



Inxuba Yethemba Municipality
Annual Financial Statements
for the year ended 30 June 2011

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

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Abbreviations

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

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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 responsible for reporting on the fair presentation of the annual financial statements.

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 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 loss 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 municipality is largely dependent on the national and provincial government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the national and provincial governments has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 3 to 53, 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. LS Tukwayo (Acting Accounting Officer)

31 August 2011

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Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	4	756 911	-
Trade and other receivables from exchange transactions	5	4 786 689	16 075 477
Trade and other receivables from non exchange transactions	6	4 295 746	25 508 367
Cash and cash equivalents	7	1 447 410	5 344 232
		11 286 756	46 928 076
Non-Current Assets			
Property, plant and equipment	8	32 034 518	5 991 228
Investments in controlled entities	11	100	100
Other financial assets	12	7 915	7 707
Intangible assets	9	5 947	-
		32 048 480	5 999 035
Total Assets		43 335 236	52 927 111
Liabilities			
Current Liabilities			
Bank overdraft	7	11 527 575	4 229 315
Other financial liabilities	13	293 798	438 764
Trade and other payables	14	17 506 462	20 180 224
Chris Hani Agency Account	15	25 798 922	25 570 511
VAT payable	16	12 311 357	10 571 848
Consumer deposits	17	902 656	845 833
Unspent conditional grants and receipts	18	4 083 382	9 151 015
		72 424 152	70 987 510
Non-Current Liabilities			
Other financial liabilities	13	1 642 450	1 853 594
Employee benefit obligation	19	25 032 502	25 155 894
Provisions	20	292 829	192 811
		26 967 781	27 202 299
Total Liabilities		99 391 933	98 189 809
Net Assets		(56 056 697)	(45 262 698)
Net Assets			
Accumulated surplus		(56 056 697)	(45 262 698)

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Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	24	15 988 442	14 510 524
Service charges	25	59 610 333	54 086 451
Rental of facilities and equipment		1 572 040	1 403 467
Fines		159 647	170 065
Licences and permits		1 071 431	1 027 972
Government grants and subsidies	26	71 661 329	60 047 906
Fees earned		1 054 009	1 097 391
Commissions received		125 322	123 469
Other income		2 284 330	834 106
Interest received - investment	31	5 074 627	639 188
Dividends received	31	-	234
Total Revenue		158 601 510	133 940 773
Expenditure			
Employee related costs	29	(48 221 676)	(46 526 228)
Remuneration of councillors	30	(4 906 614)	(4 265 368)
Finance costs	32	(426 814)	(391 010)
Debt impairment		(41 457 130)	-
Repairs and maintenance		(3 149 671)	(2 279 160)
Bulk purchases	37	(36 418 803)	(26 744 618)
Contracted services	35	(309 818)	(386 240)
Grants and subsidies paid	36	(17 202 350)	(16 479 211)
General Expenses	28	(18 350 866)	(11 164 155)
Total Expenditure		(170 443 742)	(108 235 990)
Gain on disposal of assets and liabilities		1 440 429	163 541
Fair value adjustments		-	(14 611)
Actuarial adjustments		-	(37 874)
(Deficit) surplus for the year		(10 401 803)	25 815 839

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	(51 999 431)	(51 999 431)
Changes in net assets		
Surplus for the year	25 815 839	25 815 839
Contribution to impairment allowance account	(19 079 107)	(19 079 107)
Adjustment internal loans	(1 264 077)	(1 264 077)
Adjustment to reflect entity transaction	16 865	16 865
Inventory adjustment	(74 026)	(74 026)
Other appropriation transactions	(8 925 967)	(8 925 967)
Share holding in entity	100	100
Adjustment to post retirement medical aid.	845 003	845 003
Prior year adjustments	9 402 095	9 402 095
Total changes	6 736 725	6 736 725
Balance at 01 July 2010	(45 262 706)	(45 262 706)
Changes in net assets		
Deficit for the year	(10 401 803)	(10 401 803)
Transactions posted to appropriation account	(392 188)	(392 188)
Total changes	(10 793 991)	(10 793 991)
Balance at 30 June 2011	(56 056 697)	(56 056 697)

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Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		88 627 072	76 497 098
Grants		66 593 696	60 047 906
Dividends received		-	234
Other receipts		25 545 979	15 062 522
		<u>180 766 747</u>	<u>151 607 760</u>
Payments			
Employee costs		(53 251 682)	(50 791 595)
Suppliers		(19 462 866)	(57 053 386)
Other payments		(98 537 768)	(31 124 421)
		<u>(171 252 316)</u>	<u>(138 969 402)</u>
Net cash flows from operating activities	38	<u>9 514 431</u>	<u>12 638 358</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(26 043 290)	(5 991 228)
Proceeds from sale of property, plant and equipment	8	1 440 429	163 541
Net movement of financial assets		(208)	(294)
Defined benefit pension fund actuarial gains		-	(37 874)
Other cash item		(398 140)	-
		<u>(25 001 209)</u>	<u>(5 865 855)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(356 110)	(583 777)
Interest income		5 074 627	639 188
Finance costs		(426 814)	(391 010)
		<u>4 291 703</u>	<u>(335 599)</u>
Net increase/(decrease) in cash and cash equivalents		(11 195 075)	6 436 904
Cash and cash equivalents at the beginning of the year		1 114 917	(5 742 661)
Effect of correction on CHDM Agency Account		-	420 674
Cash and cash equivalents at the end of the year	7	<u>(10 080 158)</u>	<u>1 114 917</u>

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Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1. Presentation of Annual Financial Statements

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

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand, which is the functional currency of the municipality.

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

These accounting policies are consistent with the previous period, except for the changes set out in note 2. Changes in accounting policy

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 each statement of financial position date. In determining whether an impairment loss should be recorded in the statement of financial performance, the municipality 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.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list municipality specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

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 20 - Provisions.

Useful lives of assets

The municipality's management determines the estimated useful lives and related depreciation charges. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Inxuba Yethemba Municipality

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

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

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 (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services, or for
- administrative purposes, or for
- 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, and only when, it is probable that the future economic benefits that are associated with the investment property will flow to the enterprise, and the cost of the investment property can be measured reliably.

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

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.

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.

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.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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.

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Accounting Policies

1.2 Investment property (continued)

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

- property that is held under an operating lease may be classified and accounted for as investment property if, the property would otherwise meet the definition of an investment property; and
- the municipality uses the fair value model.

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

- property intended for sale in the ordinary course of operations or in the process of construction or development for such sale are classified as inventory;
- owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property are classified as property, plant and equipment;
- property that is being constructed or developed for future use as investment property. The Standard of GRAP on Property, Plant and Equipment applies to such property until construction or development is complete, at which time the property becomes investment property;
- property held to provide a social service and which also generates cashinflows are classified as property, plant and equipment.

Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 10. The transitional provision expires on 30 June 2012.

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

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

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

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.

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Accounting Policies

1.3 Property, plant and equipment (continued)

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

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

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

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 municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

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

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

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

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

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. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

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

Item	Average useful life
Buildings	20-60 years
Plant and machinery	3-10 years
Furniture and fixtures	3-10 years
Motor vehicles	3-20 years
Office equipment	3-7 years
Roads	20 years
Other property, plant and equipment	3-12 years
Electricity	10-50 years
Other equipment	3-10 years
Security measures	3 years

The useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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Accounting Policies

1.3 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

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

The gain or loss arising from the derecognition of an item of Intangible assets 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.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 8.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.4 Site restoration and dismantling cost

The company has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

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Accounting Policies

1.4 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period.
- 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 municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an municipality 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 that are attributable to the asset will flow to the municipality; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

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.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these property, plant and equipment. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a definite 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
Computer software	3 years

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Accounting Policies

1.6 Investments in controlled entities

Investments in controlled entities are carried at cost less any accumulated impairment.

The cost of an investment in a subsidiary is the aggregate of:

- the fair value, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the municipality; plus
- any costs directly attributable to the purchase of the subsidiary.

1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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.

A financial asset is:

- cash; or
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Trade and other receivables from non-exchange transactions	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Borrowings	Financial liability measured at amortised cost
Trade and other payables	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured 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. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.7 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognises either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the municipality adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Inxuba Yethemba Municipality

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Accounting Policies

1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.8 Leases

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

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Operating leases - lessor

Operating lease income is recognised as an income 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 income.

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

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

Transitional provision

The municipality changed its accounting policy for leases in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

Inxuba Yethemba Municipality

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Accounting Policies

1.8 Leases (continued)

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on leases. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leases was acquired through a transfer of functions, the municipality is not required to measure that inventories 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.

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

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Inventory GRAP (19),
- 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 leases implies that any associated presentation and disclosure requirements need not be complied with for inventories not measured in accordance with the requirements of the Standard of GRAP on leases.

1.9 Inventories

Inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and net realisable value on the first-in-first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of reporting date comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Transitional provision

The municipality changed its accounting policy for leases in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 4. The transitional provision expires on 30 June 2012.

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.9 Inventories (continued)

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

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

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

1.10 Impairment of cash-generating assets

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

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

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

1.11 Impairment of non-cash-generating assets

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

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

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

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

Inxuba Yethemba Municipality

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Accounting Policies

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

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

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.12 Employee benefits

Defined contribution plans

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

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

Defined benefit plans

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

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

Consideration is given to any event that could impact the funds up to statement of financial position date where the interim valuation is performed at an earlier date.

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In the statement of financial performance, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

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

1.13 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.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.13 Provisions and contingencies (continued)

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 a municipality 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 a municipality:

- has a detailed formal plan for the restructuring and identifying of 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;
 - when the plan will be implemented;
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

1.14 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.

Inxuba Yethemba Municipality

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Accounting Policies

1.14 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.

Interest, royalties and dividends

Revenue arising from the use by others of municipality 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.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends, or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

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

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Inxuba Yethemba Municipality

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Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another municipality in exchange.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

The municipality recognises revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

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Accounting Policies

Revenue arising from debt forgiveness is measured at the fair value of the debt forgiven. Where debt is carried at a value other than fair value, the receivable is recognised at the carrying amount.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised as revenue.

1.16 Investment income

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

1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an municipality directly to the nature of the expenditure to be funded i.e. capital or current.

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

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote;
- 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.

1.20 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.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.21 Irregular expenditure (continued)

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

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

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

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

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

1.22 Use of Estimates

The preparation of annual financial statements in conformity with Generally Recognised Accounting Practice 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.

1.23 Presentation of Currency

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

1.24 Offsetting

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

1.25 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance.

1.26 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, unconditional grants are recognised as a liability (creditor - unutilised conditional grants). This creditor always has to be backed by cash. The following provisions are set for the creation and utilisation of this creditor:

- Whenever an asset is purchased out of the unutilised conditional grant an amount equal to the cost price of the asset purchased is transferred from the unutilised conditional grant into the statement of financial performance as revenue.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Accounting Policies

1.27 Budget information

The Municipality is typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the annual financial statements. Refer to note 46.

1.28 Value Added Tax

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

1.29 Related parties

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the withdrawal of the following new or revised standards as per Directive 5 as issued by the Accounting Standard Board and for the adoption of the following new or revised standards.

- IAS 32 Financial Instruments: Presentation withdrawn.
- IAS 39 Financial instruments: Recognition and Measurement withdrawn.
- IFRS 7 Financial instruments: Disclosures withdrawn.
- Policy for Financial Instruments based on GRAP 104 adopted.
- Policies for Impairments based on GRAP 21 and GRAP 26 adopted.
- IAS 19 Employee Benefits withdrawn but the municipality opted to continue until GRAP 25 becomes operative.
- Policy for Non-exchange Transactions based on GRAP 23 adopted.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations

3.1 Standards and interpretations issued, not yet effective but relevant

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 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

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

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

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality and a financial liability or residual interest in another municipality. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle a municipality to a portion of another municipality's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, a municipality considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Concessionary loans are loans either received by or granted to another municipality on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. A municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. A municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, a municipality can however designate such an instrument to be measured at fair value.

A municipality can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once a municipality has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, a municipality has transferred control of the asset to another municipality.

A municipality derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where a municipality modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

A municipality cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for a municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. A municipality is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality expects to adopt the standard for the first time in the 2014 annual financial statements.

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

3.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2011 or later periods but are not relevant to its operations:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the 'Statement of Comparison of Budget and Actual Amounts'. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 103: Heritage Assets

GRAP 103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Certain heritage assets are described as inalienable items thus assets which are retained indefinitely and cannot be disposed of without consent as required by law or otherwise.

A heritage asset should be recognised as an asset only if:

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

The standard required judgment in applying the initial recognition criteria to the specific circumstances surrounding the entity and the assets.

GRAP 103 states that a heritage asset should be measured at its cost unless it is acquired through a non-exchange transaction which should then be measured at its fair value as at the date of acquisition.

In terms of the standard, an entity has a choice between the cost and revaluation model as accounting policy for subsequent recognition and should apply the chosen policy to an entire class of heritage assets.

The cost model requires a class of heritage assets to be carried at its cost less any accumulated impairment losses.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

The revaluation model required a class of heritage assets to be carried at its fair value at the date of the revaluation less any subsequent impairment losses. The standard also states that a restriction on the disposal of a heritage asset does not preclude the entity from determining the fair value.

GRAP 103 prescribes that when determining the fair value of a heritage asset that has more than one purpose, the fair value should reflect both the asset's heritage value and the value obtained from its use in the production or supply of goods or services or for administrative purposes.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase should be credited directly to a revaluation surplus. However, the increase should be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit. If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease should be recognised in surplus or deficit. However, the decrease should be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

GRAP 103 states that a heritage asset should not be depreciated but an entity should assess at each reporting date whether there is an indication that it may be impaired.

In terms of the standard, compensation from third parties for heritage assets that have been impaired, lost or given up, should be included in surplus or deficit when the compensation becomes receivable.

For a transfer from heritage assets carried at a revalued amount to property, plant and equipment, investment property, inventories or intangible assets, the asset's deemed cost for subsequent accounting should be its revalued amount at the date of transfer. The entity should treat any difference at that date between the carrying amount of the heritage asset and its fair value in the same way as a revaluation in accordance with this Standard. If an item of property, plant and equipment or an intangible asset carried at a revalued amount, or investment property carried at fair value is reclassified as a heritage asset carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that asset. For a transfer from investment property carried at fair value, or inventories to heritage assets at a revalued amount, any difference between the fair value of the asset at that date and its previous carrying amount should be recognised in surplus or deficit.

The carrying amount of a heritage asset should be derecognised:

- on disposal, or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 21: Impairment of non-cash-generating assets

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

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

A municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

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

- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 26: Impairment of cash-generating assets

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

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

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, a municipality estimates the recoverable amount of the asset. When estimating the value in use of an asset, a municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and a municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, a municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

A municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, a municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2012.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

GRAP 25: Employee benefits

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

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

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
 - pool the assets contributed by various entities that are not under common control; and
 - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
 - an entity'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;

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

3. New standards and interpretations (continued)

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

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
 - All short-term employee benefits;
 - Short-term compensated absences;
 - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:

- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:

- Present value of defined benefit obligations and current service cost:
 - Actuarial valuation method;
 - Attributing benefits to periods of service;
 - Actuarial assumptions;
 - Actuarial assumptions: Discount rate;
 - Actuarial assumptions: Salaries, benefits and medical costs;
 - Actuarial gains and losses;
 - Past service cost.
- Plan assets:
 - Fair value of plan assets;
 - Reimbursements;
 - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

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

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
4. Inventories		
Consumable stores	743 417	-
Fuel (Diesel, Petrol)	13 494	-
	756 911	-
Transitional provisions		
Inventories recognised at provisional amounts		
In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note 2, certain inventories with a carrying value of R 756 911 (2010: R -) was recognised at provisional amounts.		
5. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	5 832 218	3 843 656
Refuse	27 752 032	23 697 099
Other	4 460 367	4 256 476
	38 044 617	31 797 231
Less: Allowance for debt impairment		
Electricity	(2 692 349)	(1 165 186)
Refuse	(26 305 082)	(10 636 729)
Other	(4 260 497)	(3 919 839)
	(33 257 928)	(15 721 754)
Net balance		
Electricity	3 139 869	2 678 470
Refuse	1 446 950	13 060 370
Other	199 870	336 637
	4 786 689	16 075 477
Electricity		
Current (0 -30 days)	3 032 958	1 723 647
31 - 60 days	106 911	132 849
61 - 90 days	201 091	167 403
91 - 120 days	198 526	183 603
121 - 365 days	1 520 280	-
> 365 days	772 452	1 636 154
	5 832 218	3 843 656
Refuse		
Current (0 -30 days)	1 175 471	593 249
31 - 60 days	271 479	358 880
61 - 90 days	272 253	356 388
91 - 120 days	271 795	-
121 - 365 days	10 417 267	-
> 365 days	15 343 767	22 388 582
	27 752 032	23 697 099

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
5. Trade and other receivables from exchange transactions (continued)		
Sundry debtors		
Current (0 -30 days)	180 705	-
31 - 60 days	19 111	-
61 - 90 days	19 709	-
91 - 120 days	25 880	-
121 - 365 days	1 591 110	-
> 365 days	2 623 852	4 256 476
	4 460 367	4 256 476
Reconciliation of allowance for debt impairment		
Balance at beginning of the year	(15 721 754)	(12 291 046)
Contributions to provision	(17 536 174)	(3 430 708)
	(33 257 928)	(15 721 754)
Credit quality of consumer debtors		
The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.		
6. Trade and other receivables from non exchange transactions		
Government subsidies	2 370 118	2 370 118
Other receivables	511 598	257 222
Services paid in advance	(897 827)	(398 087)
Employee costs in advance	37 844	-
Property rates	34 798 361	31 890 163
Entity (Mmotlie inv)	16 864	16 864
Provision for impairment - rates	(32 541 212)	(8 627 913)
	4 295 746	25 508 367
Property rates		
Property rates	34 798 361	31 890 163
Provision for debt impairments	(32 541 212)	(8 627 913)
	2 257 149	23 262 250
Property rates		
Current (0 -30 days)	1 899 924	683 112
31-60 days	357 225	312 758
61-90 days	227 512	281 378
91-120 days	241 124	-
>120 days	32 072 576	30 612 915
	34 798 361	31 890 163
Provision for debt impairment: Property rates		
Impairment balance prior year	(8 627 913)	(6 151 365)
Contribution	(23 913 299)	(2 476 548)
	(32 541 212)	(8 627 913)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
7. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	4 585	5 620
Short-term deposits	1 442 825	5 338 612
Bank overdraft	(11 527 575)	(4 229 315)
	(10 080 165)	1 114 917
Current assets	1 447 410	5 344 232
Current liabilities	(11 527 575)	(4 229 315)
	(10 080 165)	1 114 917

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Although credit quality can be assessed the municipality did not apply any methods to evaluate the credit quality.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2011	30 June 2010	30 June 2011	30 June 2010
First National Bank - Main account - acc no 51980028125	(3 935 456)	(2 697 299)	(13 735 265)	(6 333 004)
First National Bank - Eskom account - acc no 51981035195	16 052	10 404	2 207 690	2 179 461
Total	(3 919 404)	(2 686 895)	(11 527 575)	(4 153 543)

Investments unlisted - short-term

Nedbank	7 915	-
First National Bank - Various	772 194	2 445 533
First National Bank - Chris Hani agency account	38 667	226 806
Standard bank	503 943	2 387 422
ABSA bank	366 028	505 658
	1 688 747	5 565 419

8. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Electricity	16 632 938	-	16 632 938	-	-	-
Roads	10 325 105	-	10 325 105	4 305 609	-	4 305 609
Furniture and fixtures	42 585	-	42 585	25 200	-	25 200
Office equipment	114 040	-	114 040	50 999	-	50 999
Plant and machinery	24 383	-	24 383	-	-	-
Motor vehicles	2 724 611	-	2 724 611	-	-	-
Capital work in progress	2 170 856	-	2 170 856	1 609 420	-	1 609 420
Total	32 034 518	-	32 034 518	5 991 228	-	5 991 228

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Plant and machinery	-	24 383	24 383
Furniture and fixtures	25 200	17 385	42 585
Motor vehicles	-	2 724 611	2 724 611
Office equipment	50 999	63 041	114 040
Roads	4 305 609	6 019 496	10 325 105
Electricity	-	16 632 938	16 632 938
Capital work in progress	1 609 420	561 436	2 170 856
	5 991 228	26 043 290	32 034 518

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Furniture and fixtures	-	25 200	25 200
Office equipment	-	50 999	50 999
Roads	-	4 305 609	4 305 609
Capital work in progress	-	1 609 420	1 609 420
	-	5 991 228	5 991 228

Pledged as security

No assets were pledged as security.

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 2, certain property, plant and equipment with a carrying value of R 32 034 518 (2010: R 5 991 228) was recognised at cost. These amounts only represents the additions for 2010 and 2011. The balances of assets acquired before 1 July 2008 were adjusted to R0.

Due to initial adoption of GRAP 17

Steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17 is:

Infrastructure assets in respect of roads and electricity as at 30 June 2009 were determined by qualified engineers. Properties were valued but are not finalised yet. Moveable assets were determined and the additions have been accounted for.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

9. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 947	-	5 947	-	-	-

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

9. Intangible assets (continued)

Reconciliation of intangible assets - 2011

	Opening balance	Other changes, movements	Total
Computer software	-	5 947	5 947

Reconciliation of intangible assets - 2010

	Opening balance	Total
Computer software	-	-

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	-	-	-	-	-	-

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.

Transitional provisions

Investment property recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework certain investment property were identified on the fixed asset register but were recognised at R0 provisional amounts.

11. Investments in controlled entities

Name of company	Held by	% holding 2011	% holding 2010	Carrying amount 2011	Carrying amount 2010
Mmotlie investments (Pty) Ltd	Inxuba Yethemba	100.00 %	100.00 %	100	100

The carrying amounts of subsidiaries are shown net of impairment losses.

12. Other financial assets

Loans and receivables

Loans and receivables	7 915	7 707
Collateral deposits		

Non-current assets

Loans and receivables	7 915	7 707
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The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
12. Other financial assets (continued)		
The creation and release of provision for impairment receivables have been included in operating expenses in surplus or deficit (note 5). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.		
The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.		
13. Other financial liabilities		
Held at amortised cost		
ABSA Loan	-	462 132
This loan bore interest linked to prime and has been fully repaid.		
DBSA Loan	1 936 248	1 830 226
This loan bears interest at 12% per annum and is repayable over 5 years.		
	1 936 248	2 292 358
Non-current liabilities		
At amortised cost	1 642 450	1 853 594
Current liabilities		
At amortised cost	293 798	438 764
	1 936 248	2 292 358
14. Trade and other payables		
Trade payables	2 513 281	1 827 175
Other payables	8 366 767	6 415 813
Accrued leave pay	2 679 703	3 029 551
Deposits received	272 308	118 460
Unallocated receipts	2 952 621	8 067 446
Employee related payables	721 779	721 779
	17 506 459	20 180 224
15. Chris Hani District Municipality Agency Account		
Agency account accumulated transactions	25 798 922	25 570 511
16. VAT payable		
Tax refunds payables	12 311 357	10 571 849
17. Consumer deposits		
Electricity	902 656	845 833
18. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises:		

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
18. Unspent conditional grants and receipts (continued)		
Unspent conditional grants and receipts		
Unspent grant - Government	1 569 124	6 265 899
Unspent grant - Provincial	1 037 080	1 791 568
Unspent grant - Public	1 477 178	1 093 548
	4 083 382	9 151 015
Non-current liabilities	-	-
Current liabilities	4 083 382	9 151 015
	4 083 382	9 151 015

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

19. Employee benefit obligations

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	25 155 894	22 826 695
Contributions by plan participants	(123 392)	(1 077 746)
Net expense recognised in the statement of financial performance	-	3 406 945
Closing balance	25 032 502	25 155 894

Net expense recognised in the statement of financial performance

Current service cost	-	1 520 134
Interest cost	-	1 848 937
Actuarial (gains) losses	-	37 874
Total included in employee related costs	-	3 406 945

Key assumptions used

Assumptions used at the reporting date:

Discount rate	- %	6.36 %
investment return	- %	6.42 %
Long term medical inflation	- %	5.36 %

The projected unit credit method valuation method were applied. This method is based on the idea that the post-retirement benefit is notionally built up over the employees working life.

The municipality did not make use of the "corridor method".

The amount of the liability shown in the balance sheet is the present value of the obligation less the fair value of any plan assets held in respect of the post-retirement medical scheme. There are no plan assets in this valuation.

Other assumptions

Assumed health care cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

19. Employee benefit obligations (continued)

Defined contribution plan

It is the policy of the municipality to provide medical aid retirement benefits to all its employees that qualify.

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

The municipality has an obligation to contribute to any actuarial shortfalls of the pension fund.

The required information for employee benefit obligations was not available by 31 August 2011. As soon as this information is made available it will be incorporated into the financial statements.

20. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Performance bonus	192 811	369 954	(269 936)	292 829

Reconciliation of provisions - 2010

	Opening Balance	Utilised during the year	Total
Performance bonus	247 918	(55 107)	192 811

No provision for the rehabilitation of landfill sites were disclosed in terms of applying Directive 4, as issued by the Accounting Standards Board. Refer note 39 contingencies.

21. Financial assets by category

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

2011

	Financial assets at amortised cost	Total
Other financial assets	7 915	7 915
Trade and other receivables	4 786 688	4 786 688
Other receivables from non-exchange transactions	2 257 149	2 257 149
Cash and cash equivalents	1 447 411	1 447 411
	8 499 163	8 499 163

2010

	Amortisation	Total
Other financial assets	7 707	7 707
Trade and other receivables	16 075 476	16 075 476
Other receivables from non-exchange transactions	23 262 250	23 262 250
Cash and cash equivalents	5 344 232	5 344 232
	44 689 665	44 689 665

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand 2011 2010

22. 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
Other financial liabilities	1 936 248	1 936 248
Trade and other payables	10 880 056	10 880 056
Bank overdraft	11 527 575	11 527 575
	24 343 879	24 343 879

2010

	Financial liabilities at amortised cost	Total
Other financial liabilities	2 292 358	2 292 358
Trade and other payables	8 242 988	8 242 988
Bank overdraft	4 229 315	4 229 315
	14 764 661	14 764 661

23. Revenue

Property rates	15 988 442	14 510 524
Service charges	59 610 333	54 086 451
Rental of facilities & equipment	1 572 040	1 403 467
Fines	159 647	170 065
Licences and permits	1 071 431	1 027 972
Government grants & subsidies	71 661 329	60 047 906
	150 063 222	131 246 385

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

Service charges	59 610 333	54 086 451
Rental of facilities & equipment	1 572 040	1 403 467
Licences and permits	1 071 431	1 027 972
	62 253 804	56 517 890

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

Taxation revenue

Property rates	15 988 442	14 510 524
Fines	159 647	170 065

Transfer revenue

Government grants and subsidies	71 661 329	60 047 906
	87 809 418	74 728 495

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
24. Property Rates		
Rates received		
All	17 630 968	18 308 008
Less: Income forgone	(1 642 526)	(3 797 484)
	15 988 442	14 510 524

Valuations

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

A general rate is applied to property valuations to determine assessment rates which may vary according to the type of property. The assessment rates are as follows: Residential properties - 0.83%, Accommodation establishments - 0.94%, Business properties - 0.94%, Public service infrastructure - 0.21%, Learning institutions - 1.65%, State owned property - 0.99% and Agricultural properties - 0.06%. Rebates of 13% (2010: 13%) are granted to residential property owners.

Rates are levied on an annual basis with the final date for payment being 30 September 2011 (30 September 2010). Interest at prime plus 1% per annum (2010: 1%) is levied on late payments.

25. Service charges

Sale of electricity	48 113 725	43 525 957
Refuse removal	11 496 608	10 560 494
	59 610 333	54 086 451

The information relating to distribution losses was not available by 31 August 2011. When this information becomes available it will be incorporated into the financial statements of the municipality.

26. Government grants and subsidies

Equitable share	34 248 460	26 657 611
Provincial grants PPE	8 865 740	7 283 812
Government grant - other	28 547 129	26 106 483
	71 661 329	60 047 906

Equitable Share

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

27. Other revenue

Fees earned	1 054 009	1 097 391
Commissions received	125 322	123 469
Other income	2 284 330	834 106
	3 463 661	2 054 966

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
28. General expenses		
Advertising	120 522	177 950
Auditors remuneration	2 836 417	2 294 840
Bank charges	489 156	655 908
Chemicals	21 988	14 967
Commission paid	735 727	543 977
Conferences and seminars	21 710	7 718
Consulting and professional fees	408 933	263 832
Consumables	513 713	418 552
Departmental service levy	2 130 785	2 916 836
Entertainment	1 650	27 095
Hire	255 174	266 676
IT expenses	1 335 602	1 033 164
Indigents	89 191	56 184
Insurance	1 327 368	1 214 832
Interest on post retirement medical aid	-	1 848 937
Lease rentals on operating lease	11 659	478 698
Motor vehicle expenses	2 626 390	2 797 083
Other expenses	526 154	(9 157 949)
Postage and courier	584 983	602 610
Printing and stationery	326 421	366 501
Protective clothing	191 850	18 218
Security (Guarding of municipal property)	403	32 873
Service cost post retirement medical aid	-	1 520 134
Subscriptions and membership fees	51 894	24 253
Telephone and fax	2 317 676	2 064 404
Tourism development	174 608	160 293
Training	66 745	28 969
Travel - local	695 397	486 600
Veterinary department	488 750	-
	18 350 866	11 164 155
Other expenses		
Aids	-	8 710
Allowances - Audit Committee	46 766	43 254
CDW	4 800	1 320
Communication Section	39 339	-
Community Liason	9 397	3 631
Condemnation Pit	5 153	361
Connection Costs	-	2 583
Deeds Transfers	14 803	23 480
Disaster Management	15 610	-
Election Expenses	60 091	-
FBE	1 131 001	1 049 993
Flush Masters	2 598	4 165
Grant Expenditure	508 913	78 112
Interest On Creditor Accounts	14 930	12 760
Levy-Compensation Commissioner	119	-
Licence Fees	23 922	11 331
Pauper Burials	11 179	13 846
Public Participation Costs	198 069	50 999
Special programm	176 644	143 586
Strategy	29	-
Supporting Services	(1 742 240)	(10 606 081)
Ward meetings	610	-
Website	4 421	-
	526 154	(9 157 950)

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
29. Employee related costs		
Basic	32 625 312	31 696 357
Medical aid - company contributions	1 898 147	1 885 098
UIF	339 532	331 612
SDL	523 420	435 672
Other payroll levies	1 204 913	1 130 925
Group Life Insurance	28 321	31 794
Levy Bargaining Council	15 957	15 833
Performance incentive	393 953	121 842
Post-employment benefits - Pension - Defined contribution plan	5 005 532	4 882 551
Overtime payments	1 756 396	1 609 049
13th Cheques	2 367 505	2 103 561
Car allowance	1 871 252	1 856 063
Housing benefits and allowances	124 535	176 316
Entertainment	5 674	5 620
Other allowance	53 451	105 925
Telephone	-	440
Uniform	7 776	137 570
	48 221 676	46 526 228
Remuneration of municipal manager		
Annual Remuneration	829 380	764 541
Performance Bonuses	58 057	-
	887 437	764 541
Remuneration of chief finance officer		
Annual Remuneration	670 776	618 334
Performance Bonuses	46 954	-
	717 730	618 334
Other directors		
Annual Remuneration	2 683 104	1 855 002
Performance Bonuses	187 817	-
	2 870 921	1 855 002
30. Remuneration of councillors		
Executive Mayor	622 685	575 051
Mayoral Committee Members	1 016 349	820 737
Speaker	270 170	241 130
Councillors	2 259 100	2 202 230
Councillors' pension contribution	738 310	426 220
	4 906 614	4 265 368

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
31. Investment revenue		
Dividend revenue		
Listed financial assets - Local	-	234
Interest revenue		
Unlisted financial assets	151 639	135 050
Interest charged on trade and other receivables	4 922 988	504 138
	5 074 627	639 188
	5 074 627	639 422
32. Finance costs		
Non-current borrowings	340 246	284 878
Bank	86 568	106 132
	426 814	391 010
33. Auditors' remuneration		
Fees	2 836 417	2 294 840
34. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	1 527 010	1 355 792
Rental of equipment	45 030	47 675
	1 572 040	1 403 467
35. Contracted Services		
Other Contractors	309 818	386 240
36. Grants and subsidies paid		
Other subsidies		
Grants	17 053 160	16 370 476
Grants in aid	149 190	108 735
	17 202 350	16 479 211
37. Bulk purchases		
Electricity	36 418 803	26 744 618

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
38. Cash generated from operations		
(Deficit) surplus	(10 401 803)	25 815 839
Adjustments for:		
Gain on sale of assets and liabilities	(1 440 429)	(163 541)
Actuarial adjustments	-	37 874
Fair value adjustments	-	14 611
Interest income	(5 074 627)	(639 188)
Finance costs	426 814	391 010
Debt impairment	41 457 130	-
Movements in retirement benefit assets and liabilities	(123 392)	2 329 199
Movements in provisions	100 018	(55 108)
Adjustment for entity transactions	-	16 965
Post medical aid adjustment	-	845 003
Other non-cash items	-	(8 925 971)
Contribution to impairment allowance	-	(19 079 107)
Adjustment to transactions incorrectly allocated	-	(1 264 077)
Adjustment of inventory balance	-	(74 025)
Changes in working capital:		
Inventories	(756 911)	-
Trade and other receivables from non exchange transactions	21 212 621	(605 526)
Consumer debtors	(30 168 342)	(155 319)
Trade and other payables	(2 673 757)	7 111 128
VAT	1 739 508	3 293 591
Taxes and transfers payable (non exchange)	228 411	-
Unspent conditional grants and receipts	(5 067 633)	3 677 399
Consumer deposits	56 823	67 601
	9 514 431	12 638 358

39. Contingencies

The rehabilitation of landfill sites in Cradock and Middelburg will cost an estimated R78m after closure in +/- 15 years.

40. Related parties

Relationships

Mmotlie Investments Proprietary Limited Refer to note 11

Related party balances

Amounts included in Trade receivable (Trade payable) regarding related parties

Mmotlie Investments Proprietary Limited 16 864 16 864

Share issues

Mmotlie Investments Proprietary Limited 100 100

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
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41. Prior period errors

Correction of transfers to Chris Hani District Municipality Agency account R0

The correction of the error(s) resulted in R0 after the opening balances of the Chris Hani Agency Account were adjusted to R0:

Statement of financial position

Chris Hani Agency Account	40 587 279	-
Sewerage and Water debtors	41 682 450	-
Unappropriated Surplus	(35 135 181)	-
Opening Accumulated Surplus or Deficit	(47 555 223)	-
Short term deposits	420 675	-
	<hr/>	<hr/>
	-	-

42. Comparative figures

Certain comparative figures have been reclassified.

43. Risk management

Liquidity risk

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

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

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

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used.

44. Going concern

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

45. Events after the reporting date

The information relating to Employee benefit obligations was not available by 31 August 2011. When this information becomes available it will be incorporated into the financial statements of the municipality.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
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46. Reconciliation between budget and statement of financial performance

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

Net (deficit) surplus per the statement of financial performance	(10 401 803)	25 815 839
Adjusted for:		
Underspent on expenditure	(23 464 203)	-
Allowance for debt impairment	41 457 130	-
Shortfall on income	32 891 989	-
Other movements and journals	(1 405 793)	-
Net surplus per approved budget	39 077 320	25 815 839

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	673 721	-
Amount paid - current year	(673 721)	-
	-	-

Audit fees

Opening balance	828 217	-
Current year subscription / fee	2 836 417	2 294 840
Amount paid - current year	(2 622 825)	-
Amount paid - previous years	-	(1 466 623)
	1 041 809	828 217

PAYE and UIF

Current year subscription / fee	6 780 674	-
Amount paid - current year	(6 263 292)	-
	517 382	-

Pension and Medical Aid Deductions

Current year subscription / fee	13 440 503	-
Amount paid - current year	(12 374 062)	-
	1 066 441	-

VAT

VAT payable	12 311 357	10 571 849
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All VAT returns were submitted by the due date throughout the year.

Councillors' arrear consumer accounts

There were no accounts in arrears on 30 June 2011.

48. Unauthorised expenditure

Unauthorised expenditure	7 575 615	-
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No disciplinary steps were taken as a consequence of above expenditure.

Inxuba Yethemba Municipality

Annual Financial Statements for the year ended 30 June 2011

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
49. Fruitless and wasteful expenditure		
Fruitless and wasteful expenditure	4 104	-