report	-	3,428,761
Recognition of current portion of Non-current borrowings	-	(227,309)
Other adjustments	-	1,698
Restated balance	**-**	**3,203,150**
Trade and other receivables from non-exchange transactions		
Balance per the 2010 Annual report	-	-
Reclassification of balances previously disclosed as Trade and other receivables from exchange transactions to Trade and other receivables from non-exchange transactions	-	6,290,232

32. Prior period adjustments (continued)

	2011	2010
Reclassification of balances from Non-current receivables to trade and other receivables from non-exchange transactions	-	20,509
	-	**6,310,741**

Statement of financial performance

	2011	2010
	-	-

	2011	2010
Revenue: Licences and permits		
Balance per the 2010 Annual report	-	1,739,980
Adjustment - income previously incorrectly recognised	-	(543,981)
Restated balance	**-**	**1,195,999**
Expenditure: Employee related costs (Personnel expenditure)		
Balance per the 2010 Annual report	-	13,606,171
De-recognition of performance bonus (no obligation)	-	(190,260)
Restated balance	**-**	**13,415,911**
Expenditure: Finance costs		
Balance per the 2010 Annual report	-	474,454
Other adjustments	-	1,564
Restated balance	**-**	**476,018**

33. Comparative figures

Certain comparative figures have been re-stated and reclassified - refer to note 32.

34. Risk management

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	2011	2010
Later than 3 months and not later than 1 year		
Non-current borrowings	257,048	234,730
Trade and other payables	9,788,521	8,324,310
	10,045,569	**8,559,040**
Later than 1 year and not later than 5 years		
Non-current borrowings	2,945,970	3,203,150

Interest rate risk

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

The municipality's interest-bearing assets are included under cash and cash equivalents. The municipality's income operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

34. Risk management (continued)
assets.

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with South African prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Trade debtors in arrears linked to South African prime rate plus two percent.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year.

The municipality's exposures to interest rates on Financial Assets are detailed in the Credit Risk Management section of this note.

Credit risk

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

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

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

Financial instrument	**2011**	**2010**
Bank balances & short-term deposits	13,637,494	18,342,298
Trade and other receivables	15,104,316	16,183,578

These balances represent the maximum exposure to credit risk.

35. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

36. Events after the reporting date

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

37. Unauthorised expenditure

Capital expenditure not budgeted for	-	834,000
Expenditure exceeded budget	-	6,245,000
	-	**7,079,000**

No criminal or disciplinary steps were taken as a consequence of above expenditure.

38. Fruitless and wasteful expenditure

Penalties and interest	-	139,025
Damages paid due to negligence	-	200,000
	-	**339,025**

No criminal or disciplinary steps were taken as a consequence of above expenditure.

Figures in Rand	2011	2010

39. Irregular expenditure

Opening balance	-	102,187,982
Add: Irregular Expenditure - current year	-	7,251,000
	-	**109,438,982**

40. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus per the statement of financial performance	6,944,032	-
Adjusted for:		
Fair value adjustments	278,377	-
Impairments recognised / reversed	16,953,505	-
Increases / decreases in provisions	51,590	-
Capital expenditure	(9,888,000)	-
Expenditure not budgeted for	(2,166,504)	-
Net surplus per approved budget	**12,173,000**	**-**

41. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	104,944	109,284
Amount paid - current year	(104,944)	(109,284)
	-	**-**

Audit fees

Current year subscription / fee	687,648	801,643
Amount paid - current year	(687,648)	(801,643)
	-	**-**

PAYE and UIF

Opening balance	143,346	-
Current year subscription / fee	2,202,575	1,740,563
Amount paid - current year	(2,345,921)	(1,597,217)
	-	**143,346**

Pension and Medical Aid Deductions

Opening balance	132,324	-
Current year subscription / fee	4,056,598	735,639
Amount paid - current year	(4,188,922)	(603,315)
	-	**132,324**

VAT

VAT receivable	5,453,185	2,872,729

VAT output payables and VAT input receivables are shown in note 9.

Councillors' arrear consumer accounts

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

No Councillors had any arrear consumer accounts on 30 June 2011.

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor F Lewis	146	-	146
Councillor L. Kema	696	1,176	1,872
Councillor JM Hollington	226	-	226
Councillor A Lawrence	2,959	11,094	14,053
Councillor I Sikulu	669	-	669
	4,696	**12,270**	**16,966**

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

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor L Kema	1,176	120
Councillor A Lawrence	11,094	120
	12,270	**240**

42. Electricity distribution losses

The municipality incurred electricity distribution losses of approximately 17% (2010: 59%), resulting in a total loss for the current year of R 1,521,535 (2010: R 3,079,105).