NGQUSHWA 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	Mr S. E. Ndwayana
Councillors	Mr Z. Jowela (Speaker)
	M. T. Siwisa (Member of the Executive Committee)
	M. Faltein (Member of the Executive Council)
	N. Tele (Member of the Executive Council)
	L. Cuka (Member of the Executive Committee)
	N. N. Maphekula
	M. B. Sethuntsa
	L. B. Sithole
	T. M Dyani
	T. Thusani
	M. Boqwana
	N.C. Gxasheka
	Z. Gqadushe
	P. Sitole
	M. G. Yolelo
	M. C. Mapuma
	M. W. Nonyukela
	A. Mtshakazi
	N.A. Seysman
	A. Ndanda
	T.G Dyibishe
	N. Mntanga
	G. M. Ntonjane
	Z. Jowela
	N. Ndabazonke
	S. Jali
	V. Moyeni
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr P Mahlasela
Accounting Officer	Mr V. Gwintsa (Acting)
Registered office	Peddie
Business address	Corner of N2 and R345 Road Peddie 5640
Postal address	P.O.Box 539 Peddie 5640
Bankers	First National Bank, Peddie
Telephone Number	040 673 3940
Fax Number	040 673 3771

Index

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
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRIC	International Financial Reporting Interpretations Committee
VAT	Value Added Tax
UIF	Unemployment Insurance Fund

Accounting Officer's Responsibilities and Approval

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

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

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 44, 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 annual financial statements.

The annual financial statements set out on pages 4 to 44, 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:

Mr V. Gwintsa (Acting)
Acting Municipal Manager

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Trade and other receivables from exchange transactions	9	2,098,840	3,807,323
Trade and other receivables from non-exchange transactions	10	2,519,404	2,148,238
VAT receivable	11	2,369,251	3,733,885
Cash and cash equivalents	12	2,284,290	4,207,638
		9,271,785	**13,897,084**
Non-Current Assets			
Investment property	4	1,739,333	1,746,417
Property,Plant and Equipment	5	200,178,577	212,867,427
Intangible assets	6	14,150	18,871
		201,932,060	**214,632,715**
Total Assets		**211,203,845**	**228,529,799**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	16	11,390,330	6,278,987
Unspent conditional grants and receipts	14	-	5,620,699
Provisions	15	681,358	-
Bank overdraft	12	4,968,585	1,428,004
		17,040,273	**13,327,690**
Non-Current Liabilities			
Provisions	15	2,176,473	2,131,538
Total Liabilities		**19,216,746**	**15,459,228**
Net Assets		**191,987,099**	**213,070,571**
Net Assets			
Reserves			
Housing Development Fund	13	2,118,289	2,042,578
Accumulated surplus		189,868,810	211,027,993
Total Net Assets		**191,987,099**	**213,070,571**

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Service Charges		368,820	384,319
Property rates	19	4,211,109	2,598,525
Income from agency services		176,191	191,423
Public contributions and donations		10,500	-
Fines		190,335	466,148
Licences and permits		520,233	637,674
Government grants & subsidies	20	68,155,881	51,142,946
Rental income		138,597	53,378
Other income	23	326,468	2,011,254
Interest received	27	506,362	312,013
Total Revenue		**74,604,496**	**57,797,680**
Expenditure			
Personnel	25	(25,113,381)	(17,806,875)
Remuneration of councillors	26	(6,271,821)	(5,610,150)
Depreciation and amortisation		(31,000,798)	(29,474,881)
Fair value adjustment		(436,046)	(404,046)
Debt impairment		(3,597,880)	(4,433,271)
Repairs and maintenance		(437,821)	(717,643)
General Expenses	24	(31,493,964)	(19,349,641)
Total Expenditure		**(98,351,711)**	**(77,796,507)**
Proceeds on disposal of assets		-	69,000
Deficit for the year		**(23,747,215)**	**(19,929,827)**

Statement of Changes in Net Assets

Figures in Rand	Housing Development fund	Accumulated surplus	Total net assets
Opening balance as previously reported	1,948,076	33,981,397	35,929,473
Adjustments			
Prior period errors affecting net assets	-	3,992,582	3,992,582
Change in Accounting Policy	-	192,983,841	192,983,841
Balance at 01 July 2009 as restated	**1,948,076**	**230,957,820**	**232,905,896**
Changes in net assets			
Surplus for the year	-	(19,929,827)	(19,929,827)
Transfes to / from Accumulated Surplus	94,502	-	94,502
Total changes	94,502	(19,929,827)	(19,835,325)
Balance at 01 July 2010	**2,042,578**	**213,616,025**	**215,658,603**
Changes in net assets			
Surplus for the year	-	(23,747,215)	(23,747,215)
Transfer to/From Accumulated Surplus	75,711	-	75,711
Total changes	75,711	(23,747,215)	(23,671,504)
Balance at 30 June 2011	**2,118,289**	**189,868,810**	**191,987,099**
Note(s)	13		

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		4,310,193	2,959,787
Grants		66,574,968	51,334,369
Interest income		506,362	312,013
		71,391,523	54,606,169
Payments			
Employee costs		(31,385,164)	(23,330,490)
Suppliers		(29,322,136)	(13,382,481)
Fair value adjustment		(436,046)	(404,046)
		(61,143,346)	(37,117,017)
Net cash flows from operating activities	29	**10,248,177**	**17,489,152**
Cash flows from investing activities			
Purchase of property,plant and equipment	5	(18,299,512)	(13,888,553)
Proceeds from sale of property,plant and equipment	5	-	69,000
Net cash flows from investing activities		**(18,299,512)**	**(13,819,553)**
Net increase/(decrease) in cash and cash equivalents		**(8,051,335)**	**3,669,599**
Cash and cash equivalents at the beginning of the year		2,779,634	2,230,678
Cash and cash equivalents at the end of the year	12	**(5,271,701)**	**5,900,277**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historic cost convention, except where indicated 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.

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	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
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
GRAP 102	Intangible 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

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board.

1.1 Significant judgements and sources of estimation uncertainty

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

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

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

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

Fair value estimation

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.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

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 15 - Provisions.

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 property held to earn rentals or for capital appreciation or both, rather than for:

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

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

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

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

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

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

Fair value

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

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

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

If the fair value of investment property under construction is not determinable, it is measured at cost until the earlier of the date it becomes determinable or construction is complete.

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

Cost model

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

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.

1.3 Property,Plant and Equipment (continued)

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

Property,Plant and Equipment is initially measured at cost.

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

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

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

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

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

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

Property,plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of property,plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property,plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus in equity related to a specific item of property,plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property,plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Item	**Average useful life**
Land	indefinite
Buildings	30 years
Computer Equipment	4 years
Furniture and fittings	5-7 years
Specialist vehicles	
Office equipment	5-7 years
Motor Vehicles	7 years
Specialised plant and equipment	10-15
Infrastructure	
• Roads - Paved	30 years
• Roads - Graded	7 years
• Electricity	20 years
• Water	7 years
Security Equipment	5 years

1.3 Property,Plant and Equipment (continued)

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

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

1.4 Intangible assets

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

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

Item	**Useful life**
Traffic System	5 years

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

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

1.5 Financial instruments

Classification

1.5 Financial instruments (continued)

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, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

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

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 prime interest rate, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value.

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

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the prime interest rate.

Impairment of financial assets

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

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

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit.

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

Accounting Policies

1.5 Financial instruments (continued)
deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

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.

Loans to managers and employees

These financial assets are classified as loans and receivables.

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

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value.

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

Accounting Policies

1.5 Financial instruments (continued)

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.

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.

1.6 Leases

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

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.

1.7 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

1.7 Employee benefits (continued)

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.

1.8 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

Accounting Policies

1.8 Provisions and contingencies (continued)

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

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 as described in accounting policy and .

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- 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.

1.9 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.

1.9 Revenue from exchange transactions (continued)

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest

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.

1.10 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

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

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 penalty interest

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

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

Fines

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

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

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

Accounting Policies

1.11 Investment income

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

1.12 Comparative figures

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

1.13 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.

1.14 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.

1.15 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.

1.16 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.

1.17 Presentation of currency

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

1.18 Offsetting

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

1.19 Conditional grants and receipts

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

1.20 Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This

Accounting Policies

1.20 Going concern (continued)

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.

Figures in Rand	2011	2010

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.

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

Statement of financial position

	2011	2010
Property,Plant and Equipment		
Previously stated	-	19,517,337
Recognition of Property, plant and equipment previously not recorded - GRAP 17	-	193,350,090
	-	**212,867,427**
Provision for landfill site		
Recognition of Provision for Landfill Site previously not recorded - GRAP 19	-	(2,087,612)
Investment Properties		
Recognition of Investment Properties previously not recorded- GRAP 16	-	1,746,417
Intangible Assets		
Recognition of Intangible Assets previously not recorded - GRAP 102	-	33,047

Statement of financial performance

	2011	2010
Interest cost - Landfill Site		
Recognition of interest cost on provision for landfill site	-	(43,925)

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 20 Related Parties - issued June 2011
- GRAP 21 Impairment of non-cash generating assets – issued March 2009
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 103 Heritage Assets - issued July 2008
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 25 Employee benefits – issued November 2009
- GRAP 26 Impairment of cash generating assets – issued March 2009
- GRAP 104 Financial instruments – issued October 2009

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 standards and interpretations have been issued but not yet effective and have not been early adopted by the municipality:
- IAS 19 Employee Benefits - effective 1 January 2009

Certificate by Secretary

3. New standards and interpretations (continued)

- 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 the 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.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Investment property	1,753,500	(14,167)	1,739,333	1,753,500	(7,083)	1,746,417

Reconciliation of investment property - 2011

	Opening balance	**Depreciation**	**Total**
Investment property	1,746,417	(7,084)	1,739,333

Reconciliation of investment property - 2010

	Opening balance	**Depreciation**	**Total**
Investment property	1,753,500	(7,083)	1,746,417

Fair value of investment properties	1,746,417	1,753,500

Pledged as security

Investment properties are not pledged as security.

Rental income from Investment Properties

Rental Income from Investment Properties	87,535	-

Details of property

Erf 2220 Peddie Land Extent -4340m²
Land is leased to Engen Petroluim for R1,050 per month with an escalation clause of 10%.

Land - market value	921,500	-

Erf 314 Peddie Land Extent 989m
The property is the old Municipal Library and is currently leased to the AFrican National Congress for R 1500 per month

- Land - market value	84,500	-
- Building - market value	67,000	-
	151,500	**-**

Erf 447 Hamburg
Portion of the Caravan Park is leased to Mrs Dorego for R1,500 per month.

- Land - market value	535,000	-
- Buildings - market value	145,500	-
	680,500	**-**

Lease payments receivable on rental property

- Within one year	95,354	86,808
- In second to fifth year inclusive	488,222	381,257
	583,576	**468,065**

5. Property,Plant and Equipment

Figures in Rand	2011	2010

5. Property,Plant and Equipment (continued)

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Land	2,087,612	-	2,087,612	2,087,612	-	2,087,612
Buildings	105,644,639	(5,061,809)	100,582,830	103,416,268	(2,519,920)	100,896,348
Furniture and fixtures	3,392,320	(1,633,471)	1,758,849	2,676,091	(1,121,913)	1,554,178
Motor vehicles	7,430,638	(3,753,300)	3,677,338	6,335,103	(2,694,044)	3,641,059
Office equipment	266,762	(74,409)	192,353	59,419	(21,089)	38,330
IT equipment	1,571,564	(1,120,485)	451,079	1,284,075	(845,368)	438,707
Infrastructure	204,502,321	(129,338,257)	75,164,064	194,721,393	(102,915,973)	91,805,420
Other property, plant and equipment	338,269	(262,140)	76,129	326,539	(189,316)	137,223
Security Equipment	251,148	(168,415)	82,733	249,708	(115,670)	134,038
Capital work in progress	16,105,590	-	16,105,590	12,134,512	-	12,134,512
Total	**341,590,863**	**(141,412,286)**	**200,178,577**	**323,290,720**	**(110,423,293)**	**212,867,427**

Reconciliation of property,plant and equipment - 2011

	Opening balance	**Additions**	**Transfers**	**Accumulated Depreciation**	**Total**
Land	2,087,612	-	-	-	2,087,612
Buildings	100,896,348	-	2,228,371	(2,541,889)	100,582,830
Furniture and fixtures	1,554,178	716,228	-	(511,557)	1,758,849
Motor vehicles	3,641,059	1,095,534	-	(1,059,255)	3,677,338
Office equipment	38,330	207,343	-	(53,320)	192,353
IT equipment	438,707	287,490	-	(275,118)	451,079
Infrastructure	91,805,420	-	9,780,928	(26,422,284)	75,164,064
Maintenance Equipment	137,223	11,730	-	(72,824)	76,129
Security Equipment	134,038	1,440	-	(52,745)	82,733
Capital work in progress	12,134,512	15,979,747	(12,008,669)	-	16,105,590
	212,867,427	**18,299,512**	**630**	**(30,988,992)**	**200,178,577**

Reconciliation of property,plant and equipment - 2010

	Opening balance	**Additions**	**Transfers**	**Accumulated Depreciation**	**Total**
Land	2,087,612	-	-	-	2,087,612
Buildings	101,585,024	-	1,831,244	(2,519,920)	100,896,348
Furniture and fixtures	1,913,228	762,863	-	(1,121,913)	1,554,178
Motor vehicles	5,674,460	660,643	-	(2,694,044)	3,641,059
Office equipment	59,419	-	-	(21,089)	38,330
IT equipment	1,279,125	4,950	-	(845,368)	438,707
Infrastructure	194,721,393	-	-	(102,915,973)	91,805,420
Maintenance Equipment	326,539	-	-	(189,316)	137,223
Security Equipment	245,080	4,628	-	(115,670)	134,038
Capital work in progress	1,460,430	12,505,326	(1,831,244)	-	12,134,512
	309,352,310	**13,938,410**	**-**	**(110,423,293)**	**212,867,427**

Pledged as security

Property, plant and equipment is not pledged as security.

Capital work in progress		
Qaga community hall	1,131,402	736,531
Driver's licence testing centre	2,358,743	616,329

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Property,Plant and Equipment (continued)

Lower Qeto Community Hall	-	1,062,210
Mphekweni	-	1,032,038
Nyaniso	1,371,246	-
Masele	963,345	-
Mtati Community Hall	628,756	-
Baltein	567,101	-
Hamburg Offices	229,493	-
Gcinisa Road	4,456,962	-
Dorenkloof	3,183,302	-
Nyatyora Road	-	1,609,833
Shushu Road	-	3,394,705
Luxolweni Road	-	1,319,848
Nobumba Road	-	2,363,017
Tyeni Road	274,417	-
Machibi	242,525	-
Municipality Hall Furniture	386,948	-
Showroom	129,071	-
Technical Depot	182,279	-
	16,105,590	**12,134,512**

6. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation**	**Carrying value**
Traffic System	37,768	(23,618)	14,150	37,768	(18,897)	18,871

Reconciliation of intangible assets - 2011

	Opening balance	**Amortisation**	**Total**
Traffic System	18,871	(4,721)	14,150

Reconciliation of intangible assets - 2010

	Opening balance	**Amortisation**	**Total**
Traffic System	37,768	(18,897)	18,871

7. Financial assets by category

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

2011

	Loans and receivables	**Held to maturity investments**	**Total**
Cash and cash equivalents	-	2,290,171	2,290,171
Trade and other receivables	4,066,143	-	4,066,143
VAT Receivable	2,369,251	-	2,369,251
	6,435,394	**2,290,171**	**8,725,565**

2010

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Financial assets by category (continued)

	Loans and receivables	Held to maturity investments	Total
Other financial assets	68,120	-	68,120
Trade and other receivables	5,955,561	-	5,955,561
Cash and cash equivalents	-	4,207,638	4,207,638
VAT Receivable	3,733,885	-	3,733,885
	9,757,566	**4,207,638**	**13,965,204**

8. Long term loan receivables

Long term loan receivables consist of car loans made to former employees. The municipality handed the outstanding amounts over for debt collection and were subsequently written off.

	2011	2010
Vehicle loans		
Current amounts outstanding	-	68,210
Impairment: Provision for possible bad debt	-	(68,210)
Total outstanding	**-**	**-**

9. Trade and other receivables from exchange transactions

	2011	2010
Trade debtors	1,053,384	1,852,554
Other receivables	1,045,456	1,954,769
	2,098,840	**3,807,323**

	2011	2010
Trade debtors		
Gross balances	2,503,855	2,575,591
Less: Allowance for debt impairment	(1,684,305)	(723,037)
Net balance	**819,550**	**1,852,554**

Credit quality of trade and other receivables

Trade and other receivables consist of :

	2011	2010
Trade receivables		
Amounts included under trade and receivables from exchange transactions	157,543	330,057
Assessment rates debtors included under other receivables from non exchange transactions	529,258	880,777
	686,801	**1,210,834**

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Trade receivables

Counterparties with external credit rating		
A (Government accounts)	214,016	
B (Businesses)	40,801	
C (Domestic and other)	431,984	
	686,801	

Analysis of table:
A - The debtors are of good credit quality and no default in payment is expected.
B - The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time
C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Trade and other receivables past due but not impaired

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

Trade Receivables	686,801	1,210,835
1-30 days past due	253,160	910,836
31-60 days past due	247,585	160,527
61-90 days past due	186,056	139,472
	686,801	**1,210,835**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	723,037	1,566,652
Allowance for debt impairment	961,268	(843,615)
	1,684,305	**723,037**

10. Trade and other receivables from non-exchange transactions

Assessment rates debtors	2,519,404	2,148,238

Assessment rates debtors		
Gross balances	8,177,750	6,192,526
Less: Allowance for debt impairment	(5,658,346)	(4,044,288)
	2,519,404	**2,148,238**

Reconciliation of provision for impairment of assessment rates debtors

Opening balance	4,044,288	1,340,755
Provision for impairment	1,614,058	2,703,533
	5,658,346	**4,044,288**

11. VAT receivable

VAT	2,369,251	3,733,885

12. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

12. Cash and cash equivalents (continued)

Short-term deposits	2,284,290	4,207,638
Bank overdraft	(4,968,585)	(1,428,004)
	(2,684,295)	**2,779,634**

Current assets	2,284,290	4,207,638
Current liabilities	(4,968,585)	(1,428,004)
	(2,684,295)	**2,779,634**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2011	**30 June 2010**	**30 June 2009**	**30 June 2011**	**30 June 2010**	**30 June 2009**
First National Bank- Call Account-62035920596	65,411	64,397	62,691	65,411	64,397	62,692
First National Bank -Call account-62048047494	2,118,289	2,042,578	1,932,153	2,118,289	2,042,701	1,932,099
First National Bank -Call Account- 62270666616	1,000	1,000,000	-	1,000	1,002,959	-
First National Bank -Call account-62270667531	3,369	1,000,000	-	3,369	1,002,959	-
First National Bank- Call account-61684000098	96,097	94,622	92,117	96,097	94,622	92,117
First National bank -Public Sector Cheque Account-62022000898	(1,625,500)	(61,182)	2,037,259	(4,976,585)	(1,428,004)	143,770
Total	**658,666**	**4,140,415**	**4,124,220**	**(2,692,419)**	**2,779,634**	**2,230,678**

13. Housing Development Fund

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

Balance at the beginning of the year	2,042,578	1,948,076
Interest	75,711	94,502
	2,118,289	**2,042,578**

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	4,192,911
Drivers licence testing station	-	1,323,504
Municipal Systems Improvement Grant	-	104,284
	-	**5,620,699**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Unspent conditional grants and receipts (continued)

Movement during the year

	2011	2010
Balance at the beginning of the year	5,620,699	3,524,212
Additions during the year	14,349,000	2,096,487
Transfer to the statement of financial performance	(19,969,699)	-
	-	**5,620,699**

15. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	2,131,538	-	44,935	2,176,473
Provision for Performance Bonus	-	681,358	-	681,358
	2,131,538	**681,358**	**44,935**	**2,857,831**

Reconciliation of provisions - 2010

	Opening Balance	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	2,087,612	-	43,926	2,131,538
Provisions	718,290	(718,290)	-	-
	2,805,902	**(718,290)**	**43,926**	**2,131,538**

	2011	2010
Non-current liabilities	2,176,473	2,131,538
Current liabilities	681,358	-
	2,857,831	**2,131,538**

The municipality has two ladfill sites operated in Peddie and in Hamburg.
Landfill sites were valued in 2011 financial year and the present value of the liability to rehabilitate the above mentionedlandfill sites equates R2,176,473 (2010: R2,131,538).
Discounted interest rate applied: 2.3% (interest rate on most current investments)
l
.

Rehabilitation of landfill site

	2011	2010
Opening balance	2,131,537	2,087,612
Interest recognised	44,935	43,925
	2,176,472	**2,131,537**

16. Trade and other payables from exchange transactions

	2011	2010
Trade payables	7,950,180	3,805,329
Accrued leave pay	1,088,078	441,217
Accrued bonus	477,624	457,349
Accrued Administration and water sanitation expense	158,651	119,299
Sundry Receipts Default Suspense	854,355	854,255
Salary Suspense Accounts	29,896	(54,262)
Stale Cheques	-	223,361
Receiver of Revenue - PAYE	-	55,551

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Trade and other payables from exchange transactions (continued)

Unknown/Unallocated Deposits	770,518	376,888
Duplicate receipts	52,935	-
Hall hire deposits	8,093	-
	11,390,330	**6,278,987**

17. 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 payables	7,950,175	7,950,175
Long Service Awards	39,352	39,352
Accrued leave pay	1,088,078	1,088,078
Accrued bonuses	477,824	477,824
Amathole District Municipality Creditor	119,299	119,299
	9,674,728	**9,674,728**

2010

	Financial liabilities at amortised cost	Total
Accrued leave pay	584,189	584,189
Trade and other payables	5,137,814	5,137,814
Accrued Bonuses	457,349	457,349
Amathole District Municipality Creditor	119,299	119,299
Other creditors	223,361	223,361
	6,522,012	**6,522,012**

18. Revenue

Refuse removal	368,820	384,319
Property rates	4,211,109	2,598,525
Income from agency services	176,191	191,423
Public contributions and donations	10,500	-
Fines	190,335	466,148
Licences and permits	520,233	637,674
Government grants & subsidies	68,155,881	51,142,946
	73,633,069	**55,421,035**

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

Refuse removal	368,820	384,319
Income from agency services	176,191	191,423
Licences and permits	520,233	637,674
	1,065,244	**1,213,416**

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

Property rates	4,211,109	2,598,525

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Revenue (continued)

Public contributions and donations	10,500	-
Fines	190,335	466,148
Government grants & subsidies	68,155,881	51,142,946
	72,567,825	**54,207,619**

19. Property rates

Rates received

All properties	4,211,109	2,598,525

Valuations

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions

The following rates were applied to the specified property valuations to determine assessment rates for the 2010 and 2011 financial years: 0.0015 - Goverment properties, 0.006 - Residential properties, 0,009 - Large business properties, and 0,0012 - Other business properties. A rebate of R15000 on the property valuation.

The new general valuation will be implmemented on 01 July 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Government grants and subsidies

Equitable share	47,261,182	38,884,352
Municipal infrastructure grant	15,241,911	10,892,663
Drivers licence testing station	1,323,504	-
Finance management grant	1,200,000	809,215
Municipal Systems Improvement grant	854,284	-
LED Revenue	1,350,000	-
Subsidy -IEC	900,000	556,716
Vuna Awards	25,000	-
	68,155,881	**51,142,946**

Equitable Share

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

All registered indigents receive a monthly subsidy which is funded from the grant.

No funds in terms of the Equitable share were delayed or withheld.

Municipal infrastructure grant

Balance unspent at beginning of year	4,192,911	895,363
Current-year receipts	11,049,000	12,832,211
Conditions met - transferred to revenue	(15,241,911)	(10,892,663)
Other	-	1,358,000
	-	**4,192,911**

Conditions still to be met - remain liabilities (see note 14)

All conditions in terms of expenditure already incurred have been complied with.

No funds in terms of the Municipal infrastructure grant were delayed or withheld.

Drivers licence testing station

Balance unspent at beginning of year	1,323,504	1,460,721
Conditions met - transferred to revenue	(1,323,504)	(191,423)
Other	-	54,206
	-	**1,323,504**

Conditions still to be met - remain liabilities (see note 14)

All conditions in terms of expenditure already incurred have been complied with.

No funds in terms of the Drivers licence testing station were delayed or withheld.

Finance management grant

Current-year receipts	1,200,000	1,000,000
Conditions met - transferred to revenue	(1,200,000)	(809,215)
Other	-	(190,785)
	-	**-**

Conditions still to be met - remain liabilities (see note 14)

No funds in terms of the Finance management grant were delayed or withheld.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

20. Government grants and subsidies (continued)

Municipal systems improvement grant

Balance unspent at beginning of year	104,284	161,000
Current-year receipts	750,000	500,000
Conditions met - transferred to revenue	(854,284)	(556,716)
	-	**104,284**

Conditions still to be met - remain liabilities (see note 14)

All conditions in terms of expenditure already incurred have been complied with.

No funds in terms of the Municipal systems improvement grant were delayed or withheld.

Local Economic Development Grant

Current-year receipts	1,350,000	-
Conditions met - transferred to revenue	(1,350,000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 14)

All conditions in terms of expenditure already incurred have been complied with.

No funds in terms of the Local Economic Development grant were delayed or withheld.

21. Public contributions and donations

Public contributions and donations	10,500	-

Reconciliation of conditional contributions		
Current year receipts	10,500	-
Conditions met - transferred to revenue	(10,500)	-
	-	**-**

22. Other revenue

Rental income - third party	138,597	53,378
Other income	326,468	2,011,254
	465,065	**2,064,632**

23. Other income

Sundry Revenue	274,018	1,874,463
Cemetery fees	218	1,922
Pound fees	-	10,325
Photocopies and faxes	3,645	4,294
Building plan fees	16,842	49,111
Penalties	-	42,460
Tresspass fees	31,745	28,679
	326,468	**2,011,254**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. General expenses

Administration fees	7,254,919	5,621,517
Advertising	139,824	170,326
Auditors remuneration	1,922,452	1,306,907
Bank charges	314,253	201,039
Refund to debtors	-	187,694
Commission paid	(14,914)	-
Computer expenses	18,797	18,315
Consulting and professional fees	951,468	289,850
Consumables	508,618	187,372
IEC Voting station	-	2,000
Institutional Plan and Restructuring	-	282,240
Licence fees	5,100	9,350
Entertainment	256,462	270,824
Special Programmes	-	73,336
Animal Feed	10,355	15,302
Hire of lifesavers	148,200	62,480
Insurance	156,457	129,373
Conferences and seminars	139,820	16,000
Rezoning and registration	95,731	206,851
Lease rentals on operating lease	955,241	669,520
Communication and Public relations	1,048,383	594,650
Pest control	6,400	1,566
Fuel and oil	1,603,079	526,074
Auction fees	10,818	3,606
Printing and stationery	360,938	503,793
Legal Expenses	571,237	651,308
Protective clothing	125,095	209,133
Indigent registration	64,311	10,539
Stocks and material	1,190,483	385,391
Security (Guarding of municipal property)	72,864	128,040
Subscriptions and membership fees	1,904	-
Telephone and fax	773,645	764,268
Collection fees	-	42,925
Training	818,010	445,976
Travel - local	196,732	219,379
Refuse	90,217	54,754
Electricity	433,060	352,901
Water	259,959	53,020
Free basic electricity	2,583,444	2,210,219
Disaster Management	222,236	133,767
Mayoral Discretionery Fund	27,903	-
Audit Committee Expense	175,630	-
Valuation costs	36,543	229,014
Asset revaluation	204,432	-
Accomodation expenses	3,976,408	1,644,835
Newsletters and publications	87,737	54,590
Pauper burials	3,018	-
Other expenditure	3,641,760	365,672
Interest Cost on Provision for Landfill Site	44,935	43,925
	31,493,964	**19,349,641**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Employee related costs

Basic	16,022,520	10,534,484
Bonuses	1,014,217	817,254
Contributions to UIF, Bargaining Council, pension and medical aid	3,209,357	2,231,744
Skills Development Levy	158,730	113,183
Redemption of leave	781,266	22,115
Travel, motor car, accommodation, subsistence and other allowances	2,494,059	487,288
Overtime payments	575,915	641,558
Housing benefits and allowances	14,752	46,943
Performance Bonuses	842,565	-
	25,113,381	**14,894,569**

Remuneration of municipal manager

Annual Remuneration	656,791	547,980
Travel, motor car, accomodation,subsistence and other allowances	126,000	158,484
Performance Bonuses	61,875	-
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	846,163	**707,961**

Remuneration of chief finance officer

Annual Remuneration	531,200	437,710
Travel, motor car, accomodation,subsistence and other allowances	126,000	132,000
Performance Bonuses	53,736	-
Contributions to UIF, Medical and Pension Funds	1,497	1,497
	712,433	**571,207**

Remuneration of executive managers

2011	**Technical Services R**	**Corporate Services R**	**Community Services R**
Annual Remuneration	531,200	531,200	531,200
Performance Bonus	53,736	53,736	53,736
Travel, motor car, accomodation, subsistence and other allowances	126,000	126,000	126,000
Contributions to UIF, Medical and Pension Funds	1,497	1,497	1,497
	712,433	**712,433**	**712,433**

2010	**Technical Services R**	**Corporate Services R**	**Community Services R**
Annual Remuneration	411,226	419,710	419,710
Travel, motor car, accomodation, subsistence ad other allowances	126,000	126,000	126,000
Contributions to UIF, Medical and Pension Funds	1,497	1,497	1,497
	538,723	**547,207**	**547,207**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

26. Remuneration of councillors

Mayor	504,605	536,781
Executive Committee Members	849,341	900,140
Speaker	407,158	432,838
Councillors' remuneration	2,116,913	2,051,132
Councillors' pension contribution	527,238	696,379
Councillors' allowances	1,866,566	992,880
	6,271,821	**5,610,150**

In-kind benefits

The Mayor, Speaker are full-time. The executive committee members are part time employed by the Municipality. The Mayor and Speaker are provided with an office and secretarial support at the cost of the Council.

The Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Mayor has use of a Council owned vehicle for official duties.The Mayor has one full-time bodyguard .

27. Interest received

Interest revenue		
Bank	74,193	192,118
Interest charged on trade and other receivables	-	109,767
Interest on Investment	432,169	10,128
	506,362	**312,013**

The amount included in Investment revenue arising from non-exchange transactions amounted to R 432,169 (2010: R10,128).

28. Auditors' remuneration

Fees	1,922,452	1,306,907

29. Cash generated from operations

Deficit	(23,747,215)	(19,929,827)
Adjustments for:		
Depreciation and amortisation	31,000,798	29,474,881
Loss on sale of assets and liabilities	-	(69,000)
Finance costs	-	43,926
Movements in provisions	726,293	(718,290)
Movement in reserves	75,711	94,505
Changes in working capital:		
Trade and other receivables from exchange transactions	1,708,483	1,596,966
Other receivables from non-exchange transactions	(371,166)	1,746,862
Current portion of long term receivable	-	40,158
Long term receivables	-	68,093
Trade and other payables from exchange transactions	5,111,338	2,474,656
VAT	1,364,634	(437,393)
Unspent conditional grants and receipts	(5,620,699)	3,103,615
	10,248,177	**17,489,152**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

30. Commitments

25.1 Authorised capital and operating expenditure

Approved and contracted for (per department):		
• Corporate Services	-	111,354
• Community services	237,628	1,106,660
• Technical services	15,477,648	6,523,949
• Finance services	1,215,835	1,727,076
• Municipal Managers Office	165,671	-
	17,096,782	**9,469,039**
Approved but not yet contrated for (per department):		
• Technical services	-	484,714
• Community services	199,426	216,700
• Corporate Services	1,148,110	-
• Council	38,741	-
• Finance	73,667	-
	1,459,944	**701,414**
Capital expenditure - approved and contracted for (per classification):		
Infrastructure	-	7,630,609
Property, Plant & Equipment	-	111,354
Other Expenditure	1,459,944	-
	1,459,944	**7,741,963**
Capital expenditure - approved but not yet contrated for (per classification):		
Motor vehicles	-	216,700
Infrastructure	-	484,714
Other expenditure	1,459,944	-
	1,459,944	**701,414**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, grant funding, existing cash resources, etc.

25.2 Operating leases Commitments

Minimum lease payments due		
- within one year	117,838	271,370
- in second to fifth year inclusive	363,253	68,615
	481,091	**339,985**

Operating lease payments represent rentals payable by the municipality for certain of its office properties.No contingent rent is payable.Lease agreements include a clause of price plus index on rental increases.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	95,354	86,808
- in second to fifth year inclusive	488,222	381,257
	583,576	**468,065**

Certain of the municipality's property is held to generate rental income. Rental of property is expected to generate rental on an ongoing basis. Lease agreements are non-cancellable and have terms from 1 to 25 years. There are no contingent rents receivable.

Notes to the Annual Financial Statements

31. Contingencies

Contingent liabilities

Milisa Security and Cleaning Services is instituting a damages claim against the municipality following cancellation of its contract during January 2009. Council is contesting the claim based on legal advice. A court date has not yet been set. The legal costs will be determined one action has started. The supplier is claiming R 176,782 for damages.

Action has been instituted against the municipality for the expulsion of ANC Councillors. Estimated costs are R190,000

Contingent assets

Action was instituted against the 2008/2009 Municipal Manager to recover funds spent as fruitless and wasteful expenditure during his term of office, civil proceedings have commenced to recover an amount of R 397,126. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is virtually certain.

32. Related parties

Relationships	
Municipal Manager	Mr V Gwintsa *
Chief Financial Officer	Mr P Mahlasela
Executive Manager - Technical Services	Mr B Badi
Executive Manager - Corporate Services	Mr V Gwintsa
Executive Manager - Community Services	Mr N Mjo
Amathole District Municipality	Outstanding balance - 2011: R119,299 (Cr), 2010: R119,299 (Cr)

* Note that Mr V Gwintsa is the Acting Municipal Manager

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Prior period errors

The correction of the error(s) results in adjustments as follows:

	2011	2010
Statement of financial position		
The correction of the errors are as follows:	-	-
Trade and other payables		
Balance as previously stated	-	6,278,988
Reversal of prior year claim for Councillors	-	(778,733)
	-	**5,500,255**
Trade and other receivables		
Balance as previously stated	-	3,807,323
Reversal of Bank Reconciliation Adjustment	-	(1,664,690)
Reversal of prior year fair value adjustment on debtors	-	820,919
Clearing salary suspense account	-	3,651,592
	-	**6,615,144**
Cash and cash equivalents		
Balance per 2009 Annual report	-	1,428,004
Bank Reconciliation Adjustment- Revenue billed in 2010	-	(474,050)
	-	**953,954**
Accumulated Surplus		
Reversal of prior claim for Councillors	-	778,733
Reversal of Bank reconciliation Adjustment processed twice	-	(1,664,690)
Reversal of prior year fair value adjustment on debtors	-	820,919
Clearing Salary Suspense accounts	-	3,651,592
Bank Reconciliation Adjustment - revenue billed in 2010 recorded in 2011	-	474,050
Revenue relates to 2009/2010 recorded in 2010/2011 financial year	-	100,046
Reversal of prior year creditors incorrectly recorded as expenditure	-	(181,350)
ADM - Stipends for May and June 2010 recorded in the current year	-	19,200
Adjustment to MIG and Equitable Share opening balances	-	(5,918)
	-	**3,992,582**
Investments -MIG		
Balance as previously stated	-	1,002,959
Adjustment to Opening balance	-	(2,959)
	-	**1,000,000**
Investments - Equitable Share		
Balance as previously stated	-	1,002,959
Adjustment to opening balance	-	(2,959)
	-	**1,000,000**
Statement of financial performance		
Refer to reconciliations below:	-	-
Other revenue		
Amount reported per 2009 Annual report	-	-
Revenue relates to 2009/2010 received in 2010/2011 financial year	-	5,648
	-	**5,648**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

33. Prior period errors (continued)

Service Charges

Revenue relates to 2009/2010 financial year received in 2010/2011 financial year	-	94,398

General Expenditure

Amothole District Municipality - Stipends for May and June 2010 recorded in the current year	-	19,200
Expenditure incorrectly accounted for in 2009/2010 financial year	-	(181,350)
	-	**(162,150)**

34. Comparative figures

Certain comparative figures have been reclassified:

Income from Agency Fees has been reclassified to Other Income.

The effects of the reclassification are as follows:

Statement of financial performance

Grants and Subsidies	-	191,423
Income from Agency Fees	-	(191,423)

35. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern. Available capital is largely dependant on grant receipts from national government. Minimised use of capital from external borrowings ensures optimal capital structures and also reduces the cost of capital. The municipality manages capital risk through the monitoring of proposed grants to be received from national government and through the synchronisation of capital outlay with grant receipts.

The capital structure of the municipality consists of cash and cash equivalents and equity .

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

Financial risk management

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

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance. Risk management is carried out by the financial department with the assistance of operating divisions.Risk management is carried out under policies approved by the accounting officer.

Liquidity risk

The municipality’s risk relates to funds available that will 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 managed borrowing facilities are continually monitored.

Market Risk: Interest rate risk

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

At year end financial assets exposed to interest rate risk were as follows:

Figures in Rand	2011	2010

35. Risk management (continued)

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. For details refer Note 12.

Finance leases linked to South African prime rate.

Management manages interest rate risk by negotiating beneficial rates on floating rate loans

Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.
A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite % adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

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

The estimated rate increases		
The estimated increase in base points	200	200
Effect on net Surplus	12,880	6,240

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the municipality's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

The carrying amount of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk:

Financial Instrument		
Bank balances	(4,939,774)	236,686
Short term deposits	2,290,171	4,207,638
Trade and other receivables	4,066,143	5,955,561
	1,416,540	**10,399,885**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

35. Risk management (continued)

Market Risk: Currency risk

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency.

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

36. Events after the reporting date

On the 15 July 2011 a decision was taken by Council to suspend the Municipal Manager.
The outcome of the decision is still pending.

37. Unauthorised expenditure

	2011	2010
Opening balance	3,224,106	3,224,106
Add: Unauthorised expenditure for the current year	857,736	-
	4,081,842	**3,224,106**

Unauthorised Expenditure 2011
Unauthorised expenditure of R857,736 relates to overspending of the budget.

Unauthorised Expenditure 2010

Unauthorised expenditure amounting to R322 106 for the extension of the scope of work for the construction of Ncumisa Kondlo Indoor Sport Centre incurred during the 2007/08 financial year. This amount has been established during the current financial year.

38. Fruitless and wasteful expenditure

	2011	2010
Interest and penalties paid to SARS	-	19,912
Legal costs in terms of the expulsion of ANC councillors and the resulting defamation claims	-	117,134
Interest on Eskom and Telkom overdue accounts	1,668	-
Defamation claims against the municipality by the former municipal manager and mayor	54,911	300,000
	56,579	**437,046**

39. Irregular expenditure

	2011	2010
Opening balance	4,354,051	826,816
Add: Irregular Expenditure - current year	3,626,099	3,527,235
	7,980,150	**4,354,051**

Irregular Expenditure - 2011
Irregular expenditure of R1,418,771 relates to a disagreement by the Accounting Officer with the recommendation of the Adjudication Committee.
No disciplinary action has been taken to date

Irregular expenditure of R2,207,328 relates to payments made to conractors that exceeded contract value.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

39. Irregular expenditure (continued)

Irregular Expenditure - 2010
Irregular expenditure of R248,000 relates to payments to Penny Lindstrohm made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date as this was regarded as a normal municipal activity with the significant objective of meeting the service delivery objectives of the municipality.

Irregular expenditure of R395,000 relates to the appointment of Sinakho Inc to prepare the financial year ended 30 June 2009 annual financial statements made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date.

Irregular expenditure of R2,158,795 relates to a disagreement by the Accounting Officer with the recommendation of the Adjudication Committee, the National Treasury, Provincial Treasury and Auditor General have been notified of this decision
No disciplinary action has been taken to date.

Irregular expenditure of R2 673 relates to a payment made to Gemprint for the purchase of order books. The payment was made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date.

Irregular expenditure of R26 316 relates to a payment made to Umso Investments. The payment was made in contravention of the Supply Chain management policy. No disciplinary action has been taken to date.

Irregular expenditure to the amount of R624 555 were made to various suppliers without the receipt of a valid tax clearance certificate. No disciplinary action has been taken to date.

Irregular expenditure of R71 895 relates to operating lease payments made during the year on expired lease contracts. No disciplinary action has been taken to date.

40. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year contribution	153,900	122,247
Amount paid - current year	(153,900)	(122,247)
	-	-

Audit fees

Current year fee	1,922,452	1,306,907
Amount paid - current year	(1,144,228)	(294,694)
	778,224	**1,012,213**

PAYE and UIF

Current year deductions	3,472,100	2,785,699
Amount paid - current year	(3,472,100)	(2,785,699)
	-	-

Pension and Medical Aid Deductions

Current year deductions	2,553,266	2,138,696
Amount paid - current year	(2,553,266)	(2,138,696)
	-	-

Figures in Rand	2011	2010

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

VAT

VAT receivable	2,369,251	3,733,885

VAT output payables and VAT input receivables are shown in note 11.
VAT is accounted for on payment basis.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
N.E. Dyani	37	261	298
M. Faltein	45	956	1,001
A. S. Jali	-	5,358	5,358
S. Ndwayana	-	53	53
N. A Seysman	37	261	298
	119	**6,889**	**7,008**

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
S. Ndwayana	-	934	934

41. Retirement benefit Information

Defined Contribution Plan

It is the policy of the municipality to provide retirement benefits to all its employees. The current defined contribution provident fund is held with SAMWU, which are subject to the Pensions Fund Act, exist for this purpose.

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

The total contribution to such schemes amount to R 2,101,454