Nxuba Municipality
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	Municipality
Mayoral committee	
Mayor	Mrs L.L Bruintjies (speaker called mayor)
Councillors	Mrs C.A Auld
	Mr G. De Lange
	Mr P. Jack
	Mr E. Lombard
	Mr Q.P Maloni
	Ms B.P Mentoor
	Mr S.A Ndyambo
	M. Mana - resigned
	T.Ngetu - resigned
	Z. Maseti - resigned
	M.E Makenyane - resigned
	E.M Mnqamisa - resigned
	L.N Mdlungu - resigned
	W. Mahleza - resigned
Grading of local authority	Grade 1
Accounting Officer	Mr M.Bongco
Chief Finance Officer (CFO)	Mr R Dolonga
Registered office	Adelaide
Business address	1 Market square Adelaide 5760
Postal address	Private Bag 350 Adelaide 5760
Bankers	ABSA, Adelaide First National Bank, Adelaide
Auditors	Auditor General of South Africa

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

Accounting Officer's Responsibilities and Approval

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

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

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 places 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 39, 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 as discloesd in note 24.

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 39, 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 M.Bongco

31 August 2011

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	2	-	6,716,887
Investments	3	14,000	47,498
Trade and other receivables from exchange transactions	4	5,538,786	5,113,856
Other receivables from non-exchange transactions	5	4,741,473	5,494,346
VAT receivable	6	1,301,318	193,149
Prepayments	7	41,092	41,092
Call investments	8	1,710,690	3,320,457
Cash and cash equivalents	9	3,496,157	568,048
		16,843,516	**21,495,333**
Non-Current Assets			
Investment property	10	359,602	359,602
Property, plant and equipment	11	41,261,225	35,182,969
Intangible assets	12	19,277	19,277
		41,640,104	**35,561,848**
Total Assets		**58,483,620**	**57,057,181**
Liabilities			
Current Liabilities			
Operating lease liability	13	31,189	57,811
Trade and other payables from exchange transactions	14	7,962,586	8,206,744
Consumer deposits	15	643,078	347,083
Unspent conditional grants and receipts	16	4,004,423	2,960,950
Leave pay accrual	17	1,066,930	1,020,380
		13,708,206	**12,592,968**
Total Liabilities		**13,708,206**	**12,592,968**
Net Assets		**44,775,414**	**44,464,213**
Net Assets			
Accumulated surplus		44,775,414	44,464,213

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	19	2,600,131	2,579,359
Service charges	20	16,476,426	16,134,525
Rental of facilities and equipment		131,241	114,878
Fines		13,624	5,640
Licences and permits		1,550,872	1,331,332
Government grants & subsidies	21	27,169,023	23,990,280
Other income	22	3,376,709	2,785,115
Interest received - investment	23	2,377,949	3,607,132
Total Revenue		**53,695,975**	**50,548,261**
Expenditure			
Employee costs	24	16,522,811	16,511,687
Remuneration of councillors	25	1,303,219	1,064,382
Finance costs	26	481,530	-
Repairs and maintenance		281,713	308,235
Bulk purchases	29	12,787,127	9,670,193
Contracted services	30	-	81,158
Grants and subsidies paid	31	1,636,361	4,233,106
General Expenses	32	11,285,241	8,197,978
Total Expenditure		**44,298,002**	**40,066,739**
Surplus for the year		**9,397,973**	**10,481,522**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	43,448,034	43,448,034
Adjustments		
Fundamental errors affecting net assets see note 36	(9,465,343)	(9,465,343)
Balance at 01 July 2009 as restated	**33,982,691**	**33,982,691**
Changes in net assets		
Surplus for the year	10,481,522	10,481,522
Total changes	10,481,522	10,481,522
Balance at 01 July 2010	**35,377,441**	**35,377,441**
Changes in net assets		
Surplus for the year	9,397,973	9,397,973
Total changes	9,397,973	9,397,973
Balance at 30 June 2011	**44,775,414**	**44,775,414**

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Interest income		2,377,949	3,607,132
Payments			
Suppliers		5,466,684	3,500,163
Finance costs		(481,530)	-
		4,985,154	3,500,163
Net cash flows from operating activities	33	**7,363,103**	**7,107,295**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(6,800,814)	(3,943,798)
Proceeds from sale of property, plant and equipment	11	722,555	621,567
Purchase of other intangible assets	12	-	(15,263)
Proceeds from sale of financial assets		33,498	(47,498)
Purchase of call investments		-	(3,320,457)
Proceeds from sale of call investments		1,609,767	-
Net cash flows from investing activities		**(4,434,994)**	**(6,705,449)**
Net increase/(decrease) in cash and cash equivalents		**2,928,109**	**401,846**
Cash and cash equivalents at the beginning of the year		568,048	166,202
Cash and cash equivalents at the end of the year	9	**3,496,157**	**568,048**

Accounting Policies

1. Presentation of Annual Financial Statements

These Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand. They have been prepared in terms of Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003) in accordance with the Accounting Standards prescribed by the Minister of Finance in terms of Government Gazette number 31021, Notice Number 516, dated 9 May 2008 and also in terms of the standards and principles contained in Directive 4 issued by the ASB in March 2009.

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

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GRAP 25	Employee Benefits
GRAP 102	Intangible Assets
GRAP 104	Financial Instruments: Disclosures

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables

The municipality assesses its trade 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 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 is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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.

Accounting Policies

1.2 Investment property

Recognition

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

Initial measurement

Investment property is initially measured at cost, including transaction costs.
Where an investment property is acquired at no cost, or for nominal cost, its cost is its fair value as at the date of acquisition.
Such cost should not include start-up costs, abnormal waste, or initial operating losses incurred before the investment property achieves the planned level of occupancy.

Subsequent measurement

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years. Progress towards full compliance with the requirements of GRAP 16 will be disclosed in the Annual Financial Statements for the next three years. The municipality is under going a process of implementing a full GRAP compliant fixed asset register and it is expected to be finalised by the end of 2010/2011 financial year.

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

1.3 Property, plant and equipment (continued)

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

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

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

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

Capital work in progress is work that has not been completed but has already incurred a capital investment from the municipality.

This is usually recorded as an asset on the balance sheet. Work in progress indicates any good that is not considered to be a final product, but must still be accounted for because funds have been invested toward its production. Depreciation is not accounted for until the capital work in progress is reclassified as an asset.

Transitional provisions

According to the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 11. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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.

Accounting Policies

1.4 Intangible assets (continued)

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

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

Transitional provisions

According to the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the municipality is not required to measure intangible assets for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Intangible assets. Intangible Assets has accordingly been recognised at provisional amounts, as disclosed in 12. The transitional provision expires on 30 June 2012.

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

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

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

1.5 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Accounting Policies

1.6 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Available-for-sale financial assets
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated 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 municipality 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 effective interest method, less accumulated impairment losses.

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

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

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

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

1.6 Financial instruments (continued)

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

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

1.6 Financial instruments (continued)

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

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

Financial liabilities and equity instruments

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

Gains and losses

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

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

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.

1.7 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.

1.7 Leases (continued)

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

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

No measurement adjustments were made for the year ending 30 June 2011. The future lease commitments not disclosed in the financial statements for the year ending 30 June 2010 are now however disclosed in these financial statements. Please refer to note 13 for the details to future lease commitments.

It is anticipated that the requirements of the Standard of GRAP on Leases will be applied in the financial statements for the year ending 30 June 2010 when the transitional provisions in the Standards of GRAP on Property, Plant and Equipment expire.

1.8 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not considered in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.9 Provisions

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.

1.9 Provisions (continued)

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.

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

Transitional provisions

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets were acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality did not acquire any transfer(s) of function in 2011 and provisions, contingent liabilities and contingent assets have been accordingly recognised at provisional amounts, as disclosed in 17.

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

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

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

1.10 Revenue from exchange transactions

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

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

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

Measurement

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

Accounting Policies

1.10 Revenue from exchange transactions (continued)

Rendering of services

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

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

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

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

1.11 Revenue from non-exchange transactions

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

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

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

Measurement

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

Rates, including collection charges and penalties interest

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

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

1.11 Revenue from non-exchange transactions (continued)

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.

1.12 Investment income

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

1.13 Comparative figures

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

1.14 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.

Accounting Policies

1.14 Unauthorised expenditure (continued)

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.

1.15 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.

1.16 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 economic entity’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.

1.17 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.

1.18 Presentation of currency

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

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 Value added tax

Value added tax(VAT) in the municipality is recognised on the invoice basis.

The municipality submits its VAT returns timeously and accurately in accordance with all VAT related legislation. Furthermore general operational procedures should be in place to ensure the effective and efficient working of VAT related adminstration.

Any VAT due or receivable by the municipality at financial year end will result in a VAT related creditor or debtor that needs to be disclosed in the Annual Financial Statements. Along with these balances, information regarding the VAT registration basis of the municipality should be disclosed in the Annual Financial Statements.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Inventories

Unsold Properties Held for Resale	-	6,716,887

RDP houses previously held as inventory in prior period have been distributed to the beneficiaries.

3. Investments

Available-for-sale		
ABSA - J KORKIE (VOLKSKAS BANK)	14,000	14,000
ABSA - JB MARAIS (ALLIED BANK)	-	17,741
ABSA - JH ERASMUS (UNITED BANK)	-	15,757
These investments are held as securities for bonds over properties purchased by municipal staff.		
	14,000	**47,498**

Current assets		
Available-for-sale	14,000	47,498

4. Trade and other receivables from exchange transactions

Trade debtors	5,538,786	5,113,856

Reconciliation for trade and other receivables		
Gross trade and other receivables	21,477,110	16,402,358
Provision for impairment	(15,938,324)	(11,288,502)
	5,538,786	**5,113,856**

Trade and other receivables impaired

The amount of the provision was R (15,938,324) as of 30 June 2011 (2010: R (11,288,502)).

The ageing of these debtors is as follows:

Current (0 - 30 days)	2,212,843	703,439
31 - 60 days	880,442	499,121
61 - 90 days	1,291,632	594,278
91 - 120 days	17,092,193	14,605,520

5. Other receivables from non-exchange transactions

Other receivables from non-exchange revenue	4,741,473	5,494,346

Reconciliation for other receivables from non-exchange transactions		
Gross recievables from non-exchange transactions	18,447,580	17,215,137
Provision for impairment	(13,706,107)	(11,720,791)
	4,741,473	**5,494,346**

Figures in Rand	2011	2010

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

Other receivables from non-exchange transactions impaired

The amount of the provision was R (13,706,107) as of 30 June 2011 (2010: R (11,720,791)).

The ageing of these debtors is as follows:

Current (0 - 30 days)	498,648	197,398
31 - 60 days	454,643	128,327
61 - 90 days	439,030	160,585
91 - 120 days	17,055,259	16,728,828

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

Opening balance	23,009,293	28,099,877
Provision for impairment	6,635,138	(2,450,557)
Amounts written off as uncollectible	-	(2,640,027)
	29,644,431	**23,009,293**

The impairment of debtors was calculated based on the percentage obtained on the non-collection rate.
The amount calculated is considered to be reasonable based on assessment of the age and category of the debtors.
The provision for impaiment will not be provided for government related debtors(i.e CO Councillors, GV Government, M Municipal, MS Municipality Staff) as these debtors are considered to be recoverable.
As the debtors are still employees of the government and the amounts owed can be recovered from their salaries.

Unemployment rate estimated to be over 70% within the Municipality.

There is no proper indigent recognition criteria and all assumptions made in the above provision do not take into consideration the indigent list.

The process of identifying indigent debtors is currently underway.

For further details on Debtors refer to Annexure A.

6. VAT receivable

VAT	1,301,318	193,149

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

7. Consumer debtors

Gross balances		
Rates	39,944	39,944
Housing rental	1,148	1,148
	41,092	**41,092**
Net balance		
Rates	39,944	39,944
Housing rental	1,148	1,148
	41,092	**41,092**
Rates		
Current (0 -30 days)	39,944	39,944

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

7. Consumer debtors (continued)

	2011	2010
Housing rental		
Current (0 -30 days)	1,148	1,148

8. Call investments

	2011	2010
Unspent conditional grants and receipts	1,695,646	3,201,432
Unspent unconditional grants and receipts	15,044	119,025
	1,710,690	**3,320,457**

These investments are in respect of unspent conditional and unconditional grants from call accounts balances.

9. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011	2010
Cash on hand	1,668	668
Bank balances	3,494,489	567,380
	3,496,157	**568,048**

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**
FNB BANK - Account number 51640011783	2,692,632	627,363	33,355	2,260,982	628,890	33,355
ABSA BANK - Account number 9198592469	443,157	65,358	130,373	443,157	65,358	130,373
ABSA BANK - Account number 9074038460	4,234	4,289	1,806	4,234	4,289	1,806
ABSA BANK - Account number 2360000012	717,085	-	-	717,085	(610,327)	-
ABSA BANK - Cheque account 4055145556	69,031	-	-	69,031	479,170	-
Total	**3,926,139**	**697,010**	**165,534**	**3,494,489**	**567,380**	**165,534**

10. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	359,602	-	359,602	359,602	-	359,602

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	359,602	359,602

10. Investment property (continued)

Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	359,602	359,602

Investment property is reported at provisional amounts R 359,602 (2010 : R 359,602), due to the fact that the initial accounting for Investment property was subject to directive 4 for the reporting period in which the Standard became effective.
It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2012.

Invesment Property is in respect of various residential properties and a multiple use property which are Erf No. 1, 81, 84, 85, 86, 215, 264, 390, 1160, 1162 and 1164. The properties are all valued at cost in the financial statements. Their fair values as per the General Valuation report 1 July 2009 - 30 June 2013 are as shown below :

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Investment property (continued)

Details of property

	2011	2010
Land - residential		
ERF 1, Adelaide ext 20740000 SQM, Multiple use property		
- Valuation amount:	4,600,000	4,600,000
Land - vacant residentail property		
ERF 81, Durban street, Bedford		
- Valuation amount:	94,000	94,000
Land - vacant residentail property		
ERF 84, Baird street, Bedford		
- Valuation amount:	40,000	40,000
Land - vacant residentail property		
ERF 85, Baird street, Bedford		
- Valuation amount:	40,000	40,000
Land - vacant residentail property		
ERF 86, Landdonkin street, Bedford		
- Valuation amount:	80,000	80,000
Land - vacant residential land		
ERF 215, Baird street, Bedford		
- Valuation amount:	150,000	150,000
Land- Residential property		
ERF 264, Caledon street, Bedford		
- Valuation amount:	76,000	76,000
Land- Residential property		
ERF 390, Stockholm street, Bedford		
- Valuation amount:	770,000	770,000
Land- Residential property		
ERF 1160, Hope street, Bedford		
- Valuation amount:	94,000	94,000
Land- Residential property		
ERF 1162, C/O Hope & Bourke street, Bedford		
- Valuation amount:	110,000	110,000
Land- Residential property		
ERF 1164, Adderley street, Bedford		
- Valuation amount:	110,000	110,000

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	1,586,496	-	1,586,496	1,586,496	-	1,586,496
Buildings	3,278,886	-	3,278,886	3,278,886	-	3,278,886
Plant and machinery	53,054	-	53,054	770,597	-	770,597
Furniture and fixtures	434,853	-	434,853	110,321	-	110,321
Motor vehicles	1,667,962	-	1,667,962	1,667,962	-	1,667,962
Office equipment	743,388	-	743,388	280,420	-	280,420
IT equipment	597,246	-	597,246	276,822	-	276,822
Infrastructure	22,389,607	-	22,389,607	22,389,610	-	22,389,610
Community	5,576,678	-	5,576,678	4,812,483	-	4,812,483
Artwork	8,337	-	8,337	3,325	-	3,325
Capital work in progress	4,923,683	-	4,923,683	-	-	-
Other property, plant and equipment	1,035	-	1,035	6,047	-	6,047
Total	**41,261,225**	**-**	**41,261,225**	**35,182,969**	**-**	**35,182,969**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Disposals**	**Total**
Land	1,586,496	-	-	1,586,496
Buildings	3,278,886	-	-	3,278,886
Plant and machinery	770,597	-	(717,543)	53,054
Furniture and fixtures	110,321	324,532	-	434,853
Motor vehicles	1,667,962	-	-	1,667,962
Office equipment	280,420	462,968	-	743,388
IT equipment	276,822	320,424	-	597,246
Infrastructure	22,389,607	-	-	22,389,607
Community	4,812,483	764,195	-	5,576,678
Artwork	3,325	5,012	-	8,337
Capital work in progress	-	4,923,683	-	4,923,683
Other assets	6,047	-	(5,012)	1,035
	35,182,966	**6,800,814**	**(722,555)**	**41,261,225**

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Total
Land	1,586,496	-	-	1,586,496
Buildings	3,278,886	-	-	3,278,886
Plant and machinery	770,597	-	-	770,597
Furniture and fixtures	110,321	-	-	110,321
Motor vehicles	1,667,962	-	-	1,667,962
Office equipment	255,279	25,141	-	280,420
IT equipment	236,462	40,360	-	276,822
Infrastructure	18,511,313	3,878,297	-	22,389,610
Community	4,812,483	-	-	4,812,483
Artwork	3,325	-	-	3,325
Other assets	627,614	-	(621,567)	6,047
	31,860,738	**3,943,798**	**(621,567)**	**35,182,969**

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years.

The following progress has been made to date:

All assets have been classified accordingly.

All additions have been recorded;

A provisional asset register has been uploaded on BAUD.

The employees have been trained on how to use BAUD.

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 11, certain property, plant and equipment with a carrying value of R 41,261,225 (2010: R 35,182,969) were recognised at provisional amounts.

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

12. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	19,277	-	19,277	19,277	-	19,277

12. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Total
Computer software, other	19,277	19,277

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Computer software, other	4,014	15,263	19,277

The municipality is implementing GRAP for the first time and has taken Directive 4 exemption applicable for the first three years of initial adoption of GRAP to Low Capacity Municipalities. The effect of this is that assets are not depreciated or assessed for impairment in the first three years.

Progress made to date is documented in note 11.

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 12, certain intangible assets with a carrying value of R 19,277 (2010: R 19,277) was recognised at provisional amounts.

13. Operating lease liability

Straight lining of operating lease liability raised as a provision for rental agreements that the municplaity has with Konica minolta and Nashua for copiers,printers,scanners and faxes.

14. Trade and other payables from exchange transactions

Accruals	-	401,053
Amatole district municipality	1,593,954	33,418
Auditor general	3,111,493	2,134,412
Conlog	34,531	422,591
Eskom	2,149,397	2,999,563
Macbrick	-	1,194,354
Other payables	2,287	-
SALGA	631,003	487,224
Workmens` compensation fund	439,921	534,129
	7,962,586	**8,206,744**

15. Consumer deposits

Electricity	643,078	347,083

Included in consumer deposits is deposits for rates. There is no interest attached to this and it has to be refunded to consumers.

Figures in Rand	2011	2010

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2011	2010
Unspent conditional grants and receipts		
Municipal Infrastructure Grants	3,754,770	2,601,089
Cemetry - Adelaide	-	1,053
Cemetry - Bedford	-	1,749
Finance Management Grant	19,209	99,995
Ndlovini Fund	-	1,562
Nxuba Electricity Account (NER)	-	5,846
Municipal Support	230,444	227,033
Nxuba Housing - 172 Zinc House	-	22,623
	4,004,423	**2,960,950**

Movement during the year

	2011	2010
Balance at the beginning of the year	2,960,950	1,991,077
Additions during the year	1,043,473	969,873
	4,004,423	**2,960,950**

	2011	2010
Municipal Infrastructure Grants		
Balance at the beginning of the year	2,601,089	1,808,582
Additions during the year	1,153,681	792,507
	3,754,770	**2,601,089**

	2011	2010
Finance Management Grant		
Balance at the beginning of the year	99,995	-
Additions during the year	-	99,995
Income recognition during the year	(80,786)	-
	19,209	**99,995**

	2011	2010
Municipal Support		
Balance at the beginning of the year	227,033	-
Additions during the year	3,411	227,033
	230,444	**227,033**

17. Leave pay accrual

Reconciliation of leave pay accrual - 2011

	Opening Balance	Contributions to provision	Expenditure incurred during the year	Total
Leave provision	1,020,380	223,095	(176,545)	1,066,930

Reconciliation of leave pay accrual - 2010

	Opening Balance	Contributions to provision	Expenditure incurred during the year	Total
Leave provision	902,648	68,613	49,119	1,020,380

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Revenue

Property rates	2,600,131	2,579,359
Service charges	16,476,426	16,134,525
Rental of facilities & equipment	131,241	114,878
Fines	13,624	5,640
Licences and permits	1,550,872	1,331,332
Government grants & subsidies	27,169,023	23,990,280
	47,941,317	**44,156,014**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	16,476,426	16,134,525
Rental of facilities & equipment	131,241	114,878
Licences and permits	1,550,872	1,331,332
	18,158,539	**17,580,735**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	2,600,131	2,579,359
Fines	13,624	5,640
Transfer revenue		
Levies	27,169,023	23,990,280
	29,782,778	**26,575,279**

19. Property rates

Rates received

Residential	2,600,131	2,579,359

A general rate of R 0.0055 (2009: R 0.005) for commercial and farming rate R 0.0054 (2009: R 0.005) was applied to property valuations to determine assessment rates. Rebates of R 15,000 were granted to residential and state property owners. Rates are levied on an annual basis on property owners.

20. Service charges

Reconnection fees - electricity	71,851	-
Sale of electricity	12,620,505	12,744,100
Solid waste	3,784,070	3,390,425
	16,476,426	**16,134,525**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Government grants and subsidies

Equitable share	11,975,547	13,192,453
Municipal infrastructure grant	6,888,121	4,909,083
Other government grants and subsidies	8,275,324	5,888,744
Ndlovini revenue fund	30,031	-
	27,169,023	**23,990,280**

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 of R 55 (2010: R 84), which is funded from the grant.

Unspent grants

Balance unspent at beginning of year	2,960,950	2,960,950
Current-year receipts	1,043,473	-
	4,004,423	**2,960,950**

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

22. Other income

Ward committees	-	6,840
Accommodation	-	8,967
Commission motor registration	174,870	67,337
Pound fees	-	13,492
Burial fees	105,918	88,659
Sundry revenue	1,503,661	653,708
Lost books	59	-
Building plans	34,287	44,182
Clearance and valuation certficate	14,259	14,245
Provision for bad debts - reversal	1,244,918	1,887,685
Discounting for creditors	298,737	-
	3,376,709	**2,785,115**

23. Investment revenue

Interest revenue		
Bank	30,555	56,587
Interest charged on trade and other receivables	2,347,394	3,550,545
	2,377,949	**3,607,132**

The amount included in Investment revenue arising from exchange transactions amounted to R 1,400,702.

The amount included in Investment revenue arising from non-exchange transactions amounted to R 946,692.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Employee related costs

Basic	10,885,274	11,254,244
Bonus	850,062	604,707
Medical aid - company contributions	595,111	617,365
UIF	121,382	114,519
SDL	105,468	116,490
Other payroll levies	7,298	7,272
Post-employment benefits - Pension - Defined contribution plan	1,587,324	1,424,804
Travel, motor car, accommodation, subsistence and other allowances	585,475	581,850
Overtime payments	23,385	45,194
Housing benefits and allowances	36,885	39,914
	14,797,664	**14,806,359**

Remuneration of municipal manager

Annual Remuneration	344,502	334,460
Travel, motor car, accommodation, subsistence and other allowances	236,039	222,956
	580,541	**557,416**

Remuneration of chief finance officer

Annual Remuneration	210,788	194,647
Travel, motor car, accommodation, subsistence and other allowances	276,643	244,629
	487,431	**439,276**

Remuneration of community services officer

Annual Remuneration	212,255	161,669
Travel, motor car, accommodation, subsistence and other allowances	213,539	175,951
	425,794	**337,620**

Corporate and human resources (corporate services)

Annual Remuneration	133,837	189,309
Travel, motor car, accommodation, subsistence and other allowances	97,544	181,707
	231,381	**371,016**

25. Remuneration of councillors

Executive Mayor	19,106	431,604
Councillors	1,284,113	632,778
	1,303,219	**1,064,382**

26. Finance costs

Interest paid on electricity	481,530	-

27. Auditors' remuneration

Fees	1,508,063	1,433,411

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

28. Rental of facilities and equipment

Premises		
Venue hire	60,006	48,514
Facilities and equipment		
Rental of facilities	70,310	66,364
Rental of equipment	925	-
	71,235	**66,364**
	131,241	**114,878**

29. Bulk purchases

Electricity	12,787,127	9,670,193
Bulk purchases reconciliation		
Electricity	13,275,332	9,942,646
Penalty	-	140,335
Interest	390,989	57,497
	13,666,321	**10,140,478**

The amount of electricity purchased during the year under review in terms of Kilowatt units is 21,979,383kwh.

30. Contracted services

Security fees	-	81,158

The service for security on the premises was cancelled in the prior period.

31. Grants and subsidies paid

Other subsidies		
Capital replacement reserve	-	31,166
Finance management	886,785	326,207
General valuation	-	800
Inter governmental	-	3,679
Municipal systems improvement	746,589	656,453
Performance management	2,987	-
Primary health	-	3,125,702
Roads	-	89,099
	1,636,361	**4,233,106**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

32. General expenses

Advertising	67,492	143,338
Agency payments	-	474,550
Assessment rates & municipal charges	-	287,785
Assets expensed	299,514	621,567
Auditors remuneration	1,508,063	1,433,411
Bank charges	145,699	96,300
Bedford garden festival	221,802	144,070
Cleaning	371	-
Community development and training	30,445	28,079
Computer expenses	410	-
Conferences and seminars	-	128,722
Consulting and professional fees	264,406	252,330
Consumables	108,772	478,985
Disposal of RDP houses	6,717,895	-
Entertainment	5,861	26,285
Fines and penalties	109,644	-
Fuel and oil	109,646	229,632
IDP review	22,840	24,452
IT expenses	13,247	106,428
Insurance	2,913	1,121,912
Lease rentals on operating lease	66,156	716,482
Motheo payment	-	214,000
Other	375,636	59,142
Postage and courier	173,569	135,563
Printing and stationery	192,031	267,319
Refuse	26,274	-
Restructuring	-	90,230
Royalties and license fees	26,710	99,819
Service charges-service of amperes	53,757	186,495
Software expenses	6,926	12,745
Subscriptions and membership fees	12,141	1,404
Telephone and fax	416,865	522,542
Tourism development	20,331	4,936
Training	72,497	30,099
Travel - local	213,328	259,356
	11,285,241	**8,197,978**

Figures in Rand	2011	2010

33. Cash generated from operations

	2011	2010
Surplus	9,397,973	10,481,522
Adjustments for:		
Movements in operating lease assets and accruals	(26,622)	57,811
Movements in provisions	46,550	1,020,380
Movement in tax receivable and payable	-	487,408
Reduction in provision for doubtful debts	(7,880,056)	625,556
Bank account not diclosed	(479,171)	479,170
Accounting for VAT	(487,408)	-
Discounting for creditors	(240,137)	-
Changes in working capital:		
Inventories	6,716,887	(6,716,887)
Trade and other receivables from exchange transactions	(424,930)	(5,113,856)
Other receivables from non-exchange transactions	752,873	(5,494,346)
Consumer debtors	-	(41,092)
Trade and other payables from exchange transactions	(244,155)	8,206,745
VAT	(1,108,169)	(193,149)
Unspent conditional grants and receipts	1,043,473	2,960,950
Consumer deposits	295,995	347,083
	7,363,103	**7,107,295**

34. Commitments

Authorised capital expenditure

	2011	2010
Already contracted for but not provided for		
• Infrastructure	6,602,929	1,419,682
• Community	295,982	-
• Other	339,392	-
	7,238,303	**1,419,682**

The committed expenditure relates to infrastructure and will be financed from the sources shown below:

	2011	2010
The expenditure will be financed from:		
- Government Grants	6,898,911	1,419,682
- Own resources	339,392	-
	7,238,303	**1,419,682**

Operating leases - as lessee (expense)

	2011	2010
Minimum lease payments due		
- within one year	268,853	306,281
- in second to fifth year inclusive	202,135	470,988
	470,988	**777,269**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

35. Contingencies

Litigation is in the process against the municipality relating to a dispute with a councillor who is seeking damages of R 150,000.

This refers to the appeal in the High Court of South Africa(Grahamstown),Case No.3930/09. Parties involved are Makhaya Mhaka & Others vs Fikile Ngqwebo. Councillor Fikile Ngqwebo was recalled by the political party. In response to this, the Municipality declared a vacancy and the Councillor was replaced. The Councillor sued the Municipality in order to be re-enstated as a Councillor and he won the case.The council decided to appeal and has now obtained the leave to appeal.

The municipality has a contigent liability arising from operating a landfill site for which they do not have a license for. The closure of waste sites is a listed activity in terms of the list of waste management activities that have, or are likely to have, a detrimental effect on the environment, (Notice 409, 2009), published in terms of section 19(1) of the National Environmental Management Waste Act, Act 58 of 2008.
In light of this, the municipality has a contingent liability in relation to the rehabilitation of land fill sites within the municipality. There is uncertainty regarding the possible cash outflows or their timing. The liabilty does meet the recognition criteria for a contingent liability however the amount cannot be reliably estimated at reporting date.

36. Prior period errors

Other RDP houses were incorrectly classified as inventory. The RDP houses were constructed and distributed to beneficiaries of a housing programme at no consideration before the end of the 2009 financial year. The effect of the error is that inventory and opening accumulated surplus were overstated by an amount of R 8,070,600.

The provision for impairment of debtors calculation has been performed using a different methodology in current year; whereby debtor recovery rates were calculated for each service line, and an impairment calculated based on the non-recovery rate. Government, Municipal, Municipal employees, and Council debts were not impaired as these are deemed recoverable. As a result receivables were understated by R 7,880,057 (R 3,782,763 receivables from exchange transactions; R 4,097,294 receivables from non-exchange transactions).The effect of the change in calculation is that opening balance of debtors is increased by R 7,880,057 while there is a R 6,232,510 reduction in Bad Debts expense to nil. The remaining R 1,647,547 results in an increase in Other Income for prior year.

VAT input worth R 487,408 was not claimed on expenses incurred. As a result the claim from SARS was understated by R 487,408 and the expenditure accounts were overstated by the same amount. After adjustment the result in VAT payable has been reduced fromR 294,259 to nil, while VAT receivable increased from nil to 193,149.

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

Statement of financial position		
Decrease in inventory	-	(8,070,595)
Bank account not previously disclosed	-	479,170
Trade payables from exchange transactions – discounting	-	240,137
Trade Receivables from Exchange Transactions - correction of estimate	-	3,782,763
Other receivables non-exchange transactions - correction of estimate	-	4,097,294
VAT receivable - correctly accounting for input VAT	-	193,149
VAT payable - correctly accounting for input VAT	-	294,259
Decrease in Opening Accumualted Surplus	-	(9,465,343)
Statement of Financial Performance		
Increase in Other Income	-	(1,887,685)
Increase in general expenses	-	7,583,192
Decrease in bad debts expense	-	(6,232,510)
Increase in employee costs	-	116,490

37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Figures in Rand	2011	2010

37. Comparative figures (continued)

Statement of financial position		
Investments in the form of fixed deposits previously classified as a Non-current asset has now been reclassified as a current asset	14,000	47,498

38. 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 in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

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.

39. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R 44,775,414 and that the municipality's total assets exceed its liabilities by R 44,775,414.

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

40. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure	481,530	99,860

This is in respect of penalties relating to license of the council vehicles that were not renewed on time (R 2,732), penalties paid to SARS for late VAT remmitance (R 50,075), interest paid to SARS on the late VAT remmittance (R 3,966), penalties paid to SARS for late PAYE, UIF and SDL remmittances (R 56,837) and interest thereof (R 34,713).

This is in respect of interest expense attracted by the outstanding Audit fees and Eskom accounts amounting to R 51,862 and R 390,000 respectivley.

41. Reconciliation between budget and statement of financial performance

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

Net surplus per the statement of financial performance	9,397,973	10,481,522
Adjusted for:		
Fair value adjustments	(298,737)	-
Increases / decreases in provisions	2,979,168	-
Write-off of inventory houses	6,716,887	-
Net iterest received	(1,948,281)	-
Other adjustments	361,122	-
Variances per department	(7,579,131)	-
Net surplus per approved budget	**9,629,001**	**10,481,522**

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Amount paid - current year	12,061	11,438

Figures in Rand	2011	2010

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

Audit fees

Opening balance	2,196,866	806,613
Current year subscription / fee	1,706,233	1,433,410
Amount paid - current year	(721,283)	(43,157)
	3,181,816	**2,196,866**

PAYE and UIF

Current year subscription / fee	1,556,414	1,231,235
Amount paid - current year	(1,241,445)	(1,231,235)
	314,969	**-**

Pension and Medical Aid Deductions

Current year subscription / fee	2,143,368	1,595,054
Amount paid - current year	(2,182,435)	(1,595,054)
	(39,067)	**-**

VAT

VAT receivable	1,301,318	193,149

VAT output payables and VAT input receivables are shown in note 6 .

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

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

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**
C.A Auld	1,258	8,075	9,333
A.D Bruntjies	421	6,745	7,166
G. De Lange	55	487	542
G.M Jack	267	3,196	3,463
S.A Ndyambo	417	6,688	7,105
Q.P Maloni	308	5,013	5,321
B.P Mentoor	196	6,393	6,589
	2,922	**36,597**	**39,519**

30 June 2010	**Outstanding less than 90 days R**	**Outstanding more than 90 days R**	**Total R**
M. Mana	408	2,770	3,178
T.Ngetu	178	260	438
Z. Maseti	194	1,699	1,893
M.E Makenyane	411	-	411
C.A Auld	3,265	19,738	23,003
E.M Mnqamisa	139	550	689
L.N Mdlungu	123	449	572
W. Mahleza	122	468	590
	4,840	**25,934**	**30,774**

43. Uncertarnity and major assumptions

Impairment of debtors

For the purpose of calculating impairment of debtors we could not assess the impairment of individual debtor, however we have assumed that the risk profile of each major debtor is in line with the national treasury framework guides to municipalities. As such provision for debtors was determined on that basis.

Fair valuing of creditors

The fair value of creditors is determined based on the average number of creditors days at year end and the discount rate used to discount is the prime interest rate as determined by the Reserve bank.

Revenue

Fines

Revenue from fines is assumed not to be material thus it was not deemed necessary to calculate the estimated amount of outstanding fines expected to be collected for accounting purposes at year end.

Prepaid and metered electricity

43. Uncertarnity and major assumptions (continued)

It is assumed that prepaid electricity is consumed by the consumers from the date of purchase, therefore it was deemed not necessary to calculate the amount of prepaid electricity sold but not earned by the municipality at year end. All the prepaid electricity is recognised at the point of sale by the municipality. For metered electricity it is assumed the consumption of electricity from month to month is not materially different hence it was not deemed necessary to reverse the electricity consumption of June for the previous year and estimate consumption for June the following year. The net effect of offsetting both months is deemed to be insignificant. Revenue from pre-paid electricity can only be recognised on a cash basis if a municipality can demonstrate that it is unable to make a reliable estimate of revenue using the methods described above or using other accrual based measures .

Provision for doubtful debts

For the purpose of calculating impairment of debtors we could not assess the impairment of individual debtor, however we have assumed that the risk profile of each major debtor is in line with the national treasury framework guides for municipalities and other assumptions. As such provision for debtors was determined on that basis Iin current and prior year as shown in note 5.

Discounting of creditors

For the purpose of fair valuing creditors the period used represents the avarage payment period calculated as the avarage creditors days. The prime interest rate as published by South African Reseve Bank was used used at year end to determine the fair value..

44. Major losses

During the year the municipality has incurred material losses due to electricity theft and ageing of electricity infrastructure within the municipality. The estimated amount of losses is R 7,679,458.