Gariep Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

The Office of the Auditor-General : South Africa
Issued 31 August 2011

General Information

Legal form of entity	Providing a variety of serivces and maintaining the best interest of the local community in the "Gariep" area
Nature of business and principal activities	An organ of state within the local sphere of government exercising legislative and executive authority
Mayoral committee	
Executive Mayor	NW Ngoqo
Councillors	SB Kolase
	E Brien
	MK Mnyombolo
	TZ Notyeke
	N Mabunu
	B Kweyiya
	P Kayster
	AM Van Zyl
	NTT Kula
Grading of local authority	Gariep Local Municipality is a Grade 2 Local Authority in terms of item IV of the Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act , 1998.
Chief Finance Officer (CFO)	M. L Mosala
Accounting Officer	Mr TA Mawonga
Business address	Jan Greyling Street Burgersdorp
Postal address	P O Box 13 Burgersdorp 9744
Auditors	The Office of the Auditor-General : South Africa
Attorneys	Horn and Kumm
Jurisdiction	The Area EC 144, as a Local Municipality, as demarcated by the Demercation Board and indicated in the demarcation map publsihed for EC 144
Relevant Legislation	The Constitution of the Republic of South Africa The Municipal Structures Act , No. 117 of 1998 The Municipal Systems Act, No. 32 of 2000 The Municipal Finance Management Act, No. 56 of 2003 The Basic Condition of Employement Act No. 75 of 1997 The Value Added Tax Act 89 of 1991 The Skills Development Act 9 of 1999 The Water Service Act 108 of 1997 The Housing Act of 1997 The Promotion of Access to Information Act 2 of 2000 The Disaster Management Act of 2000 Municipal Property Rates Act

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

Abbreviations

DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRIC	International Finacial Reporting Interpretations committee

Accounting Officer's Responsibilities and Approval

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

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

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 and their report is presented in the annual report.

The municipality has noted that certain officials have misappropriated cash receipts from customers. To date the quantum of cash not banked has yet to be determined however an investigation is pending.

The annual financial statements set out on pages 4 to 40, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 :

Mr TA Mawonga
Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

1. Review of activities

Main business and operations

Net surplus of the municipality was R 2 022 301 (2010: deficit R 41 825 489).

2. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R (48 383 704) and that the municipality's total liabilities exceed its assets by R (48 383 704).

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. This is so because as a public entity, the municipality is funded in terms of a three year budget it is required to approve and submit to the treasury and already, the amounts for 2011/2012 and the two outer years have been allocated and gazetted. It must be emphasised that were it not for directive four (4), which prevents the municipality from disclosing the value of its assets in the Annual Financial Statements for 2010/2011, as part of the final exemptions, the valued assets of the municipality are far higher than the liabilities and therefore the liquidity ratio would be positive. For reasons explained above, it is our considered view that the issue of going concern is a misnomer for government entities because, unlike their private counterparts, their continued operation does not depend on whether they make a “profit” or not, it depends on the government. In other words, as long as the municipality is configured to operate as an entity, it will continue to do so and when serious financial problems beset it, there are clear provisions in the law on how it ought to be dealt with including the invocation of section 139 of the constitution of the Republic of South Africa

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name
Mr TA Mawonga

5. Bankers

ABSA Bank

6. Auditors

The Office of the Auditor-General : South Africa will continue in office for the next financial period.

Statement of Financial Position

Figures in Rand	Note	2011	2010 Restated
Assets			
Current Assets			
Inventories	5	-	-
Trade and other receivables from exchange transactions	6	7 539 971	6 616 259
Cash and cash equivalents	7	418 744	569 109
		7 958 715	**7 185 368**
Non-Current Assets			
Investment property	2	-	-
Property, plant and equipment	3	20 216 241	6 989 109
		20 216 241	**6 989 109**
Total Assets		**28 174 956**	**14 174 477**
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	11	44 512 329	38 169 793
VAT payable	12	5 364 524	3 146 971
Retirement benefit obligation	4	409 000	414 000
Unspent conditional grants and receipts	8	6 194 780	14 900 856
Provisions	9	426 844	353 615
Current portion of long term liabilities	10	573 552	511 952
Bank overdraft	7	5 415 267	194 439
		62 896 296	**57 691 626**
Non-Current Liabilities			
Retirement benefit obligation	4	11 546 000	8 126 000
Long term liabilities	10	2 116 364	2 349 309
		13 662 364	**10 475 309**
Total Liabilities		**76 558 660**	**68 166 935**
Net Assets		**(48 383 704)**	**(53 992 458)**
Net Assets			
Accumulated surplus		(48 383 704)	(53 992 458)

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010 Restated
Revenue			
Rendering of services		322 185	344 841
Property rates	14	9 122 890	7 158 621
Service charges	15	30 113 235	31 528 993
Rental of facilities and equipment		191 435	194 093
Interest received - trading		3 775 991	4 209 032
Fines		113 344	116 681
Licences and permits		925 951	802 285
Government grants & subsidies	16	39 469 598	25 807 723
Grant from District Municipality		6 853 325	4 364 219
Sundry Income		-	58 254
Interest received - investment	23	27 818	203 838
Total Revenue		**90 915 772**	**74 788 580**
Expenditure			
Personnel	19	(30 133 242)	(27 732 428)
Remuneration of councillors	20	(1 859 267)	(1 722 429)
Administration	21	-	(3 027)
Post retirement medical aid		(3 415 000)	(648 000)
Finance costs	24	(378 923)	(381 314)
Debt impairment	22	(9 134 731)	(45 058 436)
Fair value adjustments		3 153 518	1 942 162
Repairs and maintenance		(2 244 151)	(1 410 280)
Bulk purchases	27	(7 040 545)	(7 626 784)
Grant expenditure		(1 983 553)	(2 734 367)
General Expenses	18	(35 857 577)	(31 239 166)
Total Expenditure		**(88 893 471)**	**(116 614 069)**
Surplus (deficit) for the year		**2 022 301**	**(41 825 489)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	(21 148 888)	(21 148 888)
Adjustments		
Defined benefit obligation	(7 892 000)	(7 892 000)
Change in accounting policy	1 598 729	1 598 729
Prior year adjustments	15 275 190	15 275 190
Balance at 01 July 2009 as restated	**(12 166 969)**	**(12 166 969)**
Changes in net assets		
Surplus for the year	(41 825 489)	(41 825 489)
Total changes	(41 825 489)	(41 825 489)
Balance at 01 July 2010	**(53 992 458)**	**(53 992 458)**
Changes in net assets		
Surplus for the year	2 022 301	2 022 301
Prior period errors	3 076 938	3 076 938
Total changes	5 099 239	5 099 239
Balance at 30 June 2011	**(48 383 704)**	**(48 383 704)**

Note(s)

Cash flow statement

Figures in Rand	Note(s)	2011	2010 Restated
Cash flows from operating activities			
Receipts			
Government Grants		38 151 867	25 807 723
Interest income		27 818	4 209 032
Other receipts		54 819 906	7 798 359
		92 999 591	37 815 114
Payments			
Employee costs		(31 992 509)	(29 454 857)
Finance costs		(378 923)	(381 314)
Other payments		(47 125 826)	(648 000)
		(79 497 258)	(30 484 171)
Net cash flows from operating activities	28	**13 502 333**	**7 330 943**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(13 227 132)	(6 989 109)
Net cash flows from investing activities		**(13 227 132)**	**(6 989 109)**
Cash flows from financing activities			
Movement in Long-term Loan		(171 345)	(449 349)
Other cash item		(5 475 049)	(310 089)
Net cash flows from financing activities		**(5 646 394)**	**(759 438)**
Net increase/(decrease) in cash and cash equivalents		**(5 371 193)**	**(417 604)**
Cash and cash equivalents at the beginning of the year		374 670	792 274
Cash and cash equivalents at the end of the year	7	**(4 996 523)**	**374 670**

Accounting Policies

1. Basis of Preparation

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.
The Annual Financial Statements have been prepared in accordance with the Accounting Standards and have adopted the transitional provisions as applicable and described below and also in terms of the standards and principles contained in Directives 4 and not Directive 5 issued by the Accounting Standards Board in March 2009 and have adopted the transitional provisions as applicable and described below
Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 9	Paragraphs relating to Revenue from Non-Exchange Transactions
GRAP 100	Non-Current Assets Held for Sale and Discontinued Operations
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash-Generating Assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 36	Impairment of Assets
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an arrangement contains a lease

1.1 Changes in accounting policy and comparability

1.2 Presentation currency

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

1.3 Investment property

1.4.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.
At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.
Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

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

Accounting Policies

1.3 Investment property (continued)
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:
- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

Directive 4 Impact - Investment Property (GRAP 16)

Investment property is reported at provisional amounts (nil value), due to the fact that the initial accounting for Investment property was incomplete by the end of a reporting period in which the Standard became effective.
Investment property was not disclosed in the financial statements for the year ending 30 June 2010 and 30 June 2011.
It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2012.

1.4 Property, plant and equipment

1.5.1 Initial Recognition

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 year.

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

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.5.2 Subsequent Measurement

1.4 Property, plant and equipment (continued)
Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

1.5.3 Depreciation

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

	Years		Years
Infrastructure		Other	
Roads and Paving	15 - 20	Buildings	30
Pedestrian Malls	30	Specialist Vehicles	5 - 20
Electricity	20 - 30	Other Vehicles	5 - 10
Water	15 - 20	Office Equipment	3 - 7
Sewerage	15 - 20	Furniture and Fittings	7 - 10
Housing	30	Watercraft	15
Landfill Sites	15	Bins and Containers	5
		Specialised Plant and Equipment	10 - 15
		Other items of Plant and Equipment	2 - 5
Community			
Improvements	30		
Recreational Facilities	20 - 30		
Security	5		

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

1.5.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

1.5.5 Finance Leases

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

1.5.6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

1.5.7 Infrastructure Assets

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

Accounting Policies

1.4 Property, plant and equipment (continued)

1.7.8 Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is 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 an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

1.5.9 Impairment of assets

1.5.9.1 Cash generating assets

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

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, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit.

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior period. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or is recognised immediately in surplus or deficit.

1.5.9.2 Impairment of Non-Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset. If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined. The recoverable service 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.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit.

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

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

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of

Accounting Policies

1.4 Property, plant and equipment (continued)

an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in surplus or deficit

Directive 4 Impact - Property, Plant and Equipment (GRAP 17)

In terms of directive 4, the municipality are not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment. The Standard of GRAP on Property, Plant and Equipment was initially adopted on 1 July 2008.

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

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

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

1.5 Standards, amendments to standards and interpretations issued but not yet effective

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

GRAP 18	Segment Reporting - issued March 2005
GRAP 23	Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
GRAP 24	Presentation of Budget Information in Financial Statements - issued November 2007
GRAP 103	Heritage Assets - issued July 2008
GRAP 104	Financial instruments
GRAP 26	Impairment of cash generating assets
GRAP 25	Employee benefits
GRAP 21	Impairment of non cash generating assets

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.
The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

IAS 19	Employee Benefits - effective 1 January 2009
IFRIC 17	Distribution of Non-cash Assets to Owners - effective 1 July 2009
IAS 39	Financial Instruments: Recognition and Measurement - portions of standard effective 1 July 2009
IFRS 7	Financial Instruments Disclosure
IFRS 9	

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

1.6 Financial instruments

Financial Assets - Classification

The municipality has various types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

A financial asset is any asset that a cash or contractual right to receive cash or another financial asset or equity. The municipality has the following types of financial assets:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

Accounting Policies

1.6 Financial instruments (continued)

The Financial Assets of the municipality are classified as follows into the four categories allowed:

Type of Financial Asset	Classification in terms of IAS 39.09
Short-term Investment Deposits – Call	Held-to-maturity investments
Bank Balances and Cash	Loans and receivables
Long-term Receivables	Loans and receivables
Consumer Debtors	Loans and receivables
Other Debtors	Loans and receivables
Investments in Fixed Deposits	Held-to-maturity investments

Loans and Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-Maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities:

- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of Financial Liabilities, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as "Other financial liabilities".

Initial and Subsequent Measurement

5.3.1 Financial Assets:

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

5.3.2 Financial Liabilities:

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at

1.6 Financial instruments (continued)

amortised cost using the effective interest rate method.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in surplus or deficit.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for impairment. The provision is made whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit for the year.

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 through the surplus or deficit for the year to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of Financial Assets

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Derecognition of Financial Liabilities

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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

Accounting Policies

1.6 Financial instruments (continued)

Trade and other receivables are classified as loans and receivables.

Trade and other payables

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

Cash and cash equivalents

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

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs. The municipality does not have a bank overdraft facility.

1.7 Leases

1.9.1 The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.
Finance Lease
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.
Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.
Any contingent rents are expensed in the period in which they are incurred.

1.9.2 The Municipality as Lessor

Amounts due from lessees under finance leases or installment sale agreements are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

1.7 Leases (continued)

Directive 4 Impact - Leases (GRAP 13)

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

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

No measurement adjustments were made for the year ending 30 June 2010. The future lease commitments not disclosed in the financial statements for the year ending 30 June 2009 are now however disclosed in the financial statements.

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

1.8 Inventories

1.10.1 Initial Recognition

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

1.10.2 Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis.

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

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

Transitional provision

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 have accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2012.

1.9 Non-current assets held for sale

1.11.1 Initial Recognition

Accounting Policies

1.9 Non-current assets held for sale (continued)

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

1.11.2 Subsequent Measurement

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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

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

1.10 Employee benefits

Short-term employee benefits

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

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

Defined contribution plans

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

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of suplus and deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

Defined benefit plans

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

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

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

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

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

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

Accounting Policies

1.10 Employee benefits (continued)

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 surplus or deficit, 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 costs, plus the present value of available refunds and reduction in future contributions to the plan.

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

1.11 Provisions

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, 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.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the surplus or deficit for the year as a finance cost as it occurs.

1.12 Revenue Recognition

1.14.1 General

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

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

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

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

1.14.2 Revenue from Exchange Transactions

Accounting Policies

1.12 Revenue Recognition (continued)
1.14.2.1 Service Charges

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

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

1.14.2.3 Finance income

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

1.14.2.4 Tariff Charges

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

1.14.2.5 Income from Agency Services

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

1.14.2.6 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 buyer 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.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.14.2.7 Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

1.14.3 Revenue from Non-exchange Transactions

1.14.3.1 Rates and Taxes

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

1.14.3.2 Fines

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will received based on past experience of amounts collected.

1.12 Revenue Recognition (continued)

1.14.3.3 Public contributions

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

1.14.3.4 Other Donations and Contributions

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

1.14.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

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

1.14.4 Transitional Provisions

Revenue was initially recognised at cost and not at fair value in the previous financial year as the requirements of GAMAP 9.12 and SAICA circular 09/2006, which states that revenue should be recognised initially at fair value through discounting all future receipts using an imputed rate of return, have been exempted in terms of General Notice 522 of 2007. Revenue is initially recognised at fair value for the year ended 30 June 2009 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 SAICA circular 09/2006.

Rendering of services

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

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

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

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

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

1.13 Government Grants and Receipts

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

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

Accounted for government grants and receipts in the previous financial year in accordance with the requirements of IAS 20.24 and .26, GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – .46, as appropriate, and not in accordance with the requirements of

Accounting Policies

1.13 Government Grants and Receipts (continued)

the entire IAS 20 as these requirements, other than IAS 20.24 and .26, were exempted in terms of General Notice 522 of 2007. Accounted for government grants and receipts for the year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GAMAP 9.42 - .46 and ASB Directives 4.

1.14 Comparative information

22.1 Prior year comparatives

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

1.15 Unauthorised expenditure

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

1.16 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of surplus and deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

1.17 Irregular expenditure

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

1.18 Changes in Accounting Policies, Estimates and Errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to note XX for details of changes in accounting policies.

Retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. Continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in

Accounting Policies

1.18 Changes in Accounting Policies, Estimates and Errors (continued)

the previous financial year. Continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

1.19 Value-Added Tax

The Municipality accounts for Value Added Tax on the payments basis.

1.20 Related Parties

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

1.21 Events after the Reporting Date

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.22 Contingent Assets and Contingent Liabilities

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

1.23 Offsetting

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

1.24 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.

1.25 Going Concern Assumption

The Annual Financial Statements have been prepared on a going concern basis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Investment property

Transitional provisions

Directive 4 Impact - Investment Property (GRAP 16)

The municipality elected to adopt the transitional provisions for GRAP 16, Investment property, as per paragraph 67 of Directive 4. According to the transitional provisions, 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. The transitional provisions expires on 30 June 2012.

The municipality is in the process of considering the options and methods available to determine the value of all of its investment property by the end of 30 June 2012 and based on the outcome of this a relevant service provider will be appointed to assist the municpality, if necessary.

The Municipality is in the process of measuring Investment Property in terms of the requirements of GRAP 16. In terms of GRAP 16 Investment Property the Municipality is entitled to measure Investment Property at either historical cost less accumulated depreciation and impairment or at fair value. The Municipality is in the processes of determineing the both the historical cost of and fair value of the investment property as at 1 July 2010, 30 June 2011 so as to ensure that comparative information can be accuratley restated once the transitional provisions have run their course. Fair are being detemined by qualified valuers and with reference to the Municipal Valuation roll as required by the Property Rates Act.

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation**	**Carrying value**
Furniture and fixtures	259 740	-	259 740	105 215	-	105 215
Infrastructure	19 956 501	-	19 956 501	6 883 894	-	6 883 894
Total	**20 216 241**	**-**	**20 216 241**	**6 989 109**	**-**	**6 989 109**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Total**
Furniture and fixtures	105 215	154 525	259 740
Infrastructure	6 883 894	13 072 607	19 956 501
	6 989 109	**13 227 132**	**20 216 241**

Transitional provisions

Property, plant and equipment recognised at provisional amounts

The municipality elected to adopt the transitional provisions, whereby the municipality do not have to value property, plant and equipment for a period of three years since the first adoption of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, certain property, plant and equipment was recognised at provisional amounts. Due to the adoption of the transitional provisions, no depreciation was calculated. The transitional provisions expires on 30 June 2012 by when the municipality have to comply in full with GRAP 17 (Property, plant and equipment). The municipality is in the process of considering the options and methods available to determine the value of all of its property, plant and equipment by the end of 30 June 2012 and based on the outcome of this a relevant service provider will be appointed to assist the municpality, if necessary.

Measurement of Historic cost
The Municipality has determined the historical cost of its items of Property, Plant and equipment taking into account the provisions of Directive 7 : Deemed cost which allow the Municipality to use Fair value where the historical cost of Property, plant and equipment as recognised in terms of the GRAP 17 Property, Plant and Equipment cannot be determined. In terms of

3. Property, plant and equipment (continued)
Directive 7 where Fair value cannot be determined the Municipality has used depreciated replacement cost (DRC) to calculate the "Deemed cost"

Residual Values:
In terms of GRAP 17 : Property, plant and equipment the residual value of an asset in the estimated amount that the entity would currently obtain from the disposal of the asset after deducting for the necessary cost if the asset was already of the age and in the condition expected at the end of its useful life.

Land and buildings, Infrastructure assets and community assets would not be subject to resdidual values as they are specialised in nature not traded in active market, there is no willing buyer or seller relationship with regards to these types of assets.

Movable assets will be impacted by residual values, information relating to what similar assets are reaslised for in an active market are used to determine the residual values of these assets

Components of Assets:

In terms of GRAP 17, where significant components of assets have differing economic useful lives such components shall be sperataley measured in the financial statements and Fixed assets register.
- Roads has been compentised per level (ie Gravel Surface, Concrete Surface, Concrete Basis/Structure, Ashphalt Surface, Ashphalt basis/structure , Stormwater channel, Street lighting, stop signs and road kurbing
- Electricity assets have been brocken down per significant component as follows : Lighting, pole transformer, ground transformer, fence wire mess, transformer building, fence wire mess, overhead lines, lines underground, switchgear, substation building, ground transformer, betteries charger, Incomer panel, feeder panel, control panel, prepaid meter, conventional meter, mini substation.

Depreciation:
The Municipality has determined accumulated depreciation as at 1 July 2010, depreciation for the year ended 30 June 2010, depreciation for the year ended 30 June 2011.

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.

4. Retirement benefits

Defined benefit plan

Post retirement medical aid plan

Gariep Local Municipalities current active employees and pensioners have the choice of participating in the following Medical schedmes
- LA Health and Medical Scheme
- Hosmed Medical scheme
- Samwumed Medical Scheme
- KeyHealth Medical Scheme
- Munimed Medical Scheme

Active members recieve a fixed subsidy of 60% of medical aid contributions, the spouse or adult dependent of an active member is entitled a 60 % subsidy of their contributions.

Continuation members (Employees who continue to be members on retirement) recieve a fixed subisdy of 70% of medical aid contributions.

The principal actuarial assumptions used were as follows:	2011	2010

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Retirement benefits (continued)

Discount rate per annum	9.00%	9.50%
Health care cost inflation rate	7.70%	7.70%
Net effective discount rate	1.21%	1.67%
Benchmark inflation (equal to salary inflation)		
Average retirement age	63	63
Proportion continuing membership at retirement	90%	90%
Proportion of retiring members who are married	80%	60%
Mortality during employment	SA 85 -90	SA 85 -90
Mortality post-retirement	PA 90	PA 90
(No explicit assumption was made about additional mortality or health care costs due to AIDS).		

Percentage of in-service members withdrawing before retirement:

Age 20	26.6%	26.6%
Age 25	26.6%	26.6%
Age 30	21.8%	21.8%
Age 35	16.4%	16.4%
Age 40	11.16%	11.16%
Age 45	8.2%	8.2%
Age 50+	5.8%	5.8%

Carrying value

	2011	2010
Present value of the defined benefit obligation-wholly unfunded	(11 955 000)	(8 540 000)
Non-current liabilities	(11 546 000)	(8 126 000)
Current liabilities	(409 000)	(414 000)
	(11 955 000)	**(8 540 000)**

The fair value of plan assets includes:

Movements for the year

	2011	2010
Opening balance	8 540 000	7 892 000
Benefits paid	(414 000)	(385 000)
Net expense recognised in the statement of financial performance	3 649 000	1 033 000
	11 775 000	**8 540 000**

Net expense recognised in the statement of financial performance

	2011	2010
Current service cost	266 000	283 000
Interest cost	804 000	729 000
Actuarial (gains) losses	2 579 000	21 000
	3 649 000	**1 033 000**

Key assumptions used

Assumptions used on last valuation on .

	2011	2010
Net Discount rates used	1.21 %	1.67 %

The Estimated discount rate is equal to the yield on zero coupon government bonds with a term of 15.75 years

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Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Inventories

Inventory consists of the following categories:
- Housing scheme (houses)
- Water
- Consumables (repairs & maintenance)
- Uniforms / overalls
- Cleaning materials
- Fuel & oil
- Stationery

Transitional provisions

Inventories recognised at provisional amounts

The municipality elected to adopt the transitional provisions as per Directive 4, whereby inventories need not be valued for a three year period after the adoption of GRAP. In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, inventories were recognised at provisional amounts.

The municipality will, during the forthcoming financial year, be looking into the possibility of putting a perpetual inventory system into action that will enhance inventory management and assist the municipality in complying with Directive 4 by 30 June 2012 when the transitional period expires.

In terms of the requirements of GRAP 12 : Inventories, inventory should be measured at the lower of cost or Net Realisable value. The value of inventories at each reporting date will thus be assessed based on the cast of the inventory item and the net realisable value based on current replacement costs of such items of inventory.

Purfied water stock will be assessed on the cost of the purified water taking into account chemicals and the cost of the purification processed and assessed on the realisable value of the water based on the Municipalities tariff structure.

In terms of Directive 4 Inventories have been recognised at proviisional amounts of Nil

6. Trade and other receivables from exchange transactions

Other Debtors	-	4 447 335
Trade debtors	7 524 462	2 168 924
Spatial Development Grant	15 509	-
	7 539 971	**6 616 259**

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Trade and other receivables impaired

As of 30 June 2011, trade and other receivables of R 77 042 523- (2010: R 67 186 988) were impaired and provided for.

The amount of the provision was R 72 562 324as of 30 June 2011 (2010: R65 293 304).

Gross Balances - Trade debtors		
Rates	17 372 060	16 070 902
Consumer Accounts	59 719 063	50 602 525
Sundries	962 679	788 801
	78 053 802	**67 462 228**
Provision for Bad debts Impairment - Trade debtors		
Bad debt provision	70 529 341	65 293 304
Other debtors		
Gross balances	15 509	6 205 296

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

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

Bad debt provision	-	(1 757 961)
	15 509	**4 447 335**

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	4 400	4 450
Short-term deposits	414 344	564 659
Bank overdraft	(5 415 267)	(194 439)
	(4 996 523)	**374 670**
Current assets	418 744	569 109
Current liabilities	(5 415 267)	(194 439)
	(4 996 523)	**374 670**

All Bank accounts above are held with ABSA Bank ("ABSA"

ABSA Bank does not hold any securities as collateral against any borrowings

There are no agreements between ABSA and the Municipality limiting the total borrowings.

There are no covenants restricting the Municipalities ability to borrow, the Municipality is not required to adhere to prescribed ratios.

Cash and cash equivalents pledged as collateral

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2011	**30 June 2010**	**30 June 2009**	**30 June 2011**	**30 June 2010**	**30 June 2009**
Primary Bank account - ABSA - Cheque Account - 18-0022-0161	(914 331)	(194 439)	676 449	(5 415 267)	(194 439)	426 814
ABSA - Town register account - 5064344937	-	1 829	1 771	-	58	-
ABSA - Nosiswe account - 9064489631	-	5 936	5 748	-	5 748	5 748
Call Investment - ABSA - Premier's fund account - 9059967363	79 327	78 988	77 762	79 327	78 988	77 762
Call Investment - ABSA - Electrification fund account - 2069462077	-	169 204	-	-	169 204	-
	335 017	310 661	277 500	335 017	310 661	277 500
Total	**(499 987)**	**372 179**	**1 039 230**	**(5 000 923)**	**370 220**	**787 824**

8. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal systems improvement grant	-	500 000
Upgrade electrification grant	2 864 063	6 465 412
DPLG - Spatial Development Fund	-	99 491

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

8. Unspent conditional grants and receipts (continued)

JL de Bruin dam grant	193 973	762 619
Municipal infrastructure grant	2 294 343	5 661 426
Other grants	842 401	1 411 908
	6 194 780	**14 900 856**

Municipal systems improvement grant

Balance at the beginning of the year	500 000	-
Additions during the year	750 000	500 000
Income recognition during the year	(1 250 000)	-
Balance at the end of the year	**-**	**500 000**

Upgrade electrification grant

Balance at the beginning of the year	6 465 412	2 000 000
Additions during the year	8 000 000	10 000 000
Income recognition during the year	(11 601 349)	(5 534 588)
Balance at the end of the year	**2 864 063**	**6 465 412**

JL de Bruin dam grant

Balance at the beginning of the year	762 619	911 219
Additions during the year	-	-
Income recognition during the year	(568 646)	(148 600)
Balance at the end of the year	**193 973**	**762 619**

Finance management grant

Balance at the beginning of the year	-	577 366
Additions during the year	1 200 000	1 000 000
Income recognition during the year	(1 200 000)	(1 577 366)
Balance at the end of the year	**-**	**-**

Municipal infrastructure grant

Balance at the beginning of the year	5 661 426	1 373 091
Additions during the year	3 255 000	6 423 000
Income recognition during the year	(6 622 083)	(2 134 665)
Balance at the end of the year	**2 294 343**	**5 661 426**

Other grants

Balance at the beginning of the year	1 511 400	1 134 914
Additions during the year	-	919 508
Income recognition during the year	(668 999)	(543 022)
Balance at the end of the year	**842 401**	**1 511 400**

Unfulfilled conditions remain liabilities.

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Provisions

Reconciliation of provisions - 2011

	Opening Balance	Additions	Reversed during the year	Total
Provision for long service awards	134 293	-	(93 071)	41 222
Provision for performance bonuses	219 322	385 622	(219 322)	385 622
	353 615	**385 622**	**(312 393)**	**426 844**

The municipality has five landfill sites operated in Burgersdorp, Steynsburg and Venterstad. accordance with Directive 4 we have not quantified the value of rehabilitation but are the process of doing so.

10. Long term liabilities

The municipality acquired two loans from Development Bank of South Africa. The loan is payable monthly and half yearly at a rate of 15.1% and 5%. The loans are redeemed on the 31 July 2012 and 30 September 2018. The loans are unsecured.

	2011	2010
Long term liabilities		
External Loans	2 689 916	2 861 261
Current Portion transferred to Current Liabilities	(573 552)	(511 952)
	2 116 364	**2 349 309**

11. Trade and other payables from exchange transactions

	2011	2010
Trade payables	19 571 193	15 388 383
Sundry payables	1 116	-
Accrued leave pay	2 989 746	3 059 041
Deposits received	722 797	641 327
Other payables	20 216 198	17 281 488
Trade receivables with credit balances	1 011 279	1 799 554
	44 512 329	**38 169 793**

12. VAT payable

	2011	2010
VAT Payable	5 364 524	3 146 971

The Municipality is registered on the cash basis for VAT purposes, this means that VAT is only declared once cash is recieved or actual payments are made.

13. Revenue

	2011	2010
Rendering of services	322 185	344 841
Property rates	9 122 890	7 158 621
Service charges	30 113 235	31 528 993
Rental of facilities & equipment	191 435	194 093
Fines	113 344	116 681
Licences and permits	925 951	802 285
Government grants & subsidies	39 469 598	25 807 723
Miscellaneous other revenue	6 853 325	4 364 219
	87 111 963	**70 317 456**

	2011	2010
The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	322 185	344 841

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Revenue (continued)

Service charges	30 113 235	31 528 993
Rental of facilities & equipment	191 435	194 093
Licences and permits	925 951	802 285
Miscellaneous other revenue	6 853 325	4 364 219
	38 406 131	**37 234 431**

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

Property rates	9 122 890	7 158 621
Fines	113 344	116 681
Government grants & subsidies	39 469 598	25 807 723
	48 705 832	**33 083 025**

14. Property rates

Rates received

Property rates	9 122 890	7 158 621

15. Service charges

Sale of electricity	10 373 362	13 430 176
Sale of water	6 484 754	6 325 657
Sewerage and sanitation charges	6 593 986	5 627 135
Refuse removal	6 661 133	6 146 025
	30 113 235	**31 528 993**

16. Government grants and subsidies

Equitable share	19 221 000	15 083 183
Grants from other spheres of government	(339 601)	10 191 102
Other grants - (non-conditional)	-	533 438
Municipal Systems Improvement Grant	481 121	-
Upgrade Electrification	11 601 349	-
JL de Bruin Dam	568 646	-
Financial Management Grant	1 200 000	-
DPLG - Spatial Development Grant	115 000	-
Municipal Infrastructure Grant	6 622 083	-
	39 469 598	**25 807 723**

17. Sundry Revenue

Tender Revenue	-	58 254

Notes to the Annual Financial Statements

18. General expenses

Figures in Rand	2011	2010
Advertising	81 214	75 353
Auditors remuneration	1 529 845	1 672 665
Bank charges	133 818	154 973
Cleaning	177 904	232 782
Commission paid	-	19 246
Consulting and professional fees	2 629 573	735 402
Entertainment	48 508	94 798
Insurance	588 819	733 623
Lease rentals on operating lease	2 549 192	4 207 866
Motor vehicle expenses	550 132	572 842
Fuel and oil	1 239 874	938 793
Postage and courier	121 394	214 659
Printing and stationery	228 142	595 260
Subscriptions and membership fees	620 605	333 142
Telephone and fax	744 582	1 222 904
Training	108 203	208 990
Assets expensed	-	24 468
Electricity	8 235 515	3 084 078
Sewerage and waste disposal	32 717	29 477
Water	70 079	85 132
Refuse	42 319	39 164
Uniforms	94 685	4 164
Refreshments	376 205	81 904
Municipality Electricity	138 422	114 667
Sundries	71 672	619
Free basic electricity	711 325	855 571
Subsistence and travelling expenses	1 681 905	1 347 238
Council Public Relations	143 210	180 815
Indigent debtor relief	10 781 594	9 854 329
Other	2 126 124	3 522 184
Property only	-	2 058
	35 857 577	**31 239 166**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Employee related costs

Basic	21 347 683	17 774 936
Bonus	1 844 286	1 829 993
Medical aid - company contributions	1 202 106	993 533
UIF	114 280	100 516
WCA	-	216 924
SDL	-	234 842
Industrial Council and Bargaining Council	11 931	54 130
Leave pay provision charge	(53 058)	1 487 182
Pension Fund Contributions	3 599 301	3 224 954
Travel allowance	42 000	42 000
Overtime payments	866 334	609 503
Travell Allowance	916 340	880 753
Housing benefits and allowances	52 528	97 207
Standby Allowance	177 800	177 813
Municipal manager expenses	11 711	8 142
	30 133 242	**27 732 428**

Remuneration of municipal manager

Annual Remuneration	718 773	717 392
Travel Allowance	247 009	173 250
Contributions to Medical Aid	20 707	20 113
Bargaining Council	49	45
UIF	1 498	-
	988 036	**910 800**

Remuneration of chief finance officer

Annual Remuneration	400 538	225 503
Travel Allowance	168 144	91 534
Pension Fund	72 097	-
Barganing Council	49	45
Contributions to Pension Fund	-	39 853
Contributions to Medical Aid	1 725	18 500
UIF	1 497	749
Bonus	28 526	16 613
	672 576	**392 797**

Remuneration of corporate services manager

Annual Remuneration	481 800	413 440
Contributions to Pension fund	100 124	85 913
UIF	1 497	-
Service bonus	40 150	34 453
Cellphone allowance	-	8 760
Bargaining council levies	49	-
	623 620	**542 566**

Remuneration of technical services manager

Annual Remuneration	357 890	344 273
Travel allowance	134 245	78 000
Medical aid	13 471	-
UIF	1 497	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Employee related costs (continued)

Service bonus	29 824	27 727
Cellphone allowance	-	8 760
Other	-	1 539
Bargaining council levies	49	-
	536 976	**460 299**

Remuneration of community services manager

Annual Remuneration	394 674	344 629
Travel allowance	166 204	139 283
Contributions to Medical aid	69 502	12 168
Service bonus	32 889	23 944
Cellphone allowance	-	8 760
Other	-	41
UIF	1 497	-
Bargaining council levies	49	-
	664 815	**528 825**

20. Remuneration of councillors

Executive Mayor	100 814	90 887
Councillors Other Allowances	353 630	326 653
Council: Salaries	1 399 692	1 286 053
Industrial Council	25	-
Council : UIF	966	-
Council: Skills Development Levy	4 140	18 836
	1 859 267	**1 722 429**

21. Administrative expenditure

Administration and management fees - third party	-	3 027

22. Debt impairment

Debt impairment	5 889 736	45 058 436
Debts impaired (Bad debts written off)	3 244 995	-
	9 134 731	**45 058 436**

23. Investment revenue

Interest revenue		
Bank	27 818	203 838

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit .

24. Finance costs

Interest on SENQU loan	68 911	68 910
Bank	-	41 752
Capitalised	310 012	270 652
	378 923	**381 314**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

24. Finance costs (continued)

deficit .

25. Auditors' remuneration

Fees	1 529 845	-
Audit fund	-	1 672 665
	1 529 845	**1 672 665**

26. Rental of facilities and equipment

Premises		
Venue hire	187 913	189 884

27. Bulk purchases

Electricity	6 767 247	7 390 407
Water	252 566	201 261
Sewer purification	20 732	35 116
	7 040 545	**7 626 784**

28. Cash generated from operations

Surplus (deficit)	2 022 301	(41 825 489)
Adjustments for:		
Debt impairment	9 134 731	45 058 436
Movements in retirement benefit assets and liabilities	3 415 000	-
Movements in provisions	-	(1 306 649)
Prior period adjustment	-	16 233 276
Change in Accounting Policy	-	1 598 735
Changes in working capital:		
Trade and other receivables from exchange transactions	(923 712)	(29 887 917)
Trade and other payables from exchange transactions	6 342 536	14 431 960
VAT	2 217 553	(5 875 676)
Unspent conditional grants and receipts	(8 706 076)	8 904 267
	13 502 333	**7 330 943**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

29. Commitments

Authorised capital expenditure

Approved and contracted		
• Property, plant and equipment	20 547 757	26 191 537
• Other commitments	815 071	-
	21 362 828	**26 191 537**
Approved but not yet contracted		
• Property, plant and equipment	-	59 492 499
• Other Commitments	-	4 461 000
	-	**63 953 499**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 428 770	676 248
- in second to fifth year inclusive	952 453	281 770
	2 381 223	**958 018**

Operating lease payments represent rentals payable by the municipality for certain equipment. The HP Financial Services lease was negotiated for a 36 month period at a fixed monthly cost of R56 354. The lease commenced on the 1 December 2008. The Summit Finance (Office World) lease was negotiated for a 60 month period at an initial monthly cost of R454.86, with a 15% escalation rate. The lease commenced on the 27 July 2004.

30. Contingencies

Contingent liabilities

The municipality's Legal Advisors have indicated that the following cases reflect the municipality's exposure to contingent liabilities.

A magistrate's court action have been served with regards to the legal fees for a plaintiff Mr. J Heunis for R60 000 towards legal costs. There is a possibility that the plaintiff might not be successfull.

An unfair dismissal dispute is pending with the CCMA. Estimated financial exposure is R400 000. It is unlikely that the former employee's claim will be successfull.

The municipality does not have adequate budgeted funds to cover the litigation costs and claims. The amount will have to be paid from the operational budget of the municipality.

Contingent liabilities		
CCMA dispute and legal fees	-	460 000

31. Related parties

No related party transactions.

32. Prior year adjustments

A number of prior period adjustments were made. Refer to the table below for a summary of the adjustments made to Accumulated surplus.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

32. Prior year adjustments (continued)

During the current year the Municipality had its post retirement medical aid obligation valued by Actuaries so as to properly account for its obligation in terms of the requirement IAS 19 Employee Benefits As a result the Municipality recognised and mwasured it obligation as at 1 July 2010 , the earliest possible period taking into account the accumulative impact of the obligation. The Municipality thus recognised an obligation for Post Retirment medical aid of R 7 892 000 as at 1 July 2010 and the subsequent movement to 30 June 2010 and updated the prior year comparative information in the process. .

The Municipality incorreclty recognised additions of R 7 947 198 for the financial year ended 30 June 2010 as part of its IMFO to GRAP conversion process due to the fact that the Municipality was in the process of completing its GRAP 17 asset register, Per the Corrected GRAP 17 assets register the Municipality should only have recognised additions of R 6 989 109.

	2011	2010
Accumulated surplus - prior year adjustments		
Post retirement medical aid benefit	-	(7 892 000)
Derecogniton of incorrectly capitalised Fixed assets	-	(2 174 046)
Recognition of correct additions for 2010	-	6 989 109
	-	**(3 076 937)**

33. Risk management

Capital risk management

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

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

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

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.
The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the financial department with the assistance of operating divisions. Risk management is carried out under policies approved by the accounting officer.

Interest rate risk

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

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

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

33. Risk management (continued)
A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

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

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

	2011	2010
The estimated increase rates		
The estimated increase in basis points	100	100
Effect on Net Surplus	(6252)	(6252)

Credit risk

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

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

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

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

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

Foreign exchange risk

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

34. Going concern

We draw attention to the fact that at 30 June 2011, the municipality had accumulated deficits of R (48 383 704) and that the municipality's total liabilities exceed its assets by R (48 383 704).

The municipality is facing various challenges in the collection of outstanding receivables in terms of services rendered and might not be in a position to settle its current obligations in the normal course of business. The municipality is significantly dependent on the national and provincial government for its continued sustainability.

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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding from the various spheres of government for the ongoing operations of the municipality.

35. Unauthorised expenditure

	2011	2010
Opening balance	53 366 730	4 205 334
Unauthorised operating expenditure incurred	-	49 161 396
	53 366 730	**53 366 730**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

36. Fruitless and wasteful expenditure

Opening balance	2 398 111	2 356 359
Interest paid	62 206	41 752
	2 460 317	**2 398 111**

37. Irregular expenditure

Opening balance	3 592 219	2 431 840
Add: Irregular Expenditure - current year	-	1 160 379
	3 592 219	**3 592 219**

38. Additional disclosure in terms of Municipal Finance Management Act

39.1 Contributions to organised local government

Current year contributions	18 755	17 050
Amount paid - current year	(18 755)	(17 050)
	-	**-**

39.2 Material losses through criminal conduct

Recovered amount - previous years	-	648 603

The material losses referred to above, relate to the theft of municipal motor vehicles within the 2009 financial year. Material losses resulting from the theft amounted to R1,053,240. R648,603 was recovered from insurance during the 2010 financial year.

39.3 Audit fees

Opening balance	2 603 577	930 912
Current year fee	1 529 845	1 672 665
	4 133 422	**2 603 577**

39.4 PAYE and UIF

Opening balance	1 090 206	1 491 678
Current year contributions	2 141 469	2 562 622
Amount paid - current year	(951 240)	(2 964 094)
	2 280 435	**1 090 206**

39.5 Pension and Medical Aid Deductions

Opening balance	778 576	349 317
Current year contributions	7 223 398	6 566 726
Amount paid - current year	(7 223 398)	(6 137 467)
	778 576	**778 576**

39.6 VAT

VAT payable	5 364 524	3 146 971

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

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

39. Distribution losses

Electricity		
Loss - current year	4 881 133	111 757