THABO MOFUTSANYANA DISTRICT MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2011

General Information

Legal form of entity	District Municipality (DC19)
Mayoral committee	
Executive Mayor	Her Majesty Queen Mathokoana (Term ended 31 May 2011)
	Dr. BE Mzangwa - (Elected 1 June 2011)
Councillors	Mr. D Lengoabala - (Term ended 31 May 2011)
	Mr. WR Ndlebe - (Term ended 31 May 2011)
	Mr. LJ Lemako - (Term ended 31 May 2011)
	Mr. N Mopeli - (Term ended 31 May 2011)
	Mr. CJ Makhoba - (Term ended 31 May 2011)
	Ms. NM Mosupa - (Term ended 31 May 2011)
	Mr. MJ Tshabalala - (Term ended 31 May 2011)
	Ms.SM Moleleki - (Term ended 31 May 2011)
	Ms. AM Nthedi (Speaker) - (Term ended 31 May 2011)
	Mr. PH Motsoeneng (Chief Whip) - (Term ended 31 May 2011)
	Newly elected councillors 1 June 2011
	Ms. SM Moleleki (Chief Whip)
	Mr.M Maduna (Speaker)
	Mr. CJ Makhoba
	Mr. M Mamba
	Mr. P Mavundla
	Ms. M Majara
	Ms. M Vilakazi
	Ms. J Komako
	Mr. N Azaniel
	Ms. M Motloung
Grading of local authority	Grade 11
Accounting Officer	Matiro Rebecca Ellen Mogopodi
Chief Finance Officer (CFO)	Hopolang Lebusa
	Appointed - 1 October 2010
Registered office	1 Mampoi Street
	Old Parliament Building
	Witsieshoek
	9870
Postal address	Private Bag X810
	Witsieshoek
	9870
Auditors	The Auditor General

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

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Abbreviations

COGTA	Department of Cooperative Governance and Traditional Affairs (Free State)
CDF	Capital Development Fund
MEC	Member of Executive Council
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IT	Information Technology
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
LED	Local Economic Development

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PIMSS	Planning Implementation Management Support Structures
MMC	Member of Mayoral Committee
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
PT	Provincial Treasury (Free State)
RSC	Regional Service Council Levies
IFRS	International Financial Reporting Standards

Accounting Officer's Responsibilities and Approval

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

The municipality is wholly dependent on the Government Grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Government of the Republic has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is 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 on page 5.

The annual financial statements set out on pages 5 to 63, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

Matiro Rebecca Ellen Mogopodi
Accounting Officer

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Receivables from non- exchange transactions	6	1 967 533	2 302 310
Receivables from non-exchange transactions - RSC Levies	7	7 212	7 212
VAT receivable	8	4 009 390	11 121 321
Cash and cash equivalents	9	17 248 509	10 930 290
		23 232 644	**24 361 133**
Non-Current Assets			
Property, plant and equipment	3	7 968 009	7 269 863
Intangible assets	4	132 596	120 811
		8 100 605	**7 390 674**
Non-Current Assets		8 100 605	7 390 674
Current Assets		23 232 644	24 361 133
Total Assets		**31 333 249**	**31 751 807**
Liabilities			
Current Liabilities			
Current portion of finance lease obligation	10	581 586	674 578
Operating lease liability		12 700	9 300
Payables from exchange transactions	12	28 141 627	36 717 321
Unspent conditional grants and receipts	11	1 354 671	3 993 705
		30 090 584	**41 394 904**
Non-Current Liabilities			
Current portion of finance lease obligation	10	790 425	1 366 126
Non-Current Liabilities		790 425	1 366 126
Current Liabilities		30 090 584	41 394 904
Liabilities of disposal groups		-	-
Total Liabilities		**30 881 009**	**42 761 030**
Assets		31 333 249	31 751 807
Liabilities		(30 881 009)	(42 761 030)
Net Assets		**452 240**	**(11 009 223)**
Net Assets			
Accumulated surplus/(deficit)		452 240	(11 009 223)

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue from non-exchange transactions			
Government grants & subsidies	14	64 886 178	72 070 854
Sundry income		10 916	800
Interest received - investment	19	978 091	1 316 562
Total income		**65 875 185**	**73 388 216**
Expenditure			
Remuneration related cost	17	(28 983 251)	(28 086 914)
Finance costs	20	(155 196)	(962 513)
Debt impairment		(221 586)	(327 646)
Repairs and maintenance		(999 551)	(1 293 586)
General Expenses	15	(24 049 510)	(45 674 609)
Total Expenditure		**(54 409 094)**	**(76 345 268)**
Loss on disposal of movable assets		(4 628)	(19 603)
Revenue		65 875 185	73 388 216
Expenditure		(54 409 094)	(76 345 268)
Other		(4 628)	(19 603)
Surplus (deficit) for the year	**16**	**11 461 463**	**(2 976 655)**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus/(deficit)	Total net assets
Balance at 01 July 2009	**(7 755 843)**	**(7 755 843)**
Changes in net assets		
Correction of prior period error	(276 725)	(276 725)
Net income (losses) recognised directly in net assets	(276 725)	(276 725)
Surplus/(deficit) for the period	(2 976 655)	(2 976 655)
Total recognised income and expenses for the period	(3 253 380)	(3 253 380)
Total changes	(3 253 380)	(3 253 380)
Balance at 01 July 2010	**(11 009 223)**	**(11 009 223)**
Changes in net assets		
Surplus/(deficit) for the period	11 461 463	11 461 463
Total changes	11 461 463	11 461 463
Balance at 30 June 2011	**452 240**	**452 240**

Cash flow statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants		64 886 178	57 340 564
Interest income received		978 091	1 316 562
Other receipts		10 916	800
		65 875 185	58 657 926
Payments			
Employee costs		(30 773 964)	(21 759 543)
Finance costs		(155 196)	(721 182)
Other payments		(27 089 364)	(41 288 573)
		(58 018 524)	(63 769 298)
Total receipts		65 875 185	58 657 926
Total payments		(58 018 524)	(63 769 298)
Net cash flows from operating activities	22	**7 856 661**	**(5 111 372)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(702 773)	(574 739)
Proceeds from sale of property, plant and equipment		-	35 087
Purchase of other intangible assets	4	(11 785)	(87 350)
Net cash flows from investing activities		**(714 558)**	**(627 002)**
Cash flows from financing activities			
Finance lease payments		(823 884)	(893 765)
Net increase/(decrease) in cash and cash equivalents		**6 318 219**	**(6 632 139)**
Cash and cash equivalents at the beginning of the year		10 930 290	17 562 429
Cash and cash equivalents at the end of the year	9	**17 248 509**	**10 930 290**

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Information about critical judgements in applying the accounting policies that have the most significant effect on the amount recognised in the annual financial statements as well as assumptions and estimations uncertainties that have a significant risk of resulting in a material adjustments within the next financial year.

Receivables from non-exchange transactions

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Contingent provisions

Contingencies recognised in the current year required estimates and judgments, refer to note on contingencies.

Impairment of receivables

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

1.2 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which

1.2 Property, plant and equipment (continued)

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

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

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

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

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

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

Item	**Average useful life**
Property, plant and equipment	
• Plant and machinery	3 years
• Furniture and fixtures	7 years
• Motor vehicles	5 years

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

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

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

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

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

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

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

Accounting Policies

1.2 Property, plant and equipment (continued)

property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

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

- Presentation of Financial Statements (GRAP 1),

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

1.3 Intangible assets

An asset is identified as an intangible asset when it:

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

Accounting Policies

1.3 Intangible assets (continued)

Item	**Useful life**
Computer software	3 years

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

Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

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

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

Until such time as the measurement period expires and intangible assets are recognised and measured in accordance with the requirements of the Standard of GRAP on Intangible assets, the municipality need not comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1),

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

1.4 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories:
- Cash and cash equivalents
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Initial recognition and measurement

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

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

Accounting Policies

1.4 Financial instruments (continued)

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

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

Regular way purchases of financial assets are accounted for at settlement date.

Subsequent measurement

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

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment of financial assets

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

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

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

Impairment losses are recognised in surplus or deficit.

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

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

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

1.4 Financial instruments (continued)

Trade and other payables

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

Cash and cash equivalents

Cash and cash equivalents 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.

Gains and losses

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

Derecognition

Financial assets

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

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

Financial liabilities

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

Accounting Policies

1.4 Financial instruments (continued)

recognised in surplus or deficit.

1.5 Leases

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

Finance leases - lessee

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

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

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.

Operating leases - lessee

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

1.6 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Accounting Policies

1.6 Impairment of cash-generating assets (continued)

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

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

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. 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 (net of depreciation or amortisation) had no impairment loss been

Accounting Policies

1.6 Impairment of cash-generating assets (continued)

recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.7 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or

Accounting Policies

1.7 Share based payments (continued)

- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

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

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset’s recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. 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 (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.8 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

1.9 Provisions and contingencies

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating deficits.

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

1.9 Provisions and contingencies (continued)

and measured as a provision.

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 23.

Transitional provision

The municipality changed its accounting policy for provisions, contingent liabilities and contingent assets in 2010. The change in accounting policy was made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where provisions, contingent liabilities and contingent assets was acquired through a transfer of functions, the municipality is not required to measure that provisions, contingent liabilities and contingent assets for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and provisions, contingent liabilities and contingent assets has accordingly been recognised at provisional amounts, as disclosed in .

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

- Presentation of Financial Statements (GRAP 1),

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

Accounting Policies

1.10 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest received

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the

1.10 Revenue from exchange transactions (continued)

municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

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

1.11 Revenue from non-exchange transactions

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

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

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

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

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

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

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

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

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

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for

Accounting Policies

1.11 Cost of sales (continued)

breaches of the law.

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

Recognition

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

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

Measurement

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

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

1.12 Comparative figures

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

1.13 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.14 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Accounting Policies

1.15 Irregular expenditure

Irregular expenditure as defined in the MFMA (Act No 56 of 2003), the Municipal System Act (Act No 32 of 2000) and the Public Office Bearers Act (Act 20 of 1998) or the municipality's supply chain management policies is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

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

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

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

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

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

1.16 Use of estimates

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

1.17 Presentation of currency

These annual financial statements are presented in South African Rand.

1.18 Offsetting

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

1.19 Conditional grants and receipts

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

2. New standards and interpretations

GRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)

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

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

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

The impact of the standard is not material.

GRAP 21: Impairment of non-cash-generating assets

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

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

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

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:
- Depreciated replacement cost approach
- Restoration cost approach
- Service units approach

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

The impact of the standard is set out in note Changes in Accounting Policy.

2.1 Standards issued and not yet effective

The following standards expected to be applicable to the municipality have been issued, but are not yet effective:

The GRAP standards below will be applied by the municipality from the effective date determined by the Minister of Finance. The effective dates are currently unknown. International Financial Reporting Standards will be applied from the effective date of the Standard as indicated below.

IFRS 7: Financial Instruments: Disclosures - Amendments to disclosures

IFRS 7 is amended to add an explicit statement that the qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity’s exposure to risks arising from financial instruments.

The existing disclosure requirements of IFRS 7 are amended as follows:

- IFRS 7 is amended to state that clarification that disclosure of the amount that best represents an entity’s maximum exposure to credit risk is required only if the carrying amount of a financial asset does not reflect

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

such exposure already.

- Additional requirement to disclose the financial effect of collateral held as security and other credit enhancements in respect of a financial instrument. An example of such disclosure is quantification of the extent to which credit risk is mitigated by the collateral and other credit enhancements obtained. This disclosure is in addition to the existing requirement to describe the existence and nature of such collateral.

- IFRS 7 is amended to state that clarification that disclosure in respect of collateral taken possession off by the entity is required only in respect of such collateral held at the end of the reporting period.

The following requirements have been removed from IFRS 7:

- Disclosure of the carrying amount of financial assets that would have been past due or impaired if their terms had not been renegotiated.

- Disclosure of a the description and fair value of collateral held as security and other credit enhancements in respect of financial assets that are past due but not impaired and in respect of financial assets that are individually determined to be impaired.

Additionally, the clause stating that quantitative disclosures are not required when a risk is not material has been removed from IFRS 7. The general materiality considerations continue to apply to all disclosures required by IFRS 7 in the same way as they apply to other IFRSs.

The amended is effective for annual periods beginning on or after 1 January 2011.

The amendments will be adopted by the municipality for the first time for its financial reporting period ending 30 June 2012.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

GRAP 4: The Effects of Changes in Foreign Exchange Rates

The initial application of GRAP 4 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application on the initial adoption of the Standard except for the acquisition of foreign operations.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 6: Consolidated and Separate Financial Statements

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 6 includes specific guidance on whether control exists and on power conditions to determine whether control exits in a public sector context – public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

GRAP 6 includes specific guidance and explanatory material on the accounting of special purpose entities adopted from SIC 12 – SA specific public sector amendment. Public sector entities need to consider impact of this guidance to determine whether an investment should be accounted for in accordance with GRAP 6.

The initial application of GRAP 6 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate annual financial statements. For consolidated annual financial statements the result of initially adopting the Standard shall be recognised in the economic entity as an adjustment to the opening balance of accumulated surplus or deficit and comparative information need not be restated for the economic entity.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. For consolidated annual financial statements the result of initially adopting the Standard shall be recognised in the economic entity as an adjustment to the opening balance of accumulated surplus or deficit and comparative information need not be restated for the economic entity.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 7: Investments in Associates

An associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control over those policies. The investor must exercise judgement in the context of all available information to determine if it has significant influence over an investee.

An investor accounts for investments in associates in the consolidated annual financial statements using the equity method.

The initial application of GRAP 7 will have no impact on the annual financial statements.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 8: Interests in Joint Ventures

GRAP 8 uses a different definition for joint venture and joint control – contractual arrangement has been replaced by binding arrangement (public sector amendment) – public entities need to review current arrangements to determine whether they fall within the scope of GRAP 8 as a result of the public sector amendment.

Applying the definition of joint control as defined in this Standard may result in the identification of other entities that are also jointly controlled ventures in addition to those identified by complying with applicable legislation.

GRAP 8 incorporates guidance adopted from SIC13 on Non-monetary Contributions by ventures issued by the IASB i.e. provisions for accounting for non-monetary contributions to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity that is accounted for using either the equity method or proportionate consolidation. (Par.57-62).

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, requires retrospective application of the Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity or proportionate consolidation method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard for separate annual financial statements. Any adjustments required to annual financial statements as a result of initially applying the equity or proportionate consolidation method shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit of the period in which the Standard is adopted. Comparative information need not be restated in these annual financial statements.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

GRAP 10: Financial Reporting in Hyperinflationary Economies

GRAP 10 includes additional guidance as adopted from Financial Reporting in Hyperinflationary Economies (IFRIC 7) on Applying the Restatement Approach.

The initial application of GRAP 4 will have no impact on the annual financial statements.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 11: Construction Contracts

The definition for “construction contract” was expanded by including a binding arrangement that do not take the form of a legal contract within the scope of the Standard.

Definition for “cost plus or cost based contract” has been expanded to include commercially-based contract.

The scope has been expanded to include cost based and non-commercial contracts.

Public entities need to review contracts to determine whether they fall within the scope of the Standard based on the above changes.

GRAP 11 incorporates the concept of service potential in the condition to determine whether the outcome of a construction contract can be estimated reliably. The requirement to recognise an expected deficit on a contract immediately when it becomes probable that contract costs will exceed total contract revenue applies only to contracts in which it is intended at the inception of the contract that contract costs are to be fully recovered from the parties to that contract (par.47).

Other than the above requirements, there is no other affect on initial adoption of GRAP 11.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP 12: Inventories

GRAP 12 includes the definition of current replacement costs as the cost the municipality would incur to acquire the asset on the reporting date. GRAP 12 also includes the principal of service potential associated with the item that will flow to the municipality as part of recognition criteria for inventories as well as the concept of goods purchased or produced for distribution at no charge or for a nominal consideration, which is specific to the public sector.

Initial measurement is required at cost (an exchange transaction) and where inventories are acquired at no cost or nominal consideration (non-exchange transaction), their cost shall be their fair value at acquisition date.

Subsequent measurement shall be at lower of cost and net realisable value except if inventories are held for:
- distribution at no charge or for a nominal charge, or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

If the above applies then subsequent measurement shall be at the lower of cost or current replacement cost.

The retail method of measurement of cost is excluded from GRAP 12.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure inventories in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 16: Investment Property

Investment property includes property 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 an entity’s operations.

GRAP 16 states that the use of property to provide housing as a social service does not qualify as investment property even though rentals are earned.

At initial recognition, investment property is measured at cost including transaction costs. However, where an entity acquires investment property 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.

After initial recognition, entities can carry investment property at either the fair value (fair value model) or cost less

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

accumulated depreciation and accumulated impairment (cost model).

An entity is required to disclose the fair value of investment property if the cost model is used. When an entity carries investment properties at fair value, the fair value needs to be determined at every reporting date. Gains or losses arising from changes in fair value are included in surplus or deficit for the period in which they arise.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires retrospective application of the Standard.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires retrospective application of the Standard. However, entities are not required to measure investment properties in accordance with the requirements of the Standard for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 18: Segment Reporting

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

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

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

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

GRAP 100: Non-current Assets Held for Sale and Discontinued Operations

GRAP 100 includes in its scope the reference to non-cash generating assets. It further includes definitions relevant to the understanding of the Standard e.g. “Non-cash-generating assets” are assets other than cash-generating assets and “value in use of a non-cash-generating asset” is the present value of the asset’s remaining service potential.

GRAP 100 excludes from the description of a discontinued operation reference to a controlled entity acquired exclusively with a view to resale.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

prospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standard of Property, Plant and Equipment until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities requires prospective application of the Standard. However, the Standard would not apply to those items that have not been recognised as a result of the transitional provisions under the Standards of GRAP on Inventories, Investment Property, Property, Plant and Equipment, Agriculture and Intangible Assets until the transitional provision in that Standard expires.

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 101: Agriculture

GRAP 101 excludes guidance on accounting for non-exchange revenue from government grants related to a biological asset as GRAP 23 on Revenue from Non-Exchange Transactions will provide such guidance.

Recognition requirement includes the concept of the probable flow of service potential.

Biological assets acquired at no or for a nominal value shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs.

Additional disclosure is required of biological assets for which the municipality’s use or capacity to sell is subject to restrictions imposed by regulations that have a significant impact on their total fair value less estimated point-of-sale costs.

In the reconciliation of changes in the carrying amount of biological assets between the beginning and the end of the current period it is also required to disclose increases or decreases due to transfers.

The following Directives also need to be considered:

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions requires retrospective application of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities requires any adjustments required to the previous carrying amounts of assets and net assets shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit in the period that the Standard initially adopted. Comparative information is not required to be restated on initial adoption of this Standard.

Directive 4 - Transitional provisions for medium and low capacity requires any adjustments required to the previous carrying amounts of assets and net assets shall be recognised as an adjustment to the opening balance of accumulated surplus or deficit in the period that the Standard is initially adopted. Comparative information is not required to be restated. Entities are not required to recognise biological assets and/or agricultural produce for reporting periods beginning on or after a date within three years following the date of initial adoption of this Standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2009.

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

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

GRAP 103: Heritage Assets

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

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

A heritage asset is recognised as an asset only if:
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Heritage assets are recognised at cost unless they are acquired through a non-exchange transaction, in which case they are recognised at their fair value as at the date of acquisition.

The municipality has a choice between the cost and revaluation model as an accounting policy for subsequent measurement and is required to apply the chosen policy to an entire class of heritage assets.

Heritage assets are subsequently carried at their cost or revalued amount less accumulated impairment. These assets are not depreciated.

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

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

GRAP 26: Impairment of cash-generating assets

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

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

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

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

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

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

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

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value	Cost / Valuation	Accumulated depreciation and impairment losses	Carrying value
Plant and machinery	3 874 200	(649 443)	3 224 757	3 787 705	(649 443)	3 138 262
Furniture and fixtures	3 270 474	(1 512 041)	1 758 433	2 992 156	(1 512 041)	1 480 115
Motor vehicles	1 577 526	(189 836)	1 387 690	1 577 526	(189 836)	1 387 690
IT equipment	2 266 856	(669 727)	1 597 129	1 942 637	(678 841)	1 263 796
Total	**10 989 056**	**(3 021 047)**	**7 968 009**	**10 300 024**	**(3 030 161)**	**7 269 863**

Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Total
Plant and machinery	3 138 262	86 495	-	3 224 757
Furniture and fixtures	1 480 115	278 318	-	1 758 433
Motor vehicles	1 387 690	-	-	1 387 690
IT equipment	1 263 796	337 960	(4 627)	1 597 129
	7 269 863	**702 773**	**(4 627)**	**7 968 009**

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Disposals	Total
Plant and machinery	3 114 619	23 643	-	3 138 262
Furniture and fixtures	1 357 777	122 338	-	1 480 115
Motor vehicles	1 442 380	-	(54 690)	1 387 690
IT equipment	835 038	428 758	-	1 263 796
	6 749 814	**574 739**	**(54 690)**	**7 269 863**

Assets subject to finance lease (Net carrying amount)

	2011	2010
Plant and machinery	2 652 452	2 652 452

Transitional provisions

Property, plant and equipment recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , property, plant and equipment with a carrying value of R 7 968 009 (2010: R 7 269 863) is recognised at provisional amounts. Carrying amounts of property, plant and equipment carried at provisional amounts are as follows:

3. Property, plant and equipment (continued)

Due to initial adoption of GRAP 17

Plant and machinery	3 224 757	3 138 262
Furniture and fixtures	1 758 433	1 480 115
Motor vehicles	1 387 690	1 387 690
IT equipment	1 597 129	1 263 796

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

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. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	294 648	(162 052)	132 596	282 863	(162 052)	120 811

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Total
Computer software, other	120 811	11 785	132 596

Reconciliation of intangible assets - 2010

	Opening balance	Additions	Total
Computer software, other	33 461	87 350	120 811

Transitional provisions

Intangible assets recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, as disclosed in note , certain intangible assets with a carrying value of R 132 596 (2010: R 120 811) is recognised at provisional amounts. Carrying amounts of intangible assets carried at provisional amounts are as follows:

Due to initial adoption of GRAP 102

Computer Software	132 596	120 811

The date at which full compliance with GRAP 102 is expected, is 30 June 2012.

5. Financial assets by category

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

2011

	Loans and receivables	Available-for-sale	Total
Receivable from non-exchange transactions	1 967 533	-	1 967 533
Cash and cash equivalents	-	17 248 509	17 248 509
Vat receivables	4 009 390	-	4 009 390
Receivable from non-exchange transaction - RSC levies	7 212	-	7 212
	5 984 135	**17 248 509**	**23 232 644**

2010

	Loans and receivables	Available-for-sale	Total
Receivables from non-exchange transactions	2 302 310	-	2 302 310
Cash and cash equivalents	-	10 930 290	10 930 290
VAT receivable	11 121 321	-	11 121 321
Receivable from non-exchange transaction - RSC levies	7 212	-	7 212
	13 430 843	**10 930 290**	**24 361 133**

6. Receivables from non- exchange transactions

	2011	2010
Operating lease prepayment	13 427	13 427
Sundry debtors	284 986	430 344
Suspense account - unidentified payment	304 143	304 143
Seconded councillor's salaries overpayment	1 784 288	1 611 620
Councillors over payments	126 818	267 320
Impairment provision	(546 129)	(324 544)
	1 967 533	**2 302 310**

Suspense account - unidentified payment

Payment relates to a transaction against the bank account and cashbook on the 14 May 2009. No supporting documentation can be traced to identify the nature and the depositors of this batch payment processed.

Credit quality of receivables from non-exchange transactions

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Receivables from non-exchange transactions impaired

As of 30 June 2011, R 546 129 (2010: R 324 544) sundry receivables with a carrying amount of R2 513 662 (2010: R2 626 854) were impaired and provided for.

The ageing of these receivables are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Receivables from non- exchange transactions (continued)

3 to 6 months	19 200	1 977 766
Over 6 months	1 948 333	324 544

Reconciliation of impairment of receivables from non-exchange transactions

Opening balance	324 544	-
Impairment - current year	221 585	324 544
	546 129	**324 544**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The municipality does not hold any collateral as security.

7. Receivables from non-exchange transactions - RSC Levies

RSC levies	49 087 074	49 087 074
Impairment	(49 079 862)	(49 079 862)
	7 212	**7 212**

Receivables from non-exchange transactions - RSC Levies impaired

As of 30 June 2011, receivables from non-exchange transactions - RSC levies with a carrying amount of R 49 087 074 (2010: R 49 087 074) were impaired and provided for.

The amount of the provision was R 49 079 862 as of 30 June 2011 (2010: R 49 079 862).

The ageing of these loans is as follows:

Over 12 months	49 087 074	49 087 074

Reconciliation of provision for impairment of receivables from non-exchange transactions - rsc levies

Opening balance	49 079 862	49 076 760
Provision for impairment	-	3 102
	49 079 862	**49 079 862**

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above. The municipality does not hold any collateral as security.

8. VAT receivable

VAT receivable	4 009 390	11 121 321

The municipality accounts for VAT on the payments basis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1 747 403	6 164 983
Short-term deposits	15 501 106	4 765 307
	17 248 509	**10 930 290**

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
ABSA Bank - Cheque Account - 770-150-841	1 747 403	6 129 983	1 229 548	1 747 403	6 164 983	1 230 539
ABSA Bank - Call Account - 921-300-0832	613 131	610 492	600 440	613 131	610 492	600 440
ABSA Bank - Fixed Deposit Account - 206-206-4985	11 748 844	1 177 950	9 423 557	11 748 844	1 177 950	9 423 557
FNB Bank - Fixed Deposit Account - 622-4699-7110	3 139 131	2 976 864	6 307 893	3 139 131	2 976 864	6 307 893
Total	**17 248 509**	**10 895 289**	**17 561 438**	**17 248 509**	**10 930 289**	**17 562 429**

10. Current portion of finance lease obligation

Minimum lease payments due		
- within one year	581 586	674 578
- in second to fifth year inclusive	790 425	1 366 126
Present value of minimum lease payments	**1 372 011**	**2 040 704**

Non-current liabilities	790 425	1 366 126
Current liabilities	581 586	674 578
	1 372 011	**2 040 704**

It is the municipality's policy to lease certain office equipment under finance leases.

The average lease term is between 3-5 years and the average effective borrowing rate was between 9% and 15.5% (2010: 10 to 15%).

Interest rates are linked to prime at the contract date. All leases escalate at 15% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 3.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

COGTA - Finance support grant	566 855	1 000 000
COGTA - Operation Hlasela	-	1 000 000
Department of Transport - Rural Development	6 904	343 455
Municipal System Improvement Grant (MSIG)	-	128 415
Municipal Infrastructure Grant (MIG)	780 912	1 521 835
	1 354 671	**3 993 705**

Movement during the year

Balance at the beginning of the year	3 993 705	18 723 994
Received during the year	-	2 735 000
Income recognition during the year	(2 639 034)	(17 465 289)
	1 354 671	**3 993 705**

The nature and extent of government grants and their conditions, restrictions and other contingencies attached to these government grants have not been fulfilled and hence recognised in the annual financial statements as unspent conditional grants.

Significant decreases in the level of government grants received is as a result of the municipality no longer receiving Municipal Infrastructure Grants (MIG)

See note 14 for the reconciliation of other grants from National/Provincial Government.

12. Payables from exchange transactions

Trade payables	4 743 426	6 985 723
Employee cost	1 003 117	1 906 148
Accrued leave pay	2 039 773	2 927 454
Accrued bonus	1 107 594	1 031 950
South African Revenue Services - employees taxes	428 697	5 499 041
Unallocated deposits - RSC levies	1 740 230	1 968 206
Councillors salaries under payments	5 535	12 370
Legal fees - RSC levies	17 073 255	16 386 429
	28 141 627	**36 717 321**

Unallocated deposits relates to RSC levies receipts received from unidentifed levy payers. These amounts are to be transferred to the municipal attorney to be held in trust until all legal matters pending between the RSC levy payers association and the municipality are resolved.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Financial liabilities by category

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

2011

	Financial liabilities at amortised cost	Total
Finance lease - non current	790 425	790 425
Finance lease - current	581 586	581 586
Other financial liabilities - current	1 367 371	1 367 371
Payables from exchange transactions	28 141 627	28 141 627
	30 881 009	**30 881 009**

2010

	Financial liabilities at amortised cost	Total
Finance lease - non current	1 366 126	1 366 126
Finance lease - current	674 578	674 578
Other financial liabilities - current	4 003 005	4 003 005
Payables from exchange transactions	36 717 321	36 717 321
	42 761 030	**42 761 030**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Government grants and subsidies

Equitable share	59 867 545	53 417 390
MIG Grant	740 923	15 649 543
Other government grants and subsidies	190 000	-
Department of Public Works Programme	266 000	438 173
Department of Transport	336 551	1 209 163
LG Seta skills development grant	173 599	-
Finance Management Grant	1 000 000	750 000
Municipal Systems Improvement Grant	878 415	606 585
COGTA Grant - Legal fees assistance	1 000 000	-
COGTA - Finance support grant	433 145	-
	64 886 178	**72 070 854**

MIG Grant

Balance unspent at beginning of year	1 521 834	17 171 377
Conditions met - transferred to revenue	(740 923)	(15 649 543)
	780 911	**1 521 834**

Conditions still to be met - remain liabilities (see note 11)

COGTA - Finance support grant

Balance unspent at beginning of year	1 000 000	-
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	(433 145)	-
	566 855	**1 000 000**

Conditions still to be met - remain liabilities (see note 11)

Equitable shares

Current-year receipts	59 867 545	53 417 390
Transferred to revenue	(59 867 545)	(53 417 390)
	-	**-**

Department of Public Works Programme

Current-year receipts	266 000	438 173
Conditions met - transferred to revenue	(266 000)	(438 173)
	-	**-**

Department of Transport

Balance unspent at beginning of year	343 455	1 552 617
Conditions met - transferred to revenue	(336 551)	(1 209 162)

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

14. Government grants and subsidies (continued)

	6 904	**343 455**

Conditions still to be met - remain liabilities (see note 11)

Financial Management Grant

Current-year receipts	1 000 000	750 000
Conditions met - transferred to revenue	(1 000 000)	(750 000)
	-	**-**

Municipal Systems Improvement Grant (MSIG)

Balance unspent at beginning of year	128 415	-
Current-year receipts	750 000	735 000
Conditions met - transferred to revenue	(878 415)	(606 585)
	-	**128 415**

COGTA - Legal support grant

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

LG Seta - skills development grant

Current-year receipts	173 599	-
Conditions met - transferred to revenue	(173 599)	-
	-	**-**

Industrial Development Corporation grant

Current-year receipts	190 000	-
Conditions met - transferred to revenue	(190 000)	-
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. General expenses

Advertising	218 912	308 563
Auditors remuneration	1 403 715	1 669 585
Bank charges	31 546	24 714
Cleaning	330 708	295 430
Capacity building councillors	237 085	-
Community development and training	654 614	1 195 995
Computer expenses	531 152	1 909 332
Conferences and delegations	10 000	-
Team building	190 680	-
Consulting and professional fees	5 875 700	13 246 477
Consumables	-	36 802
Debt collection commission	-	614 035
Infrastructure project expenditure	1 077 364	16 691 420
Entertainment	251 989	146 622
District audit committee	48 056	-
Public participation	1 078 555	525
Fuel and oil	-	22 546
Insurance	117 239	117 417
Lease rentals on operating lease	132 400	99 300
Magazines, books and periodicals	109 760	5 387
Marketing and promotions	352 889	381 140
Mayoral special projects	5 292 052	3 624 822
Motor vehicle expenses	1 021 534	594 553
Policy development	1 352 355	-
Placement fees	108 549	11 061
Postage and courier	-	1 471
Printing and stationery	192 056	248 874
Finalisation of creditable IDP	181 700	271 135
Security (Guarding of municipal property)	500 000	500 000
Implementation of SCM	-	1 800
Subscriptions and membership fees	240 959	254 501
Telephone and fax	446 246	837 609
Tourism development	41 360	805 198
Training	48 538	251 825
Travel and subsistence	1 971 797	1 506 470
	24 049 510	**45 674 609**

16. Operating surplus (deficit)

Operating surplus (deficit) for the year is stated after accounting for the following:

Mayoral special projects		
HIV/AIDS awareness and programmes	-	175 025
Mayoral special intervention programmes	825 322	2 179 168
Bursary funds	519 667	303 814
Youth advisory centres	-	152 632
Arts and Culture programme	23 235	-
Sport development programme	219 442	150 345
Youth participation	-	230 189

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Operating surplus (deficit) (continued)

Poverty alleviation	276 838	367 544
General and Disability programme	166 893	-
SMME development	197 563	23 145
Development Agency	35 261	-
Churches programme	-	42 960
Infrastructure support - Setsoto Local Municipality	868 626	-
Infrastructure support - Phumelela Local Municipality	321 024	-
Infrastructure support - MAP Local Municipality	1 838 181	-
	5 292 052	**3 624 822**

Operating lease charges

Premises		
• Contractual amounts	132 400	99 300

Infrastructure projects expenditure

Zamani Sewer Reticulation	-	4 241 531
Zamani Oxidation Ponds	740 923	5 020 084
Marquard Road Paving	-	101 883
Warden District Fire Stateion	-	1 107 605
Tshiame Sport Facility	-	1 331 845
Maken Foot Bridge	336 441	1 209 164
Arlington Road Paving	-	3 679 208
	1 077 364	**16 691 320**

Community development projects

Stand pipes and connection	-	63 916
Road and storm water	-	515 374
Golden Gate interventions	-	362 114
Water and sanitation	-	254 592
Expanded public work projects	654 614	-
	654 614	**1 195 996**

Consulting and professional fees

Legal fees	4 875 149	12 407 924
Consulting - accounting and internal audit services	555 470	510 125
Consulting - asset management	127 841	126 219
Consulting - payroll	189 240	202 209
Consulting - performance management	128 000	-
	5 875 700	**13 246 477**

Figures in Rand	2011	2010

17. Remuneration related costs

Basic	21 102 964	22 203 015
Bonus	1 117 136	1 031 951
Medical aid - company contributions	1 964 006	162 594
UIF contributions	257 946	134 103
SDL	233 008	180 607
Other payroll levies	271 189	12 117
Leave pay provision charge	(887 681)	110 000
Travel, motor car, accommodation, subsistence and other allowances	284 245	-
Long-service awards	25 108	-
Car allowance	3 528 717	2 932 316
Housing benefits and allowances	951 974	965 690
Cellphone allowance	134 639	354 521
	28 983 251	**28 086 914**

The above total remuneration cost includes the cost to company of officials and councillors for the period ended 30 June 2011.
The details of remuneration paid to councillors are disclosed in note 19.
Remuneration paid to key personnel are disclosed below.

Remuneration of municipal manager - Mr. MP Moloi

Annual Remuneration	-	203 443
Car Allowance	-	56 000
Contributions to UIF, Medical and Pension Funds	-	10 571
Cellphone	-	8 000
Other	155 323	1 338
	155 323	**279 352**

Mr. MP Moloi termenated his services with the municipality on the 30 September 2009.

Outstanding leave balance was paid to Mr. MP Moloi during the current financlal period on accordance to the Main Collective Agreement .

Remuneration of Chief Finance Officer - Mr. MR Mpakane

Annual Remuneration	-	30 000
Car Allowance	-	20 000
Contributions to UIF, Medical and Pension Funds	-	1 777
Leave payout	-	110 765
	-	**162 542**

Mr MR Mpakane terminated his service with the municipality on 31 October 2009

Figures in Rand	2011	2010

17. Remuneration related costs (continued)

Remuneration of executive director Community Service - Ms. TPM Lebenya

Annual Remuneration	520 616	440 000
Car Allowance	177 964	160 000
Contributions to UIF, Medical and Pension Funds	-	5 435
Travel, motor car, accommodation, subsistence and other allowances	20 594	-
Cellphone allowance	7 200	-
	726 374	**605 435**

Remuneration of manager Corporate Services - Ms. NF Malatjie

Annual Remuneration	355 370	225 036
Non pensionable allowance	-	4 704
Car allowance	97 249	-
Annual bonuses	20 969	17 107
Contributions to UIF, Medical and Pension Funds	-	69 952
Back pay	-	2 224
Travel, motor car, accommodation, subsistence and other allowances	37 079	-
Overpayment	-	(2 694)
Acting allowance	67 092	284 903
	577 759	**601 232**

Ms. NF Malatjie employed as the Corporate Support Manager was appointed as the Acting Corporate Services Manager from 1 August 2009 to 30 September 2010

Remuneration of Acting Chief Financial Officer- Ms. EN Mtimkulu

Annual Remuneration	454 351	319 415
Car allowance	21 611	-
Non pensionable allowance	-	6 612
Annual bonuses	33 992	26 568
Contributions to UIF, Medical and Pension Funds	-	124 145
Cellphone	2 400	7 200
Overpayment	-	(6 137)
Acting allowance	48 248	140 261
Other	3 514	-
	564 116	**618 064**

Ms. EN Mtimkulu employed as the Supply Chain Manager at the municipality was appointed as the Acting Chief Financial Officer from 1 November 2009 to 30 September 2010.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

17. Remuneration related costs (continued)

Manager infrastructure - Mr. B Mphahlele

Annual Remuneration	408 589	364 793
Car Allowance	125 693	109 438
Housing allowance	-	1 200
Contributions to UIF, Medical and Pension Funds	-	104 425
Cellphone	12 000	12 000
Annual bonuses	33 992	30 642
Travel, motor car, accommodation, subsistence and other allowances	90 148	-
Other	3 600	4 460
	674 022	**626 958**

Mr. B Mphahlele appointed as the manager of infrastructure was appointed as the Acting executive manager LED & Tourism on 1 May 2010 to 30 November 2010. No acting allowance is paid to him as he falls into the remuneration bracket of a full time executive manager.

Remuneration of Acting executive manager Governance - Mr. T Motaung

Annual Remuneration	412 618	316 289
Car Allowance	128 978	94 887
Annual bonuses	29 472	26 568
Contributions to UIF, Medical and Pension Funds	-	6 572
Back pay	9 466	3 126
Non pensionable allowance	-	6 612
Travel, motor car, accommodation, subsistence and other allowances	108 675	-
Acting allowance	65 555	85 985
	754 764	**540 039**

Mr. T Motaung was appointed as the Acting executive manager Governance on 1 April 2010.

Municipal manager - Ms. MRE Mogopodi

Annual Remuneration	620 214	27 000
Car Allowance	186 453	11 250
Housing allowance	46 573	3 150
Contributions to UIF, Medical and Pension Funds	30 000	516
Travel, motor car, accommodation, subsistence and other allowances	63 786	-
Other	-	3 599
Cellphone	19 500	-
	966 526	**45 515**

Ms. MRE Mogopodi was appointed as the Municipal Manager and commenced her term of employment on the 14 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

17. Remuneration related costs (continued)

Remuneration of Chief Financial Officer - Mr. HI Lebusa

Annual Remuneration	402 408	-
Car Allowance	135 000	-
Housing allowance	35 925	-
Travel, motor car, accommodation, subsistence and other allowances	14 775	-
Cellphone	10 800	-
	598 908	**-**

Mr HI Lebusa was appointed as the Chief Financial Officer and commenced his term of office from 1 October 2010.

Remuneration of executive manager Corporate Service - Ms P Moloi

Annual Remuneration	339 666	-
Car Allowance	117 000	-
Contributions to UIF, Medical and Pension Funds	60 001	-
Travel, motor car, accommodation, subsistence and other allowances	8 301	-
Cellphone	10 800	-
	535 768	**-**

Ms. P Moloi was appointed as the Executive manager Corporate Service and commenced her term of office from 1 October 2010.

Acting executive manager LED & Tourism - S Lengoabala

Annual Remuneration	286 590	-
Car Allowance	68 797	-
Performance and other bonuses	23 887	-
Acting allowance	115 335	-
Travel, motor car, accommodation, subsistence and other allowances	30 956	-
Cellphone	7 200	-
Other	17 514	-
	550 279	**-**

Mr. S Lengoabala manager in the Executive Mayor's office was appointed as the Acting executive manager LED & Tourism on 1 December 2010.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

18. Remuneration of councillors

Executive Major - Her Majesty Queen Mathokoana	606 570	619 936
Mayoral Committee Members	4 037 649	3 621 728
Speaker - Ms. AM Nethedi	452 177	479 858
Councillors	1 578 055	1 409 519
Chief Whip - Mr. PH Motsoeneng	46 984	447 937
Seconded councillors overpayments - to be recovered	(196 668)	(540 886)
Councillors overpayments - Government Gazette	-	(55 247)
Third parties adjustment	-	(629 125)
	6 524 767	**5 353 720**

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of separate Council owned vehicles for official duties.

19. Investment revenue

Finance income		
Bank	978 091	1 316 562

The amount included in Investment revenue arising from non-exchange transactions amounted to R 978 091.

20. Finance costs

Finance leases	155 196	241 331
Interest and penalties - South African Revenue Services	-	721 182
	155 196	**962 513**

21. Operating lease

Operating lease payments represents rentals payable by the municipality for the premises at 154 Cambridge Street, Bethlehem, Free State.

The lease was negotiated for a period of three years. The rentals escalate at 10% on an annual basis. Currently monthly rentals repayments are R12 540 including VAT.

The municipality has the option of renewing the lease for a further period of 3 years at the end of the current lease period on the same terms and conditions as the original lease agreement, at a rental to be agreed upon amongst the parties on termination of the current lease agreement. Should the lessee not give the lessor notice of his intention not to exercise the said option by registered post, not later than 6 months before expiry of the first period of the lease, the option will be deemed to have been automatically renewed on a month to month basis.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

22. Cash generated from (used in) operations

Surplus (deficit)	11 461 463	(2 976 655)
Adjustments for:		
Loss of assets due to theft/disposal	4 628	19 603
Finance costs - Finance leases	155 196	241 331
Debt impairment	221 586	327 646
Movements in operating lease assets and accruals	3 400	9 300
Changes in working capital:		
Receivables from non- exchange transactions	334 777	(871 232)
Other receivables from non-exchange transactions	-	4 733
Consumer debtors	(221 586)	(327 646)
Payables from exchange transactions	(8 575 700)	18 597 309
VAT receivable / payable	7 111 931	(5 405 472)
Unspent conditional grants and receipts	(2 639 034)	(14 730 289)
	7 856 661	**(5 111 372)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

23. Contingencies

RSC levy payers association vs Municipality

The municipality has a contingent liability of R50 million as a result of a legal dispute between the municipality and levy rate payers. The background and details of this contingent liability are provided below.

According to the now abolished RSC Levies Act all entities doing business within the jurisdiction of the District Municipality must pay levies to that municipality. This legislation was terminated on 30 June 2006, and the 13 555 levy payers had until 30 June 2008 to settle their outstanding levies.

During 2007/08, the municipality appointed Podbielski Mhlambi Inc attorneys to assist with the levies debt collection of the amount owed by rate payers. The RSC legislation stipulated that the amount to be recovered should be calculated as a percentage of the levy payer's revenue and salaries cost.

The total value of these levy debtors (both registered and unregistered) was originally estimated at R49 million before impairment (refer note 7).

Some of the levy rate payers opposed the method of calculation of the levies in court and the municipality lost the first case. The municipality is currently preparing its case for application for leave to appeal the previous Court judgment, which commenced in August 2010 and is still currently proceeding. Should the municipality be unsuccessful in their appeal, it is estimated that legal costs of R50 million will be payable to the attorneys acting for the levy payers. An accurate valuation and possible outcome cannot be determined due to the unique nature of the case.

Additional details on the legal fees incurred and paid to date as well as levy debtors recovered are provided below.

To date only R4,5 million was recovered from levy rate payers by Podbielski Mhlambi Inc and an additional R1.5 million was paid directly to the municipality. The total levy debtors amount recovered to date is therefore R6 million. The legal fee billed to date is R40 million of which R23,5 million has been paid to Podbielski Mhlambi Inc attorneys.

The reconciliation below shows the legal fees billed and paid and debt collection to date per financial year.

Financial year	Legal fees billed	Legal fees paid	Legal fees outstanding	Debt collection to date**
Prior 2009	21 976 004	(13 043 932)	8 932 073	3 178 053
2010	13 951 488	(6 500 000)	7 454 357	1 195 207
2011	4 870 718	(3 961 961)	686 825	221 930
Total	40 798 210	(23 505 893)	17 073 255	4 595 190

***Debt collection to date excludes the additional amount of R1.5 million paid directly to the municipality (Refer note 12).*

The outstanding legal fees of R17 073 254.63 has being raised as a liability (refer note 12). The municipality estimates that a further R7 million in legal fees to its attorneys, Podbielski Mhlambu will be incurred to bring all the matters to completion.

It is estimated by Podbielski Mhlambu that the recovery process will be finalised by the end of 2012 pending the decision of the Supreme Court of Appeal.

23. Contingencies (continued)

MSMM Attorneys vs Municipality

The municipality has a contingent liability of R3 223 112 as a result of a legal dispute between the municipality and MSMM Attorneys. The background and details of this contingent liability are provided below.

MSMM attorneys have issued summons for an amount of R3 223 112 against the municipality. According to MSMM Attorneys this amount is for legal services they rendered for collecting outstanding levy debt for the municipality based on their arrangement with Thakangoaga Investment CC. The municipality has appointed Podbielki Mhlambi Inc attorneys to defend the matter.

When the legislation on RSC levies was terminated on 30 June 2006, the municipality appointed Thakangoaha Investments CC in November 2007 to identify the outstanding levy payers and recover the outstanding levies due to the municipality. For this purpose, Thakangoaha appointed MSMM Attorneys to take the necessary legal action against these outstanding levy payers. Thakangoaha was to receive R150 for each of the then 13 000 outstanding cases, and also 20% of the total amount to be recovered from the levy payers.

As at February 2008, in an attempt to recover outstanding levies, MSMM issued 6 000 summons to levy payers. The municipality received numerous counter claims from levy payers. According to levy payers, summons issued did not comply with legal requirements. The municipality then sought legal opinion, which confirmed that summons issued did not comply with legal requirements.

MSMM Attorneys are now suing the municipality for not paying fees for legal services rendered by them based on instruction from Thakangoaha Investment CC. The municipality will defend this R3 223 112 claim by MSMM Attorneys based on legal advice received. It is expected that the court hearing for this matter will take place in 2012.

The municipality estimates to incur legal cost of R150 000 to defend the above matter.

Warden resident vs Municipality

The municipality has a contingent liability of R300 000 as a result of a legal dispute between the municipality and a Warden resident. The background and details of this contingent liability are provided below.

A Warden resident is suing the municipality for an amount of R300 000. The resident’s house burnt down and he had no household insurance. There is no fire station in Warden, and therefore the resident had to phone the fire station in Harrismith. Warden is +/- 80km from Harrismith, the fire truck did not arrive in time to extinguish the fire and the house burned down. The damage to his house and household content is estimated to be R300 000. There are no details available about the cause of this fire.

The Warden resident is holding the municipality accountable for the loss of his house and the household content due to non existence of a fire station in Warden. According to the Warden resident, the municipality is responsible for providing disaster recovery services and they have failed to provide such a service to Warden residents. This matter will be proceeding to trial on the 31 July 2012.

The municipality estimates to incur R150 000 in legal cost to defend the above matter.

Infrastructure Finance Corporation vs Municipality

The municipality has a contingent liability of R2 million as a result of a legal dispute between the municipality and Infrastructure Finance Corporation. The background and details of this contingent liability are provided below.

Notes to the Annual Financial Statements

23. Contingencies (continued)

The municipality purchased copiers from Nashua Bethlehem. Nashua Bethlehem erroneously made use of two financing houses to finance the purchase of these office machines. Subsequently the municipality paid both financing houses for these copiers. It was only after a year that they realised payments were being made in duplicate. The municipality stopped all payments (to both financing houses) after the fraudulent nature of the transaction was discovered.

Podbielski Mhlambi Inc was appointed by the municipality and identified that the one financing house produced falsified documentation. The copiers delivered to the municipality also differed from the goods purchased as per the supporting documentation. It was later determined that the goods delivered were stolen goods.

The Municipality instructed its attorney to recover the overpayment from the financing house and it was established that they have been liquidated. The Municipality's attorney advised the municipality not to attempt recovering the over payments as there were no sufficient funds available in the estate.

Infrastructure Finance Corporation is suing the municipality for the outstanding payments, which amount to R2 million.

The Municipality is currently defending the matter in the Free State High Court. It’s expected that it will probably proceed to trial towards the end of 2012. It is expected that a further R200 000 legal costs will be incurred to bring this matter to completion.

Thakangoaha Investments vs Municipality

Thakangoaha Investments was originally awarded the tender relating to the collection of outstanding RSC levies in 2006/2007. Due to the unsuccessful attempts at collection of levies, incorrect legal practices followed and the legal nature of the RSC levies matter, the municipality had to terminate their contract and appoint Phodbielski Mhlambi Law Firm to correct the unlawful and unsuccessful attempts at collection made by Thakangoaha Investments and to proceed to defend the RSC levies matter in court.

Thakangoaha issued summon against the Municipality for an amount of R2 565 000 including interest and cost. The Municipality at that time failed to defend the matter. When the Deputy Sheriff attached the Municipality's property as a result of the judgement, the Municipality instructed Podbielski Mhlamni to apply for a Rescission of Judgement.

This application was processed and the matter placed on the court role.

The municipality has also filed a counter claim of R2 000 000 against Thakangoaha investments.

The expected legal cost to be incurred to finalise this matter which is expected to be towards the end of 2012 is R150 000.

Housing guarantees

A contingent liability exists for the municipality to pay the guarantee amount in the event of the employee not being able to settle their bond / default on payment.

The Municipality has provided housing guarantee's to the employees listed below. The maximum amount each qualifying employee may receive is R85 000.

Name of employee	Effective date	Guarantee amount
Mazibuko Mwelase	25/05/2005	17 000
Mollo Ngobese	22/03/2006	17 000

23. Contingencies (continued)

Motloung Mohoabadi	04/10/2006	17 000
Moloi Khesa	25/05/2005	17 000
Motloung Sylvia	30/01/2007	17 000
Moloi Materonko	08/10/2002	13 000
Mthombeni Sthembiso	01/10/2004	14 000
Dusse Ronald	01/07/2006	17 000
Majoro Matsiliso	01/07/2006	17 000
Swart Pierre	01/07/2006	17 000
Viljoen Johannes	01/07/2006	17 000
Du toit Pieter	01/07/2006	17 000
Malan M.P	01/07/2006	17 000
Oosthuizen Corrie	01/07/2006	17 000
Mani Koahela	01/07/2009	17 000
Tankiso Talane	01/07/2009	17 000
	Total guarantees issued	265 000

24. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Relationships	
Member of Close Corporation	Mol Procon cc

The former Municipal Manager Mr. MP Moloi was appointed as a member to Mol Procon CC on 17 September 2009 as per CIPRO database. He had resigned from the municiaplity employ on 31 October 2009. All contract awarded to Molprocon CC were concluded prior to 17 Spetember 2009.

Related party transactions

	2011	2010
Consulting and Construction fees paid to related party		
Mol Procon CC	-	7 377 668

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

25. Prior period errors

Employer contributions remuneration benifits was erroneously duplicated during the interface of the VIP payroll files into the accounting financial system (Hercules). These transactions were traced to payments and hence should not have been recognised as a liability at year end. The effect of this error resulted in an overstatement of Payables from non exchange transactions (Statement of Financial Position) and overstatement of Remuneration cost (Statement of Financial Performance)

Councillors salary over/under payments were recognised at the incorrect balances due to journals erroneously been processed. The effect of this error resulted in the Payables from non exchange transactions (Statement of Financial Position) been understated, the Receivables from non-exchange transactions (Statement of Financial Position) overstated and the Accumulated Deficit (Statement of Financial Position) overstated.

Councillors pension fund payments were deducted but not paid accross to the Pension fund administrators during the periods 2000 to 2002. The administration of the municipality agreed to pay the effected councillors directly the amounts deducted and not paid to their Pension Fund accounts. The correction of this findings resulted in an increase in Payables from non exchange transaction (Statement of Financial Position) and an increase in the Accumulated Deficit (Statement of financial Posistion).

Trade Creditors balances reflected on the creditors lisiting were incorrectly stated. The error was due to creditors confirmation and statements not received timeously. The effect of this error resulted in Payables from exchange transaction (Statement Financial position) been overstated, Vat receivables (Statement of Financial Position) been overstated and Accumulated Deficit (Statement of Financial Position) been overstated.

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

Statement of financial position		
Correction of councillors overpayment understated	-	176 272
Correction of councillors underpayments overstated	-	(7 353)
Vat receivables overstated due to creditors overstatement	-	(3 638)
Correction of councillors pension fund payments	-	(460 530)
Trade creditors overstated in error	-	40 347
Overstatement of salary control account	-	3 710 710
Total changes to Accumulated Surplus or Deficit	**-**	**3 455 808**

Statement of financial performance		
Net loss for the year as previously stated	-	6 724 074
Correction of general expenses overstated	-	(36 709)
Correction of remuneration related cost	-	(3 710 710)
Restated net deficit for the year	**-**	**2 976 655**

26. Comparative figures

Certain comparative figures have been reclassified due to correction of prior period errors identified and corrected.

The effects of the reclassification are as follows:

Statement of financial position	**Restated 30 June 2010**	**30 June 2010**
Receivables from non-exchange transactions	2 302 310	2 126 038
Vat receivables	11 121 321	11 124 959

Figures in Rand	2011	2010

26. Comparative figures (continued)

Payables from exchange transactions	36 717 321	40 015 382
Accumulated deficit	11 009 223	14 479 918

Statement of financial performance

Remuneration related cost	28 086 914	31 797 624
General expenses	45 674 609	45 711 318

27. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risk, market risk, credit risk and liquidity risk.

Credit risk

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

Financial assets which expose the economic entity to credit risk at year end were as follows:

Financial instrument	2011	2010
ABSA Bank - Cheque account	1 747 403	6 129 983
ABSA Bank - Call account	613 131	610 492
ABSA Bank - Fixed deposit	11 748 844	1 177 950
First National Bank - Fixed deposit	3 139 131	2 976 864

These balances represent the maximum exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that the economic entity will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	28 141 627	-	-	-
Gross finance lease obligations	581 586	625 175	165 250	-
Other current liabilities	1 367 371	-	-	-

At 30 June 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchanges transactions	36 717 320	-	-	-
Gross finance lease obligations	674 578	569 572	796 554	-
Other current liabilities	4 003 005	-	-	-

Interest rate risk

The municipality's interest rate risk arises from finance lease liabilities. Finance leases issued at variable rates expose the municipality to cash flow interest rate risk. During 2011 and 2010, the municipality's borrowings at variable rates were denominated in the Rand.

27. Risk management (continued)

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Finance leases	9.00 %	581 586	625 175	165 250	-	-

28. Going concern

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

29. Events after the reporting date

The were no material events to report after balance sheet date.

30. Unauthorised expenditure

Reconciliation of unauthorised expenditure

	2011	2010
Opening balance	31 919 235	8 086 166
Unauthorised expenditure - current year	-	23 833 069
Unauthorised expenditure awaiting approval of council	(30 570 103)	-
	1 349 132	**31 919 235**

Management performed a review of transactions and identified the above to be unauthorised expenditure in accordance to the guidelines set per Chapter 1 of the MFMA.

Unauthorised expenditure, been a trip to Germany by the MMC and senior officials were not approved by council pending a submission of a detail report by management relating to the trip taken. This expenditure occurred during the 2008 financial period.

31. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	2011	2010
Opening balance	4 724 071	3 632 545
Fruitless and wasteful expenditure - current year	-	1 091 526
Fruitless and wasteful expenditure awaiting condonement	(1 323 382)	-
	3 400 689	**4 724 071**

Management performed a review of transactions and identified the above to be fruitless and wasteful expenditure.

A special Council Committe was elected to address the fruitless and wasteful expenditure identified by management.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

32. Irregular expenditure

	2011	2010
Opening balance	188 224 154	100 235 499
Irregular Expenditure - current year	7 583 300	86 109 715
Transfer to receivables for recovery - not condoned	196 668	1 878 940
Irregular expenditure awaiting condonement	(112 727 031)	-
	83 277 091	**188 224 154**

Details of irregular expenditure – current year

	Details	
Tansactions with less then three quotations	Non compliance to supply chain management policy	1 446 299
Procurement of accomodation without the required three quotations	Non compliance to supply chain management policy	451 586
Procurement of advertising with one quotation	Non compliance to supply chain management policy	290 725
Procurement of contratced services without signed contracts	Non compliance to supply chain management policy	747 076
Goods and services procured not advertised	Non compliance to supply chain management policy	1 071 960
Procurement of legal services	Deviation from procurement process	3 575 654
Overpayment of councillors salaries	Deviation from Treasury guidelines	196 668
		7 779 968

Details of irregular expenditure - prior period

	Details	
Procurement of professional services - Valuation rolls	Procurement process not followed according to supply chain management policy	1 650 000
Procurement of legal services	Deviation from procurement process	30 046 555
Overpayment of councillors salaries	Deviation from Treasury guidelines	1 878 940
Unauthorised payments	Non compliance to MFMA relating to authorisation of payments and procurements	54 413 160
Procurement of Mayoral vehicle	Deviation from supply chain management policy	620 000
Installation of vegetable tunnels	Amount paid in excess to signed agreement with out adequate authorisation	620 778
Asset management services	Deviation from supply chain management policy	122 950
Transactions with no quotations	Non compliance to supply chain management policy	11 972 976
Transactions with less than three quotations	Non compliance to supply chain management policy	16 942 193
Payment vouchers not correctly authorised	Non compliance to MFMA	25 277 665
No tax clearance obtained	Non compliance to supply chain management policy	10 608 527
Quotations not obtained	Non compliance to supply chain management policy	5 008 983

Notes to the Annual Financial Statements

Figures in Rand		2011	2010

32. Irregular expenditure (continued)

Tender process not followed	Deviation from supply chain management policy	12 005 212
Payment vouchers not authorised	Non compliance to supply chain management policy	5 019 474
Payments to supplier not authorised or approved	Non compliance to MFMA	1 869 025
Payment vouchers not authorised	Non compliance to MFMA	10 155 856
No support documentation to payments	Non compliance to supply chain management policy	11 860
		188 224 154

Details of irregular expenditure not condoned

Procurement of legal fees - RSC levies	33 622 209
Procurement of services - Property valuation roll	1 650 000
Transactions with less than three quotations	16 942 193
Transactions with no quotations	11 972 976
Quotations not obtained	5 008 893
Tender process not followed	12 005 212
	81 201 483

Details of irregular expenditure recoverable not condoned

Overpayment of councillors salaries 2011	196 668
Overpayment of councillors salaries 2010	1 878 940
	2 075 608

33. Presentation of budget information

33.1 Reconciliation between budget and statement of financial performance

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

	2011	2010
Net surplus (deficit) per the statement of financial performance	11 461 463	(2 976 655)
Adjusted for:		
Loss on disposal of assets	4 628	19 603
Net surplus (deficit) per approved budget	**11 466 091**	**(2 957 052)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

34. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	212 984	83 592
Current year subscription / fee	213 319	212 984
Amount paid - previous years	(212 984)	(83 592)
	213 319	**212 984**

Material losses through criminal conduct

The municipality incurred no material losses through criminal conduct during the reporting period.

Audit fees

Opening balance	69 205	-
Current year fee	-	69 205
Prior year fees	1 403 714	2 119 552
Amount paid - previous years	(1 469 118)	(2 119 552)
	3 801	**69 205**

PAYE and UIF

Opening balance	4 307 217	333 760
Current year subscription / fee	5 306 031	3 973 457
Amount paid - current year	(5 306 031)	-
Amount paid - previous years	(4 070 083)	-
	237 134	**4 307 217**

Additional text

Pension and Medical Aid Deductions

Opening balance	142 507	134 079
Current year subscription / fee	5 674 917	1 698 502
Amount paid - current year	(5 674 917)	(1 555 995)
Amount paid - previous years	(142 507)	(134 079)
	-	**142 507**

VAT

VAT receivable	4 009 390	11 121 321

Figures in Rand	2011	2010

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been submitted to council to be condoned.

Incident	2011	2010
Rental of Executive Mayoral vehicle	731 682	-
Procurement of Water Tanker Truck - Setsoto Local Municipality support	915 450	-
	1 647 132	**-**

35. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

36. Actual capital expenditure versus budgeted capital expenditure

Refer to Appendix B for the comparison of actual capital expenditure versus budgeted expenditure.

37. Municipal office occupation

The Municipal head office situated at 1 Mampoi Street, Old Parliament Building, Witsieshoek is leased from the Free State Department of Public Works for no rental consideration.

38. Provincial Government Intervention

In terms of a Provincial Executive Council Cabinet minute 7.4 of 4 November 2009, the Free State Legislature appointed Mr. SC Polelo to act on behalf of the Provincial Executive Council as the administrator for the Municipality with effect 9 November 2009. The Executive further agreed that the administrator be assisted by:

Mr. B Molotsi

Ms. N Mthimkulu

On 6 November 2009, the MEC for COGTA at a Municipality Special Council Sitting presented a Memorandum indicating that the Municipality be place under administration in terms of Section 139(1)(b) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996)

As all of the issues raised by the Provincial Exectutive Council during the intervention at the Municipality have been solved and reported as such to the Free State Executive Council, the National Council of Provinces and the Minster for Cooperative Governance, the Free State Executive Council resolved to terminate the, Section 139 (1)(b) of the Constitution of the Republic intervention with effect from 1 September 2010.